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Opinion Open Access

The Rating Agencies in the Toxic Game of Finance

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Opinion

"Quis custodiet ipsos custodes?" (who will control our controllers?) wondered Juvenal in his "Satires". A question also to be raised with regard to the mythical rating agencies, especially now that the Italian prosecutors in Trani have also requested a monetary sanction in the amount of 4.5 mln and criminal charges for the manipulation of the rating in 2011 [1,2]. The US Justice Department had condemned the same agencies in 2014 for the same reason with a sanction of 1.5 billion dollars against which the Trani request seems "peanuts". The fraudulent manipulation of the credit rating at the expense of the US in August of 2012 was likely aimed at weakening Obama's position in the presidential election in favour of Romney on whom Wall Street finance had bet [3]. Precisely to this end, the manipulative campaign in Europe (Greece, Portugal, Ireland, Spain and then Italy in 2011) was launched in April 2010 to arrive at a result that slipped through their fingers, up to the surprise election of Trump (not too surprising for those who understood the signals of deep America, which is not NY), given a 1 in 30 chance by bookmakers in 2015 against the financiers choice, namely, Clinton. Precisely through an assessment of the facts, the behaviours and judgements seem more and more opaque, opportunistic and instrumentally manipulative, leaving too much space for criticism and doubt about their credibility and independence as controllers with respect to the controlled. All this took place before our very eyes for a long time without the least critical attention from the accommodating and colluding media. The agencies had already given the best of the worst in protecting the funds with a triple A, which with their exotic names had destabilized the system in 2008 and Lehman Brothers, until the day before the AAA default, was the illusionism gem of predatory finance [4,5].

In addition, the recent downgrading of our country (BBB), entirely asymmetrical to reality, is once again a signal of how these agencies are instrumental to other interests and far from reality with their "unscientific" valuation methodology [6]. Finance, after threatening the country in vain before the referendum in the event of a "no" victory found it impossible to manoeuvre the spread because the game of fictitious numbers would have been too evident, so now they are preparing to downgrade the country to return to attacking with the spread? We will know soon, but today we have evidence of the country's inability to react and its ruling class is like a punch-drunk boxer in the corner waiting for the countdown [7]. Yet Domenici - an Italian MEP and former mayor of Florence - had presented the CRAs (credit rating agencies) directive in 2013 with the aim of discussing the problem; the directive ended up in the mesh of European bureaucrats and their lack of courage. Against stupidity, said Keynes, even the gods are powerless.

The ratings are periodically published by specialized agencies that large multinationals have interests in and here precisely begins the chain of the speculative intent to weaken the structure of societies to maintain a geopolitical position. The main problem of the model is the monopolistic position of the agencies built on the asymmetric US market culture and the European welfare-based culture [8]. A European agency would be required to balance the possible forms of blackmail already highlighted in the attack on Europe triggered in February 2010, we fell in September 2011. A first type of potential conflict of interest concerns those that publish the ratings and at the same time perform investment-banking activities, namely, investment banks [9]. The rating could be exploited in the interests of the banks or their customers to speculate on the stock market or acquire assets at realised prices. A downgrading of ratings or particularly indebted public entities has the short-term consequence of raising the interest on outstanding loans, and therefore an increase in financial expenses. The debtors could sell public companies, as we did, movable and immovable goods at their realizable value to avoid a rating downgrade [10].

Evidence of the lack of transparency and toxic relationships and monopoly of the credit rating agencies, investment banks, investment funds and large international groups is provided by the market shares of the same agencies and some of their shareholders that especially for Moody's and Standard and Poor's show potential conflicts of interest [11]:

Moody's has a 39% market share and among the shareholders are Warren Buffet (also a shareholder of Goldman Sachs), Capital World Investment with 12.60%, Value Act Capital, Vanguard, State Street, Blackrock that in turn also owned by Merrill Lynch and others [12,13].

Standard & Poor's has 40% of the market and as shareholders has McGraw Hill, Capital World Investment, State Street Corporation, Blackrock, Vanguard Group (all present in Moody's), Fidelity Investment.

Fitch has 16% and has as shareholders the French group Firmalac and publisher Hearst.

Essentially, the first two have 80% of the market with cross-shareholdings that do not clearly respond to the problems arising from conflicts of interest since these shareholders in turn participate in investment banks and investments funds [14].

It is therefore understandable that James Carville, advisor of the Bill Clinton administration in the first hundred days of presidency declared, "I used to think if there was reincarnation, I wanted to come back as the president or the pope. But now I want to come back as the bond market. You can intimidate everybody". The power of the bond market, as we see today, is in being able to sanction a government by increasing the cost of its indebtedness, thus determining a domino effect [15]. In fact, the increase in the cost of debt increases both the debt and the deficit and investors raise their guard selling the shares of the debt by decreasing prices and increasing the interest.

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Facing the declassification of shares, the financial community rarely does not react with depreciation, privileging the decisions of analysts with respect to the reasons given by the issuer. In this sense, the term "dictatorship of analysts" - macro usury - implying the power to influence the stock exchange, has been used by the market, which in part does not take into account the existing conflicts of interest. A downgrade or an overestimation of the rating opens (for those who have the right information) opportunities for speculative gains.

The socio-economic context has been enriched with increasing globalization, more and more interconnected problems of various types (religious, political, social, environmental, economic and so forth) that contributed to exponentially increasing the number of independent variables. This has made it extremely difficult to build models suitable to contain them and to predict their evolution due to the high and unpredictable level of interdependence if limited solely to finance cash flows that are in turn manipulated.

In this sense, the rating agencies, now under indictment, demonstrate the inadequacy of their analysis models, because they claim to evaluate with only the yardstick of measurability complex and dynamic entities such as the society of man. Mythological finance is showing the evidence of its instrumentality legitimized by an academy enslaved to those interests. The data collected are entirely limited due to the complexity of observation of the object, but are still considered as absolute. The aforementioned cultural reference model does not accept contradictions and thus we end up enduring an unfounded cultural tyranny but convenient for those who derive a particular benefit. Consequent to truth assumed as absolute, the financial analysis models consider the resilience of the members of a society in the face of economic problems as irrelevant, but if societies are the foundation of the economy, their models are unhistorical because they do not take into account the control structures of a society [16]. With comparable financial indicators, in the face of a crisis, is a society with high "equality" or one with high "inequality" of income more resilient? Their evaluations are rollercoasters and not credible in the very short term in which they reason because the endless financial speculations give maximum volatility to prices and data that are constantly changing.

Everything was supported and legitimized by accommodating economic gurus and rating agencies. After the financial dramas destabilizing the democracies of individual States, despite the evidence of the facts, Robert Lucas, in the assembly of the American Association in 2003 stated, "The central problem of depression prevention has been solved, for all practical purposes" [17]. Then a year later Ben Bernanke said, "Modern macroeconomic policy has solved the problem of the business cycle or at least has reduced it to the point that it is no longer a major concern" and so as not to contradict himself in March 2007 (a year before the crisis) with prophetic intuition (!) he stated to Congress, "At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained". Paulson argued in the same year, "I don't think it poses any threat to the overall economy"; the exact same consideration that the venerable Lucas made in 2007. Finally, the prince of financial markets commentator, Donald Luskin, on 14 September 2008, the day before the bankruptcy of Lehman Brothers commented in the "Washington Post" (!) not just any newspaper, that the situation in general and the bank itself did not present causes of depression, and that the crisis of the great depression was very distant. Dick Cheney, who has ridden everything unrideable, even before the evidence of the facts, in 2009 reiterated that it would not have been possible to predict what had happened. Finally Greenspan, the Merlin of Finance, had always maintained that the advent of the sub-prime was considered a very positive phenomenon for the functioning of the free market and a beneficial financial innovation for consumers, and in any case, such as to justify the growing deregulation that would have been tempered by the rationality of markets. Obviously, the "finance package gift" to the world was beribboned with falsely shining ratings of nothingness. As mentioned in the film "The Big Short", the rating agency assigned a AAA, the maximum guarantee and reliability in securities and funds, to the most bizarre and exotic but reassuring names: Total Shield, Total Protection, Timberwolf (a superhero), but half of their profits derive precisely from these. "If we do not give them the triple A, others will", said the director of S&P in the aforementioned film [18].

As we can see from the graphs below, the "cultural" domination of fictitious finance began in the 90s with Greenspan's full deregulation of derivatives; after all, there were the controllers - the rating agencies - that protected the market of befuddled investors and the media sirens that supported the huge speculative bubble to the detriment of all. From that moment, the economy and not only society, as Bauman stated, became liquid and infinite, immaterial and deregulated [19].

As we can see in the graphs:

- Derivatives exploded indefinitely after the Greenspan deregulation, in 10 years passing from 1/20 of global GDP to 20 times GDP, often with nothingness underlying it, yet the rating agencies state that all is well and begin their rating assignment game that provides maximum profits at the expense of the many who believe in fairy tales if they are narrated well. We can see also today the toxic games of finance riding the "Brexit" whit a continuous pressing on long term bonds without, absolutely, justifications as we can see in these figures (Figures 1 and 2).

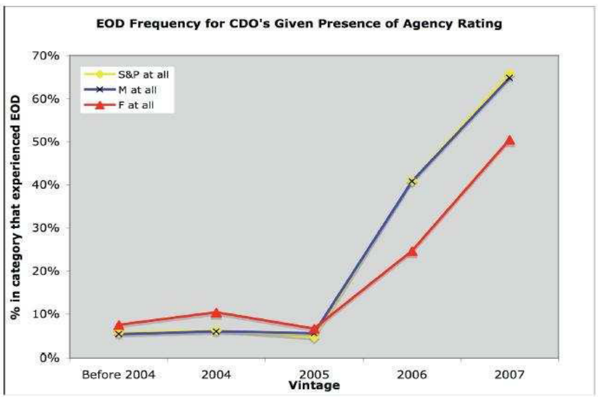

Figure 1: EOD frequency.

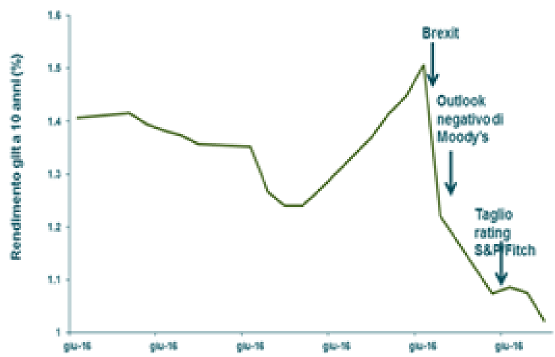

Figure 2: Impact of rating agencies in the financial market.

-The cessation of the Glass Steagall Act led to a concentration of banks that formed an oligopoly in a position to influence the political powers to legislate and in clear contradiction with the first anti-monopoly act, namely, the "Sherman Act".

-The pursuit of short-term profit maximization and the poisonous "create shareholder value" mantra promoted by the US (primarily Harvard University and consulting firms such as McKinsey), led the real economy that produces wealth to be delocalized and the US GDP to be based on services and paper.

-The financial culture flooded the country with QE, but without manufacturing, there can be no growth, remaining at a standstill until deep America wakes up and tries to send home the elite who governed them by electing Trump (Figures 3-8).

Everything has been maneuvered into total indifference but also total impunity, the sum of these opportunistic statements increased the level of responsibility of those with the task of regulating the markets, deliberately dissociating themselves, creating the chaos that today we have before our eyes [20]. We can ask ourselves to what extent these attitudes are liable to be subjected to the Tribunal of History and to what extent deliberately uncontrolled finance is comparable in all ways to the odious term "macro-usury".

As always, "history" presents the bill t/o Homo more "stupidus" than "sapiens" and now that the wind is turning, even Christine Lagarde at the Davos conference condemned the monetary and financial manoeuvres of the countries that have for too long accepted neoliberalism as an incontrovertible truth that has impoverished the world instrumentally and opportunistically up to the global chaos threshold. In this sense, evidence is to be provided of how in recent years the IMF has gone along with finance, detaching completely from the Keynesian institutional principles upon which it was founded at Bretton Woods in 1944 [21].

The opinions of the agencies, the apparent collusion with the academy and politics, the timing with which such judgments are issued, too often far from reality, could justify in the light of the facts a class

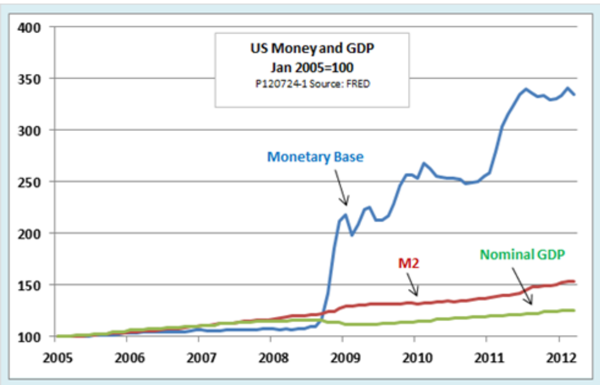

Figure 3: Monetary and financial manoeuvres.

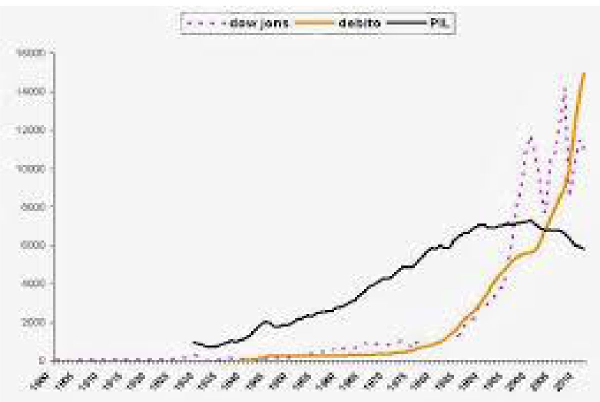

Figure 4: Electing Trump.

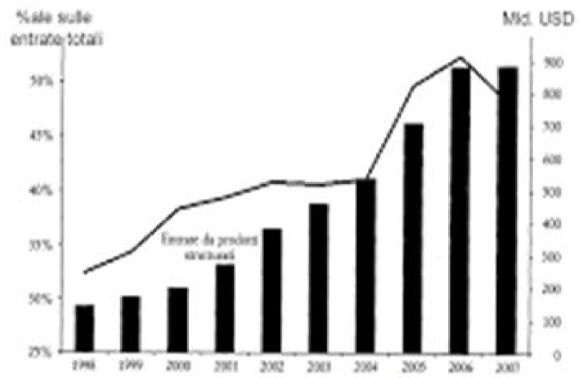

Figure 5: Revenue from moody's ratings structure.

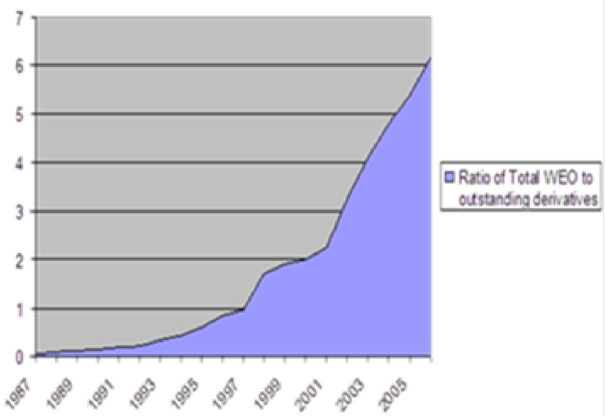

Figure 6: Ratio of Total WEO to outstanding derivatives.

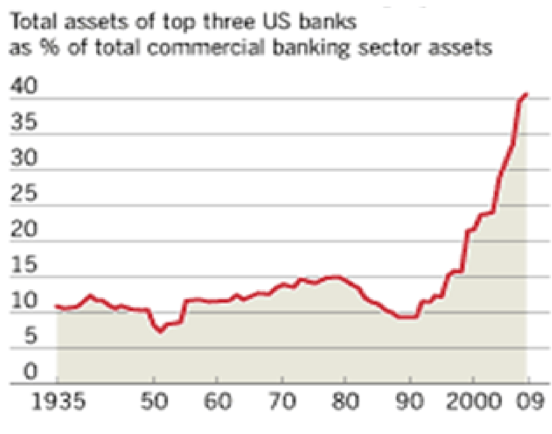

Figure 7: Concentration of US banking system.

action against them. However, we always discuss what is downstream, but are still unable to understand that only by disassembling and adjusting totally deregulated and infinite finance that is completely outside of reality can man appear again as a person and with dignity in our world [22]. In this sense, the rating agencies have worked not for themselves but as part of a magic circuit they created with the spread and investment banks operating a sort of "macro-usury" to the world in all its complexity. It is no coincidence that we have arrived at a form of inequality that cries out for vengeance against those who ride it; you cannot have a world where the 50 richest people have a wealth equal to that of 3.5 billion people. The upward concentration of wealth has eliminated the middle classes that are the leaven of Western civilization. Thus, the US today is a Colossus with feet of clay as the following graphs shows (Figures 9-12).

This is the real crisis that has given space to ancestral human greed and will not leave man in peace even in paradise. While centuries ago inequality was considered a matter of course, after the Second World War, the media spread made injustice unacceptable. In history, all societies have always fallen due to either war or class. This is the challenge we face and the evidence of the responsibility of those who have put in place a model of society that is totally asymmetrical to the universal declarations of human rights written with the blood of two

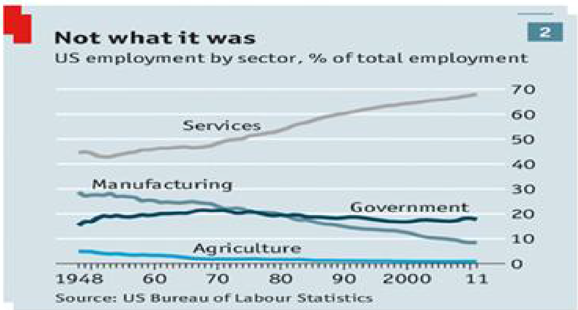

Figure 8: New composition of GDP – USA: No manufacturing, only Services. No real economy only infinite finance.

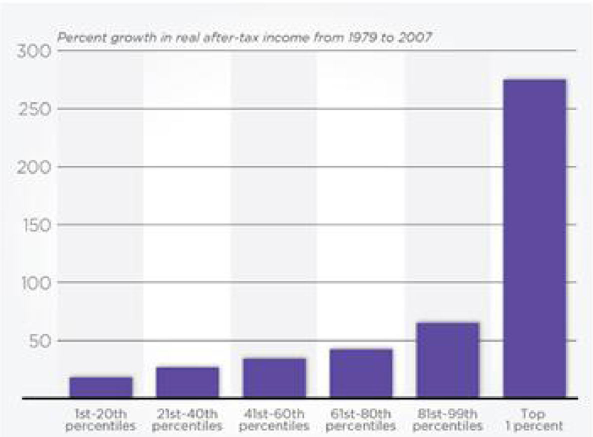

Figure 9: Huff post business.

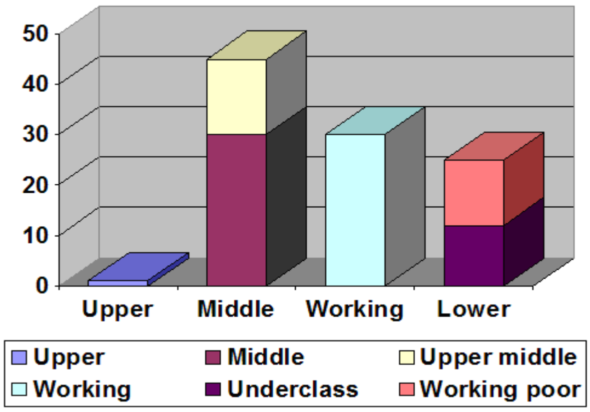

Figure 10: Concentrations of wealth- between upper, middle and lower.

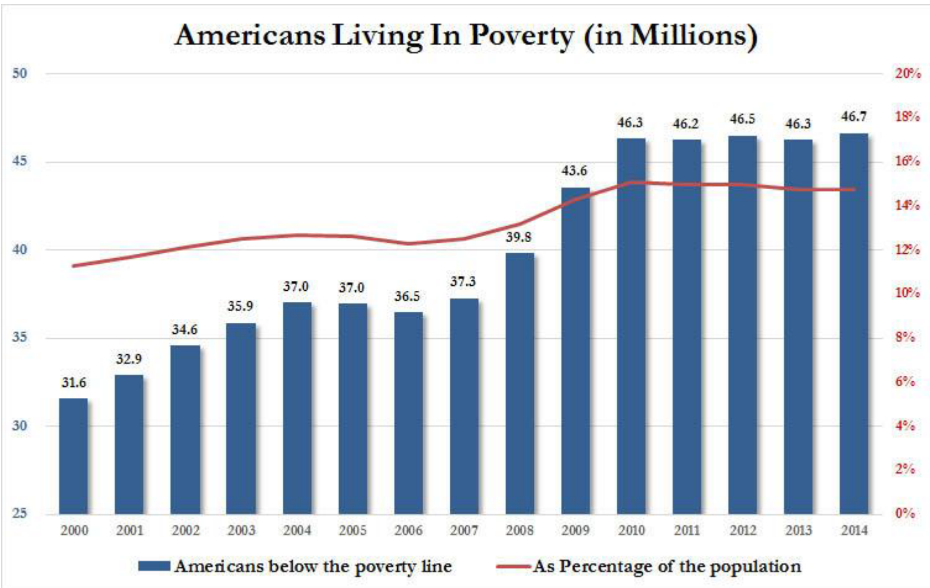

Figure 11: Americans living in poverty.

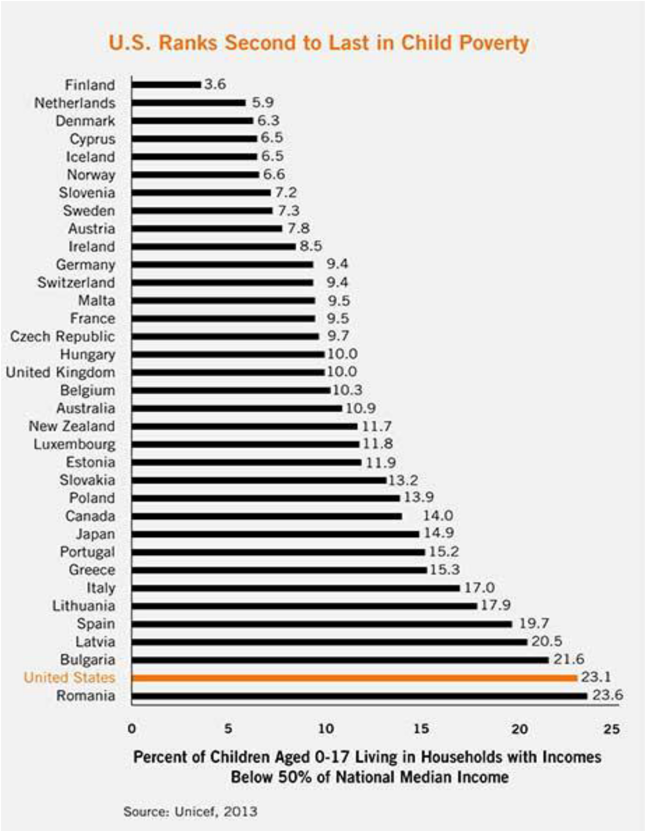

Figure 12: US ranking in Child poverty.

world wars [23]. They cannot shirk responsibility for having promoted such degradation and if such actions that lasted years against any declared rights can be considered a crime against humanity they should be treated as such in the Tribunal of History that is too often used to condemn those who committed atrocities against their own people but also in the interests of those who in different ways continue doing the same thing.

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