Book review

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Everything you always wanted to know about credit ratings (but were afraid to ask)

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Giulia Mennillo, *Credit Rating Agencies*, Newcastle, Agenda Publishing, 2022, 152 pp., $30 (pbk.), ISBN: 978-1-788-21193-2

It has been almost thirty years since rating agencies were declared the 'new superpowers' of our world in a *New York Times* editorial that first called attention to the immense power that rating agencies exercise via their role as gatekeepers of financial markets (Friedman, 1995). Since then, a robust scholarly literature has emerged across disciplinary boundaries – in economics, political economy, sociology, law, and economic history – studying the various aspects of that power: its history, its sources, its nature, the way rating agencies wield it, and its consequences for the economy, politics, and society. Giulia Mennillo's *Credit Rating Agencies* aims to summarize and synthesize the findings of that literature in a single volume in a way that makes them accessible to broader, less specialized audiences with an interest in financial markets. Published as part of Agenda Publishing's 'Finance Matters' series, the book provides an advanced introduction to the complex phenomenon of credit ratings, thereby offering a superb teaching resource for educators who wish to acquaint their students with these influential players of the financial world. In this respect, the slim volume fills an important lacuna.

Mennillo's *Credit Rating Agencies* has much to be praised for. It is both impressively comprehensive and admirably thorough in its exposition of the facts and figures of the rating world. It retells the history of the Big Three rating agencies (Moody's, Standard and Poor's, and Fitch), describes their ownership structure, analyzes the make-up of their portfolios, and explores their decision-making processes with commendable precision. It explains how ratings achieved their important status in national and transnational financial regulatory frameworks, paying special attention to elucidating how ratings are used in the European Central Bank's collateral rules and in successive iterations of the Basel framework for banking supervision. It recounts the ignominious role of ratings in various scandals and crises, and parses the varied criticisms levelled against ratings. Finally, it provides a sweeping overview of the efforts to rein in and regulate the power of ratings in the United States, Europe, and internationally since the

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global financial crisis of 2008. In doing so, the book offers an excellent resource, a one-stop-shop for any rating agency-related information.

Beyond covering all the bases on the Big Three and their role in global financial markets, Mennillo also provides a fascinating look into China's credit rating scene, leveraging her own expertise in this area. The reader is introduced to the history and the main players of the Chinese rating market, and gets a taste of the difficulties and dilemmas entailed in developing a market for risk indicators – sometimes in opposition to, at other times in cooperation with, the Big Three – in a state-controlled capitalist regime where freedom of information is in doubt. The chapter on China is brief, but it offers enough insight to pique the reader's interest and to call attention to developments outside of the dominions of the Big Three.

Moreover, the ambitions of the volume laudably go beyond providing a mere summary of facts and figures. The book also engages with the contradictions and counterintuitive features of the phenomenon of ratings that have fascinated political economists and sociologists over the past thirty years. Importantly, the book cautions against a simplistic 'functionalist' understanding of ratings as objective indicators produced by rationalist calculations; highlights the intersubjective character of the definition of creditworthiness; points out that the importance of credit ratings arises from the fact that ratings are used as a common language to talk about risk across capital and money markets; and emphasizes that ratings are not neutral arbiters but exercise serious political power over borrowers, most importantly governments. It is imperative to discuss these insights of the political economy and sociology literature in any introduction to credit ratings, because they are crucial to dispelling several persistent misconceptions about the role that ratings play in modern financial markets, which not only distort public perceptions about ratings, but also – as Mennillo herself points out – frustrate effective policy responses to important problems surrounding ratings.

The limits of the genre – i.e., being a general introduction to the topic – constrain the book from fully engaging with the corrective conceptual framework that the last thirty years of scholarship has offered to these misconceptions, leaving slight gaps in the narrative. For example, while the book keeps reminding readers that ratings are not objective indicators, it does not make it clear that measuring credit risk is an altogether illusory undertaking, because credit relations involve fundamental uncertainty, not risk. Ratings or any other purported indicators of risk are an exercise in futurology, and can therefore never be objectively correct or incorrect (Carruthers, 2013; Abdelal and Blyth, 2015; Stellinga and Mügge, 2017). (Unfortunately, the narrative sometimes slides into using language – such as 'rating quality', 'misjudgments', 'too low/high ratings' – that obscures this fundamental point by implicitly suggesting ratings could be accurate). Similarly, the book appropriately emphasizes that ratings are intersubjective in nature and serve as a common language of risk. Yet, these concepts and metaphors remain somewhat vague in the absence of a clearer explanation that the demand for a common language arises from the need for consensus on risk both in collateralized lending deals and when monitoring the risk taking of institutional investors, and that the intersubjective character of ratings results from the fact that ratings need to both reflect and shape market perceptions to be able to serve this crucial consensus-creating function (Abdelal, 2007; Abdelal et al., 2015). Finally, while the book underlines the political power entailed in ratings, it does not explore how that power is used to favor certain policies and ideologies over others (Vaaler et al., 2006, Barta and Johnston, 2018; 2021). But for a book that is juggling the competing objectives of providing a comprehensive overview of history, enumeration of technical information, and introducing key concepts and conundrums, such compromises are almost inevitable, and they do not take away from the value of the book as an advanced primer to the world of credit ratings.

Mennillo's *Credit Rating Agencies* is an excellent introduction to the topic of ratings. The slim volume achieves so much in so little space: it provides up-to-date and meticulous information on credit rating agencies and their regulatory context, and it engages with some complex theoretical issues. Its conclusion even raises a number of important questions about the implications of ratings for the progression of financialization, climate change, cryptocurrencies, and artificial intelligence, inspiring the reader to delve deeper into these fascinating issues. Educators will certainly find the book an unparalleled resource in teaching their students about rating agencies, but anyone who seeks a comprehensive introduction to the counterintuitive world of credit ratings should start with Mennillo's *Credit Rating Agencies*.

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