Everyone gets downgraded [1]

Written by **Tim Worstall** [2] | Saturday 14 January 2012

A certain amusement this morning as everyone gets downgraded [3].

> Europe has been plunged into a fresh crisis after France was stripped of its coveted AAA credit rating in a mass downgrade of nine eurozone countries by the ratings agency Standard & Poor's. S&P said austerity was driving Europe even deeper into financial crisis as it also cut Austria's triple-A rating, and relegated Portugal and Cyprus to junk status.

The amusement comes from the fact that there will be those (certain French politicians come to mind) who will say two things: first, that this is an outrage, how dare anyone in the private sector claim that not everything is entirely ticketty boo in the public sector?

So far so usual for politicians reacting to an unwelcome intrustion of reality: the problem comes with the second, again entirely normal for politicians, statement that something must be done about this. That something likely to be that the ratings agencies must not be allowed to say such things.

Which is where we come to something of a problem: the agencies are simply giving their view and free speech isn't something we want to give up lightly. I'm not sure it's something we want to give up at all in fact. We can go further than this as well. There are those (again, French politicians come to mind) who seem to think that because some official or semi-official body like a ratings agency says something that this has changed the world in some manner. But France's borrowing costs have been higher than Germany's for some time now. A full percentage point higher in fact. France is, in the eyes of the market, not an AAA. Far from the agencies causing it to be not AAA, the decision has already been taken by all of the buyers and not buyers of bonds that France is not AAA and the agency is really just recognising this extant reality.

But then there are those (French politicians coming to mind) who insist that reality has no place in this universe of ours.

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/economics/everyone-gets-downgraded

Links:
[1] http://www.adamsmith.org/blog/economics/everyone-gets-downgraded
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.guardian.co.uk/business/2012/jan/13/eurozone-crisis-france-credit-rating-aaa
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com