The Many Hands of the State

Theorizing Political Authority and Social Control

Edited by

KIMBERLY J. MORGAN
George Washington University

ANN SHOLA ORLOFF
Northwestern University

CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE
UNIVERSITY PRESS

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781316501139

10.1017/9781316471586

First published 2017

Printed in the United States of America by Sheridan Books, Inc.

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data
NAMES: Morgan, Kimberly J., 1970– editor. | Orloff, Ann Shola, editor.
TITLE: The many hands of the state : theorizing political authority and social control / edited by Kimberly Morgan, George Washington University ; Ann Shola Orloff, Northwestern University.
DESCRIPTION: New York, NY : Cambridge University Press, 2016. | Includes bibliographical references.
IDENTIFIERS: LCCN 2016023227 | ISBN 9781107135291 (hardback) | ISBN 9781316501139 (paperback)
SUBJECTS: LCSH: State, The–Case studies. | State, The–Philosophy. | Authority–Case studies. | Authority–Philosophy. | Social control–Case studies. | Social control–Philosophy. | BISAC: POLITICAL SCIENCE / General.
CLASSIFICATION: LCC JC131 .M333 2016 | DDC 320.1–dc23 LC record available at https://lccn.loc.gov/2016023227

ISBN 978-1-107-13529-1 Hardback
ISBN 978-1-316-50113-9 Paperback

Contents

Figures

over the course of many years. Scholars of path dependence have mostly conceptualized institutional change as originating from "exogenous shocks" or outside political and economic happenings that upset the balance of power among stakeholders. Such an approach has difficulty explaining change in the absence of exogenous shocks. See James Mahoney and Kathleen Thelen, "A Theory of Gradual Institutional Change," in *Explaining Institutional Change: Ambiguity, Agency, and Power*, eds. James Mahoney and Kathleen Thelen (Cambridge: Cambridge University Press, 2010).

4

State Metrology

The Rating of Sovereigns and the Judgment of Nations

Marion Fourcade*

INTRODUCTION: THE MANY HANDS ON THE STATE

As Pierre Bourdieu pointed out in a three-year course at the Collège de France (1989–1992),[1] the state is the single most important institution organizing the most mundane aspects of our everyday existence. Take time and space. It is the state, under its various forms, that regulates basic elements of temporality – the definition of the legal workday, the school calendar, national holidays, winter and summer hours, and expectations about the daily synchronicity of individual lives. Government action shapes meaningful spatial divisions, too. Administrative and legal rules monitor which aspects of our individual life experiences are in fact public and which may remain private. And states also count, measure, categorize, and sort people and things, thereby producing social identities such as occupations or professions, racial or ethnic groups, and classes – to give just a few illustrations.[2] They do so by constituting legitimate categories of actors (state officials) whose *raison d'être* is to recognize, sanction, authorize, and require in ways that are (for the most part) imperative and unquestioned. According to Bourdieu, who was twisting the words of Max Weber and Norbert Elias but really building on the work of Emile Durkheim, the state is the locus par excellence of "legitimate symbolic violence." By eliciting and coordinating forms of affective solidarity, and by providing those who are subject to its rule with a sort of logical and moral compass, the state operates as a powerful instrument of social integration.[3] The school system, the law, and all public rituals are the main vehicles of this imperceptible process by which the state inculcates principles of vision and division of the social world and their associated evaluative (i.e., moral) frames.[4]

Seen from this vantage point, it is sometimes easy to forget that nation-states are also themselves the objects of considerable symbolic violence. The cultural–organizational nebula that Meyer and his colleagues call "world society"[5] has tasked itself with the rationalization of what states "must" be and do in order to be considered legitimate sovereign entities. Universalized ideals of state effectiveness compel countries to expand their extractive capacities and implement budgetary or regulatory policies that sometimes come at a great financial cost. Recognition by peers or admission in some supranational institutions, such as the European Union, is predicated on states guaranteeing certain kinds of rights. Metrics and indicators proliferate as a second-order form of control, arraying sovereign entities along some dimension of economic or social best practice.[6] There are national indicators for human rights, for freedom, for ease of doing business, for transparency, for human development, for rule of law. There are hundreds of aggregated economic, social, political, and environmental measures that flatten qualitative differences and allow for neat country rankings and heat maps. Metrics and commensuration also imply comparisons, that is, rankings and hierarchies. Finally, hierarchies carry implicit moral injunctions: international experts and domestic policymakers express concerns and devise plans for the country to move up the ladder, implicitly accepting the externally imposed symbolic order as an internal guide.

States, in other words, have many hands *on* them. They are labeled, evaluated, classified, graded, ranked, praised, or disciplined from without, by many different kinds of actors with a rationalizing, ideological, or economic purpose – international institutions, experts from various professions, social movements, philanthropies, and private companies. States are not the only targets of metrological and categorizing fevers: the modern economy and society are filled with comparisons, rankings, and certification systems that measure, benchmark, and thereby regulate the behavior and performance of individuals and organizations.[7] Nation-state–level metrics have a different flavor, however, because states "represent" social collectives and thus *stand in* for more than themselves. As Durkheim, again, put it, the state "is not the brain that *creates* the unity of the organism [i.e., society], but it *expresses* it, setting its seal upon it."[8] That is, the state not only *literally* emanates from a social collective through a process of political "representation," it also *stands in, symbolically*, for that collective.

Measures of the state are thus always implicitly gauging society, too, operating a metrological reduction of collective histories and their

attendant representations. In short, the rating and scoring of states reflects on society by encoding certain perceived characteristics of the nation into a simplified categorical framework. Consequently, the measures, like all representations, come back to touch society: they enter its very constitution and identification by others. Citizens partake emotionally in the institutionalized representations of the collective, be they names or numbers, and they also share in the consequences of these representations. Thus by assigning positions and comparing states across categorical borders, evaluative institutions also regulate the *collective* experiences of citizens, in both a material and a symbolic way. The metrics are social facts in a Durkheimian sense: they are external and coercive, their effects being felt in all individuals who partake in the collective's destiny.

From a sociological perspective, then, the metrology of the state raises three important questions. First, what is the process by which the relevant measures are produced? Second, who gets to determine what kinds of representations get *encoded*[9] in these measures? Third, how are the measures then *decoded* by the various actors in play, and what are their economic effects? Below I address these three questions through a very particular empirical lens: the production of sovereign credit ratings.

STATES ON THE MARKET

Nowhere, perhaps, is the power of metrics on states more evident than in the realm of sovereign debt. Since the late 1980s, sovereign debt has moved from being centered on private bank loans – the early 1980s debt crisis, for instance, was a crisis of intermediation – to being centered on the bonds market, where debt is traded publicly. States' economic value, so to speak, fluctuates publicly on a daily basis. To support this financial activity and the wide range of actors involved, banks and investor firms have bolstered their research departments; dedicated organizations have expanded their "opinion" business to cover a large number of sovereign issuers; and the financial press keeps a close eye on any information, political or otherwise, deemed relevant to the process of risk evaluation.

Market valuations (in the form of spreads on the bond market or sovereign credit default swaps) and evaluations (in the form of briefs, reports, or credit ratings) thus frame the conditions under which states are incorporated into modern financial capitalism, if at all. But the valuation of government bonds is an extremely complex and uncertain process, vulnerable to the vagaries of domestic and international politics, up and down economic trends, or investment fads and fashions. Most

importantly, it depends on a multilayered structure of other valuations: since the state remains the last-resort economic actor, its financial legibility cannot be fully detached from the financial legibility of the rest of the domestic economy, and vice versa. A country's entire banking system, to the extent that it can become a *public* liability (as in Ireland's decision to mop up its banks' losses in 2008–2009), may be relevant to the process of state valuation; the same is true of its auto industry, railroads, or other vital economic sectors. From the point of view of state-gauging actors, "the state" can only be apprehended through a complex process of disaggregation and reaggregation[10] that is attuned to the mutable boundaries between state and society, public and private.[11]

These boundaries are themselves under constant construction. States work on market actors to shape perceptions about the national "economy" through policies deemed favorable to "investors," a hospitable political climate, or broader marketing campaigns.[12] Tax breaks and infrastructural investments, but also weak labor, safety, or environmental laws, may enhance the attractiveness of corporate bonds; tight fiscal policies may be more relevant for sovereign ones. "Contemporary financial knowledge," Zaloom remarks, "is organized around the interplay of reason and affect."[13] Capital must be excited by potentially high yields, and it must feel reasonably safe. In the mid-2000s, it was enticing to invest in the BRIC economies. The Goldman Sachs London bureau had popularized this label to designate the four large emerging economies of Brazil–Russia–India–China. Unsurprisingly, the quartet soon claimed the label for themselves and turned the term BRICs into a proud political banner – with its connotations of rock solid material – performing and spontaneously fitting the category in a sort of "looping" effect.[14] Meanwhile, the financial industry developed it into a lucrative business strategy: BRICs-dedicated investment funds and products flourished, as did consulting, branding, and marketing activities, fueling new sources of profit for investment banks, consulting firms, credit rating agencies, and the financial press. Thus Goldman Sachs, in this case, got to define the principles of vision and division of the economic world, but – and this is the important point – the classificatory act was all at once an economic act, a source of profit. So much is at stake, then, because language is never "just words." Labels, nicknames, letter grades, and scores elicit positive and negative emotions, rally up economic excitement or chill expectations, and create identities. These cultural "mood swings" may be hard to pin down, but they do participate in the financial process, too.

Such stories remind us that the economy cannot exist without morality plays, as actors – individuals, corporations, countries – are apprehended not only through numbers, formulas, and charts aiming at precision, but also through rather coarse moral categories of virtue and vice, good and bad, high and low.[15] In the early 2010s, with the fermentation of the Eurozone crisis, the BRICs suddenly experienced a boost in popularity as operators in the financial markets collectively became more pessimistic about Southern European economies and, correlatively, Southern European states, which had to shoulder the adjustment. Described as "European Tigers" just a few years before, the newly forsaken countries of Portugal, Italy, Greece, and Spain were now lumped together under the inelegant label of "PIGS." Then Ireland joined the club, and it was redubbed the "PIIGS."

Markets are in the relative value business: they depend not on absolute assessments but on *trade-offs*, on evaluative comparisons. The decision is never simply "should I invest in X?" but rather "will I be better off investing in X rather than Y? Is the spread worth the risk?" Second, market judgments are conjectures. To the extent that they must judge a country's *willingness* to repay its debt, rather than simply its *ability* to do so (indeed, it may be difficult to disentangle the two in practice), market evaluators of sovereign risk incorporate their own subjective (if heavily rationalized) assessments about the culture, institutions, and politics of various nations. Third, market judgments are recursive. To the extent that these representations play an active part in the functioning of the financial markets themselves, as the PIIGS and BRICS examples suggest, market actors must also track other actors' evolving confidence in the culture, institutions, and politics of various nations *as they are currently reflected in prices*, that is, risk premia or spreads.

Consequently, being attuned to, or in command of, the symbolic universe that shapes these judgments – such as the division between BRICs and PIIGS – is of enormous practical importance. The distribution of symbolic rewards in the international arena is deeply intertwined with the extraction of material profit, and thus an inherent part of the business of finance. Put another way, the "cultural circuit of capital"[16] – the stories we tell about economies, the categories we construct to account for them, and even, to some extent, the instruments we produce to measure them – are not just an epiphenomenon floating above some real, underlying material structure beneath: the circuit stands at the very heart of the capitalist machine.[17] Markets, too, "see" through classifications, and they act upon them.[18]

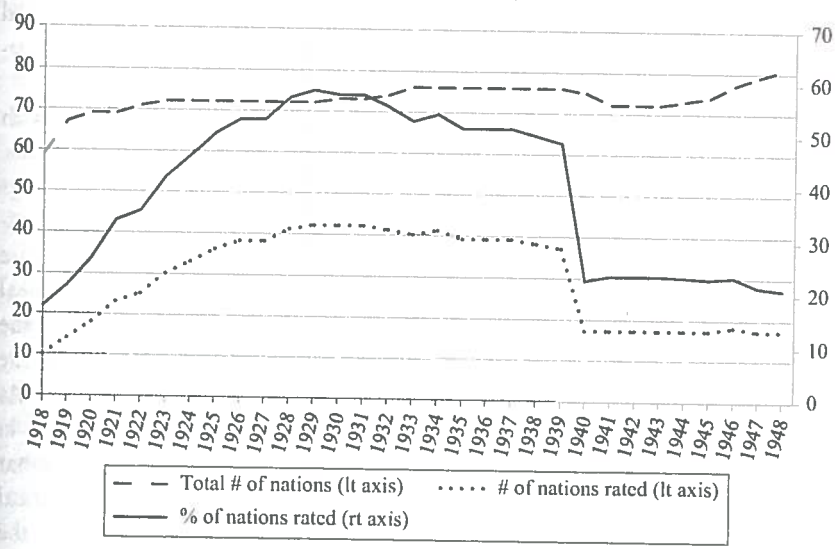
The market for sovereign debt has a long history, and judgments about the moral personae of states have always been at stake in it. In earlier eras, economic relations between sovereigns and their creditors were mediated through tightly knit networks of personal relations; the social status of one's bond underwriters essentially certified one's prospects as a sovereign borrower.[19] Today, connections between bond issuers, underwriters, and buyers have become more competitive. The primary market is still heavily concentrated: countries' debt management offices maintain close relationships with a few primary dealers who are in charge of selling government bonds to the rest of the market. But certifying states' economic virtue has become a separate and heavily formalized business. Dedicated private organizations, the credit ratings agencies (or CRAs), are the public face of the sovereigns' evaluation process, which fits into a century-long effort of turning uncertainty about various types of borrowers into calculable risk.[20] Investors, especially large ones, have their own in-house services, too, and also use the services of boutique analysis firms. Finally, actors track the opinions of well-respected analysts at all these institutions, either through formal channels or by word of mouth.

MORAL REDUCTION

Country ratings are an extension of Moody's and Standard and Poor's (S&P's) older business of rating public enterprises and municipal bonds,[21] and today the ratings of states and public agencies continue to co-determine each other. Both companies started rating sovereigns after World War I, though their evaluations were limited to European, North American, and Latin American countries.[22] Grades were implicitly benchmarked against U.S. securities, which stood in a class of their own at the apex of the hierarchy (U.S. government securities were then rated A***** or AAAAA by S&P, a category which has since disappeared). The business then died with the wave of country defaults associated with the Great Depression and World War II, only to restart in the mid-1970s after the abrogation of the Interest Equalization Tax.[23]

Figure 4.1a[24] tracks the percentage of the sovereign bonds rated by Moody's over the long run, while Figure 4.1b focuses on cumulative counts for the post-1975 period only but provides data for the three major agencies.[25] Both figures show the rapid rise of the number of countries rated by the three main agencies after that date. Unsolicited at first, ratings have become standard "market devices"[26] that are routinely incorporated in financial decisions. They also partake in the symbolic and material arsenal of the modern nation-state,[27] a way for

(a) Total number and percentage of nations rated by Moody's, 1918–1948.



(b) Percentage of nations with sovereign ratings by agency, 1975–2013.

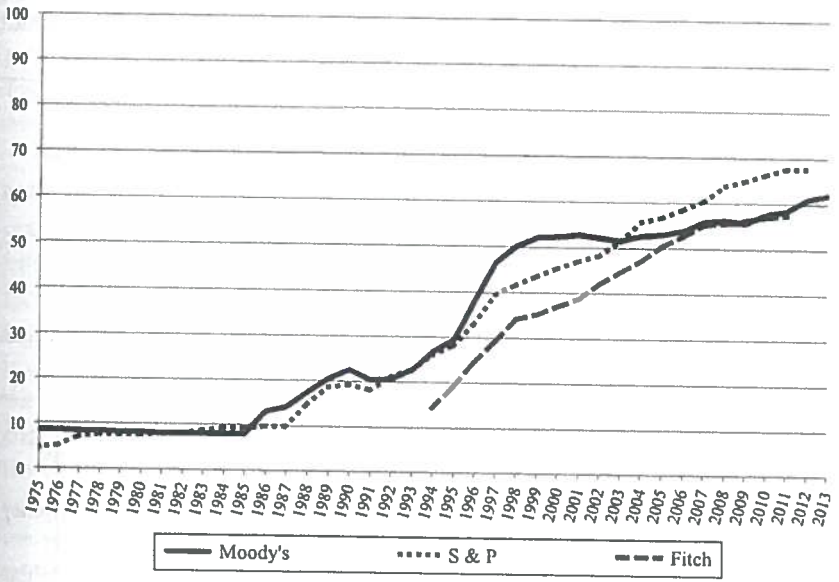


FIGURE 4.1. Historical evolution of sovereign credit rating. (a) Nation-states defined according to CIA World Factbook (www.cia.gov/library/publications/the-world-factbook/). Data for countries rated by Moody's from 1918 to 1948 were generously provided by Norbert Gaillard (see Norbert Gaillard, *A Century of Sovereign Ratings* (Springer 2012), 8). For these years, rated countries are those

states to signal not only borrower status, but also legitimacy as members of the international community. So demand for ratings has increased steadily over time, which has allowed the CRAs to start charging sovereigns for issuing grades.[28]

Credit raters rate by means of letter grades instead of numbers, with only slight variations in the grading schemes used by the main companies. Bizarrely reminiscent of the evaluation system of schoolchildren, ratings begin with a process of *moral reduction*: condensing the moral personality of the political collective as a whole (state *and* nation) and the nature of the social contract between them into a small set of typographical symbols – the rating.[29] How will the state (and its leaders) balance the citizens' interests with those of foreign creditors? Conversely, will the nation be willing to repay debts contracted by its political elites? As Lienau points out, "the current sovereign lending regime finds itself in the uncomfortable situation of functioning without a clear theory of what it means by 'sovereign.'"[30] Practice, as always, is contingent: the political handling of sovereign debts has varied a lot throughout history. In the period immediately following World War I, it was relatively flexible and forgiving. This was due to, on the one hand, high competition in the credit market and, on the other, the growing assertion of a democratic

FIGURE 4.1. (*cont.*) with bonds that were denominated in USD or GBP, listed on the NYSE, and assigned a rating by Moody's. (b) Total countries defined by total nation-states at each year according to the Correlates of War database (Correlates of War Project, "State System Membership List, v2011," 2011, http://correlatesofwar.org) and supplemented with author data for 2012–2013. Sovereign ratings data begin in 1975, the year after the repeal of the Interest Equalization Tax (IET) in the United States (see Standard & Poor's, "Default Study"); Moody's original set of thirteen rated countries remained unchanged from 1949 to 1985. Fitch began assigning sovereign ratings in 1994. S&P's began rating sovereign debt issues in the 1920s. However, S&P sovereign rating data prior to 1975 are sporadic and/or incomplete compared with ratings after the repeal of the IET in 1974. Moody's ratings are based on Moody's Sovereign Bond Ratingsand span from 1975 to 2013 (see Moody's, "Sovereign Bond Ratings," September 12, 2013, www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_157547). Fitch ratings are based on long-term foreign currency ratings for sovereigns and span from the year Moody's began assigning such ratings, 1994, to 2011 (see Fitch, "Sovereign Rating History," August 24, 2012, www.fitchratings.com/web_content/ratings/sovereign_ratings_history.xls). S&P's ratings are based on long-term foreign currency ratings for sovereigns and span from 1975 to 2012 (see Standard & Poor's, "RatingsDirect: Sovereign Rating and Country T&C Assessment Histories," January 3, 2013, www.standardandpoors.com/spf/upload/Ratings_US/TC_Assessment_Histories_1_4_13.pdf).

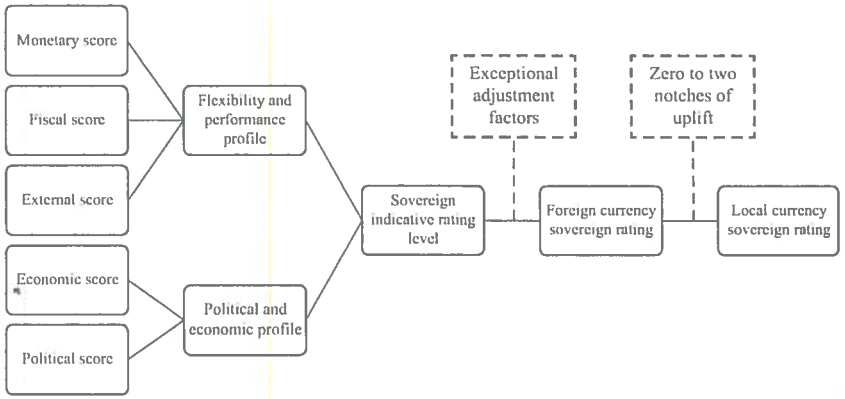
conception of sovereignty, which made the restructuring or erasing of debts possible in case of war or regime change.[31] The recent period, by contrast, has been marked by the institutionalization of a *statist* conception of sovereign debt, which "assumes the continuity of sovereign obligations across successive regimes and therefore mandates the payment of all debt, regardless of its potential illegitimacy."[32] This shift was propelled, in part, by the growing cohesiveness and institutional power of private credit markets during the last quarter of the twentieth century.

The state may be the contracting party, but the terms of the debt contract incorporate beliefs about the relationship between the country and its outside (i.e., foreign creditors) and between the state and the putative nation that lies beneath it, as well as (I will come back to this point) beliefs about the moral personality of different populations. It is this broad political–cultural compact that is being crystallized in the rating, *as if* the whole nation-state could be treated as a person with a particular character and history.[33]

To identify this character, modern scorecard methodologies rely on a series of weighted criteria, mixing measurable economic attributes – a country's economic position or the fiscal capability of its government – with less clear-cut features, such as "institutional strength" or perceptions about the probability that certain dramatic events (e.g., a banking crisis) will occur. Figures 4.2a and 4.2b offer a simplified representation of the S&P's and Moody's methodologies, as described in their own explanatory material.

In theory, the qualitative dimensions of evaluation, which are essential to the roadmaps reproduced in Figure 4.2, will be collapsed into more quantitative measures in order to enable the smooth ranking of sovereign bonds on a continuous scale. The commensuration process thus feeds on the illusion of "mechanized objectivity,"[34] as the component factors are turned into quantifiable metrics and criteria are homogenized across rated institutions. But as the raters themselves were eager to point out after the 2008 financial crisis, theirs is a business of issuing "opinions." This character is reflected in the adjustment explicitly built into the quantitative methodology, or in the fact that the release of new ratings is always accompanied by a commentary.[35] The commensuration exercise includes the assignment of a "political score" (S&P's) or a score for "institutional strength" (Moody's), which captures, mostly, the CRA's evaluation of the country's *willingness* to pay.[36] The economic score is typically benchmarked against agencies' representations of a functioning free market economy. For instance, looking at the policy record of Latin American nations, Biglaiser and DeRouen[37] demonstrate that trade liberalization

(a) Standard & Poor's sovereign ratings methodology.



(b) Moody's sovereign ratings methodology.

Broad Rating Factors	Rating	Weighting (Inward Factor)	Indicators
Factor 1: Economic Strength	Growth Dynamics	50%[1]	Average Real GDP Growth$_{t-4\,to\,t+5}$
			Volatility in Real GDP Growth$_{t-9\,to\,t}$
			WEF Global Competitiveness Index
	Scale of Economy	25%[1]	Nominal GDP (US$)$_{t-1}$
	National Income	25%[1]	GDP per capita (PP, US$)$_{t-1}$
	Adjustment Factors	1–6 scores	Diversification
			Credit Boom
Factor 2: Institutional Strength	Institutional Framework and Effectiveness	75%	World Bank Govt. Effectiveness Index
			World Bank Rule of Law Index
			World Bank Control of Corruption Index
	Policy Credibility and Effectiveness	25%	Inflation Level$_{t-4\,to\,t+5}$
			Inflation Volatility$_{t-9\,to\,t}$
	Adjustment Factor	1–6 scores	Track Record of Default
Factor 3: Fiscal Strength	Debt Burden	50%[1]	General Govt. Debt/GDP$_t$
			General Govt. Debt/Revenues$_t$
	Debt Affordability	50%[1]	General Govt. Interest Payments/Revenue$_t$
			General Govt. Interest Payments/GDP$_t$
	Adjustment Factors	1–6 scores	Debt Trend$_{t-4\,to\,t+1}$
			General Govt. Foreign Currency Debt/General Govt. Debt$_t$
			Other Pub. Sector Debt/GDP$_t$
			Pub. Sector Financial Assets or Sovereign Wealth Funds/GDP$_t$
Factor 4: Susceptability to Event Risk	Political Risk	Max. Function[2]	Domestic Political Risk
			Geopolitical Risk
	Government Liquidity Risk	Max. Function[2]	Fundamental Metrics
			Market Funding Stress
	Banking Sector Risk	Max. Function[2]	Strength of Banking System
			Size of Banking System
			Funding Vulnerabilities
	External Vulnerability Risk	Max. Function[2]	(Current Account Balance+FDI)/GDP$_t$
			External Vulnerability Indicator (EVI)$_{t-1}$
			Net International Investment Position/GDP$_t$

*Where a time series is used, historical and forecast data are equally weighted.
[1] These weights can vary.
[2] The aggregation of Political Risk, Government Liquidity Risk, Banking Sector Risk, and External Vulnerability Risk follows a maximum function, i.e. as soon as one area of risk warrants an assessment of elevated risk, the country's overall Susceptibility to Event Risk is scored at that specific, elevated level.

FIGURE 4.2. Sovereign ratings methodology. (a) Standard & Poor's, "RatingsDirect," June 30, 2011. (b) Moody's, "Sovereign Bond Ratings," September 12, 2013.

does, in fact, boost credit ratings, while inflation depresses them. Furthermore, agencies frequently amend their evaluations in light of current events – political disruptions of any kind, including strikes or street demonstrations; government changes; or international tensions. If model predictions yield a grade that seems out of step with these exogenous conditions, CRA boards will "adjust" the rating or its individual components upward or downward, sometimes in very consequential ways (see Figure 4.2a, "exceptional adjustment factors" in S&P's graph, "adjustment factors" in Moody's table, Figure 4.2b). This "arbitrary component of the credit rating" may grow significantly in times of crisis, such as the Euro area sovereign debt crisis at the end of the 2000s[38] or the East Asian crisis at the end of the 1990s,[39] and impact the risk premium paid by the sovereigns.

ENCODING

The murkiness of sovereign ratings and their individual components stands in sharp contrast to the automated character of individual credit scores, which derives from the algorithmic treatment of well-defined quantitative behavioral measures, weighted and collected mechanically over a certain period.[40] It is relatively straightforward to model credit scores from individual-level indicators.[41] By contrast, sovereign ratings are much harder to replicate. In practice, they connect only loosely to standard economic indicators and economic performance measures.[42] CRAs have performed poorly as predictors of crisis, particularly with respect to emerging economies.[43] Part of the problem is technical: rating models do not have enough data to rely upon. As one interviewee at a credit rating agency puts it, "the essential problem is that the world of sovereign borrowers is far smaller than the world of large banks or corporations, and that the number of instances of default in the modern period when we have reasonable national accounts is tinier still ... So the rating of sovereigns depends more on the art of political economy than on the science of econometrics."[44] To create more data points and sharpen perceptions of a "government's debt payment culture,"[45] countries' records stretch back in time. But are not these records and perceptions themselves the product, rather than the origin, of an existing social structure, with a particular distribution of economic and symbolic capital?

Certainly the argument can be made on an economic level. Small countries and many large countries in the global South are typically unable to borrow internationally in their domestic currency. Marked by what

economists call "original sin," these countries experience a systematic and enduring rating disadvantage, *even at rather low levels of debt*. The reason is that "original sin lowers evaluations of solvency because it heightens the dependence of debt service on the evolutions of the exchange rate, which is more volatile and may be subject to crises and crashes."[46] Consequently, lending conditions for these nations tend to be structurally more expensive and more perilous. It is not coincidental that the countries so affected tend to be located at the periphery or semiperiphery of what Immanuel Wallerstein called the "modern world system,"[47] and marred by histories of colonialism or other forms of economic dependency. Looking at a sample of forty-five countries, Eichengreen, Hausmann, and Panizza[48] find that financial centers (United States, United Kingdom, Switzerland, and Japan) suffer the least amount of original sin, followed by Euroland countries. Latin America suffers the most.

On a more symbolic level, and to the extent that it establishes an inequality of status and power between lender and borrower, debt presumes and invites moral comparisons.[49] Representations about a country's history over the *longue durée* – unlike an individual's – are very publicly available for popular consumption, feeding into economic actors' evaluations of its "character." Given that the world's financial system is heavily centered in the global North (primarily the New York–London axis), the social distance between evaluators and evaluated may be considerable.

Common sense as well as expert linguistic categories carry with them all kinds of positive and negative assumptions about different countries and culture. "People," writes Richard Shweder "say yuck at each other all over the world."[50] There is no reason to think that market actors are somehow insulated from this kind of prejudice, and, indeed, Leslie Salzinger's fieldwork suggests that nationality matters, and is consciously marked, on the trading floor.[51] This is not only because social distance is inherent to the business of international finance, but also because everyone expects such distance to inform the politics of sovereign debt more broadly. For instance, the unfolding of the Eurozone crisis provided a useful reminder that enduring myths about North and South always lurk below the surface. These myths have a long history, rooted in popular discourse and longstanding patterns of subordination/domination, but also in pseudo-scientific theories about, for instance, the effect of temperature or geography on moral character. Echoing a central theme of postcolonial theory, Bourdieu identified an elaborate and recurring network of discursive oppositions and equivalences from Montesquieu's

climate theory to Ratzel's "anthropogeography": between Northern action and Southern passion, virility and femininity, industriousness and sloth, courage and cowardice, or freedom and servitude/despotism.[52] An analysis of the press coverage of the 2010 Eurozone crisis in Germany, pitting Northern European fiscal saints against Southern European sinners[53] and telling tales of responsibility and irresponsibility,[54] reveals the persistence of such contrasting tropes in more recent times. Once publicly activated, these images may sustain shifts in crowd psychology and herd behavior among market actors.

HARDENING–LOOSENING

The world of finance thus processes all kinds of institutional, cultural, or political information, folding it into its evaluative schemes and asset allocation decisions. Fused and melded into ratings, politics and culture become an economic fact through a process we can call, pace Latour, "hardening."[55] That is, the messy work of the rating's construction is all at once dissolved and hardened, removed from view and projected as an ever-present, objective, real "thing." Via the metric and its echo chambers in the economic press and financial markets, a nation-state's moral standing assumes the objectivity of a social fact.

The methodology is highly elaborated, formalized, and exposed in an effort at legitimation and transparency, as is the ratings' release process. Changes in a country's bond ratings rarely go unnoticed, for instance. The ritual is, in fact, unmistakable. The credit raters make their pronouncements in a highly public manner, defending their grade, methods, and impartiality. Rating changes inevitably prompt statements from heads of state, atonement or self-congratulation from finance ministers, and extensive comments from the business press. Everyone, in short, enacts the collective belief that ratings matter a lot, and does so because everyone else does: after all, *New York Times* columnist Thomas Friedman has called Moody's Bond Rating Service the "second world superpower," after the United States.[56]

Friedman's quote is a vast overstatement: in practice, credit ratings have little influence on finance's *daily* operations. What matters there are the moment-by-moment market positions taken by the real movers of money: banks, hedge funds, dealers. The spread, not the grade, is the real deal. Spreads are determined, primarily, by the asset allocation strategies of financial investors and the risk valuations associated with the issuer. When the latter are high, bonds become objects of speculative practices;

that is, they start trading like equities, and their volatility increases dramatically. John Maynard Keynes likened the practice of "speculation" investment, as opposed to "enterprise" investment, to a beauty contest: "It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees."[57] This is when markets see "animal spirits" at work – which Keynes[58] defined as "a spontaneous urge to action rather than inaction, [and not] the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."[59]

Excessive market volatility puts the raters in a difficult position, trapping them between their formal role as risk evaluators and their inevitable entanglement in self-fulfilling market dynamics.[60] In practice, ratings changes are often nonlinear, adding – some commentators have argued – to the volatility on the bonds market. Countries can see their grade going from "investment" to "speculative" or "junk" in a matter of months, as happened when Korea spectacularly experienced a 10-notch downgrade in 1997 (from AA– to B+), Greece's grade tumbled 9 notches in 2010–2011 (from BB+ to CC), or Argentina's fell 8 notches in 2001 (from BB– to SD).[61] What is at stake in these speculative episodes is the immediate well-being of millions of people. A sudden shift in confidence, confirmed by a ratings downgrade, can rapidly turn the crisis into a self-fulfilling prophecy.[62]

Though the CRAs are not the markets' primary movers, they are not irrelevant. For one thing, they matter to those outside finance: the existence of a collective belief in the relevance of a categorical system is not something to be dismissed easily.[63] The pithy formula of the rating focuses attention and creates public drama. Second, the CRAs' actions have ripple effects through their embeddedness in the institutional system. Categories, Hacking remarked, truly gain power when they become the unconscious practice of institutions: "all intentional acts are acts under a description. Hence if new modes of description come into being, new possibilities for action come into being in consequence."[64] We must thus investigate which modes of action have come into being with the rise of credit ratings and other types of formal market evaluations. By doing so, we will begin to understand how and why ratings exert their coercive force on states – I refer to these processes as *inscription* and *performativity*.

INSCRIPTION

Hardened ratings may receive a lot of public attention, but they would be toothless if no one used them. Today's credit rating agencies are powerful because states empowered them. Since the 1980s, the practice of embedding public regulation into private ratings has spread globally.[65] In 2004, it was enshrined in the Basel II accords, which decided that the capital reserve requirements for banks would be have to be weighted by the risk of the financial products they hold, and, even more importantly, that evaluations of risk would be made not by regulators, but by approved "external credit assessment institutions."[66] The regulatory use of credit ratings thus became the more direct mechanism determining the desirability of various forms of private and sovereign debt on the financial markets, enhancing the power of the raters vis-à-vis the rated, including states.[67] Indeed, from a chronological point of view inscription was one of the drivers of the generalization of sovereign credit ratings – not the other way around. A rating downgrade and a whole series of organizations can be suddenly deemed unsafe by regulators.

In other words, states, together with central banks and international financial institutions, collectively constructed the hand that placed them under the rule of financial markets. The first step in this process was the financialization of national debts that started in the 1970s. Prior to that, many governments financed public expenditures directly from national savings and the domestic banking circuit.[68] The second step was the state-sponsored delegation of regulatory control to private opinion issuers, seemingly justified by convenience (the ratings were deemed commensurable across nations) and neoliberal ideology. As Bruner and Abdelal put it, "the 'private' authority of the rating agencies is not so private after all. Governments have both valorized and codified their authority. Indeed, governments define the market for ratings and help to determine their influence."[69] The third step was the inscription of raters' authority within the state's machinery itself, both officially (e.g., when rating analysts consult with state officials, or when CRAs utter public statements about a government's strategy) and more insidiously (when state officials incorporate the perceived preferences of portfolio investors in their approach to economic policy, or when they work to improve the country's position on various components of the rating). Anchoring the action of the state in the external necessity of the markets rather than the sovereignty of democratic politics thus outlined a new political logic – the logic of what Linhardt and Muniesa call the state-corporation (*l'État-entreprise*) as opposed to the

state-ministry (*l'État-Ministère*).[70] Examples include policy strategies that privilege low budget deficits and inflation,[71] the implementation of performance indicators, or pressures to reform the measurement of national debt, for instance by including off balance sheet commitments to future generations. Such accounting modifications dramatically inflate debt/GDP ratios, provide arguments for fiscally conservative constituencies in their effort to crack down on generous welfare states with high pension levels, and create the conditions of a new domestic politics pitting holders of "financial debt" against holders of "social debt."[72] The Greek case, where national pensions and public sector salaries were slashed in an effort to reimburse creditors (mostly foreign, in this case), possibly gives a taste of the conflicts to come for many Western industrialized countries.

DECODING–PERFORMING

The state's economic value thus fluctuates on the bond markets as a traded commodity. Spreads, in turn, are decoded as reflecting market actors' collective expectations about the future of sovereign bonds as commodities: they might deliver known and dependable cash flows or less dependable cash flows, or the loan's principal might be in question. The CRA's "investment," "speculative," or "junk" grade categories partially overlap with these different potential paths. Market actors' anticipations about the possible futures of existing debt contracts, in turn, determine the terms under which new contracts will be negotiated. The better the quality of the issuer (the higher the rating), and the larger its economy, the more competition to serve it. The more, then, the state can afford to demand from its bankers: better research and placement, more advantageous interest rates and fees, more flexibility in terms of maturity and perfectibility requirements. Conversely, the lowest-quality issuers may find themselves unable to borrow on the public market, and will instead deal privately with institutions lending small amounts at very high costs, in a manner similar to that of individuals obtaining a payday loan.

We may thus ponder the extent to which the relative valuations produced by the financial markets perform not only economic outcomes, but also economic "cultures." The market for sovereign debt takes place within a historically evolved social structure – a social hierarchy of countries – which it both benefits from, in the form of diversified returns, and helps reproduce. Some countries never seem to shake the markets' faith in their good word, no matter how foolish their financial position

and domestic politics might look from the outside. With a government *net* debt ratio of 154 percent of GDP but consistently high ratings, Japan is an anomaly, even considering the fact that most of its debt is held domestically. Repeated congressional showdowns over the debt ceiling in the United States – effectively brandishing the threat of default – have had virtually no effect on the country's capacity to borrow, thanks, in great part, to the existence of a reputable lender of last resort (the Federal Reserve).[73] Other countries, on the other hand, have much greater difficulty lifting inherited prejudices about their institutions, and thus remain in a precarious position, plagued by poor reputations and the problem of "original sin." The fact that their debt contracts are more, sometimes much more, expensive, and therefore harder to repay, both materially and politically, in turn further enhances their very precariousness and inability to perform.[74] The chickens often come home to roost in economic slumps. Irving Fisher referred to this as "the great paradox, which is the chief secret of most, if not all, great depressions: *the more the debtors pay, the more they owe.*"[75] This is because in these situations the price of debt (the interest rate) increases more rapidly than the ability of people or institutions to repay it. For some countries, this may amplify the temptation of debt repudiation, either through default or inflation. For others, unfulfilled debt obligations may linger well after default episodes, compounded by arrears, penalties, and expensive litigation costs. The determination, backed by U.S. courts, of New York–based "vulture funds" to obtain full repayment of their portion of Argentina's debt after the 2005 restructuring (debt they had bought at a sharply discounted price) has maintained that country in a precarious political and economic position and threatened restructuring efforts with other creditors.

When, furthermore, debtors come under institutional supervision, the rolling out of austerity policies,[76] the sting of international stigmatization, the sometimes heavy-handed involvement of creditor-country governments (e.g., the United Kingdom with Ireland, Germany with Greece) and courts (in the Argentinian case), and the humiliation of country leaders in debt collection *coups de force* may create the conditions of their own failure by fueling recessions, social conflict, and political instability. Societies, Polanyi reminds us, resist.[77] They also resent. Countries, then, will come to spontaneously fit categories that were seemingly made for them. On the cultural front, institutions will come across as unreformable. And on the economic front, states may just end up aligning with the markets' expectations about them and go into default – a development made all the more likely since the costs of doing so may already have been "priced in."

THE CLASSIFYING AND THE CLASSIFIED: TOWARD A MORAL SOCIOLOGY OF THE STATE

In the eyes of the financial markets, the state is a classifiable entity. To be "in the market" at all, states have to be made legible for market consumption: hence the steady pressure to standardize national accounting and accountability mechanisms in a rational effort to thicken the record, mechanize the evaluation process, and facilitate the assessment of relative value. This is a Sisyphean task: as suggested earlier, the legibility of the state as it pertains to the sale and purchase of sovereign debt extends well beyond the boundaries of public administration, or those of the tax receipts, into public or semipublic enterprises, public–private partnerships, and wholly private institutions that for one reason or another may fall under state purview. Where the state/economy boundary ultimately falls is the outcome of a dynamic process, of the constant ebb and flow of state claims upon society, and society's claims upon the state.[78] In that sense, the state/society divide is both solid and transient: market actors use the distinction all the time, but they must do so in ways that acknowledge its fundamental malleability. That, perhaps, is the meaning of the "structural effect" of the state discussed by Timothy Mitchell:[79] in practice, investors produce such an effect in their own attempts at evaluating and valuing the state as a borrower, projecting their own (and contradictory) readings about its boundaries, making educated guesses and contested bets about the nature of the social contract with citizens and foreigners. In other words, the state in the classifying and investing practice of the financial markets is all at once an actor *and* an arena.[80]

Furthermore, putting "states on the market" presupposes and completes another conflation, a moral one this time, between the state as an economic entity, the government as a political entity, and the country as a cultural one. Notwithstanding efforts at formalizing, quantifying, and standardizing, the process of state valuation cannot be isolated from the history of structural relations between the investors and the invested in, with its attendant prejudices and stereotypes, or from fads and fashions created through and for the benefit of finance. Cultural preconceptions, stigma, and sudden infatuation or disenchantment are not only the unconscious symbolic formation everyone builds upon, but also fair game in the representational manipulations that may enable some actors to gain an edge over their competitors in the financial betting game.

Finally, the very notion of state sovereignty may be itself at stake in the tug of war between countries and their foreign creditors. In the absence of

sovereign bankruptcy rules, national assets may suddenly be up for grabs in opportunistic debt collection actions against distressed states, as happened in Africa and Latin America. Some examples include an Argentinian navy ship temporarily impounded in Ghana or the seizure of oil revenues in the Republic of Congo or of debt relief money in the case of Zambia. In these extreme cases, which involve buying distressed bonds for pennies on the dollar *and then* suing countries for the full amount, the law, and not the markets, is the explicit vehicle for generating financial profits. This aggressive enrollment of creditor countries' courts to support "full amount repayment" to holdout creditors is a relatively new and still limited development, and whether it will be strengthened or tamed in the future, no one can say. But it certainly feeds into the perpetuation of stigma and disadvantage, not only by insisting on costly repayments, but also by nourishing the markets' feverish efforts to generate value from historical and present inequalities between states.

Notes

* I am especially grateful to Jonathan Miller, Kimberly Morgan, Fabian Muniesa, and Pierre-Olivier Gourinchas for their close readings and numerous comments on this piece. I also thank Lis Clemens, Martha Finnemore, Bernhard Harcourt, Armando Lara-Millán, Damon Mayrl, Kate McNamara, Ajay Mehrotra, Ann Orloff, Sarah Quinn, Stephen Sawyer, Vivek Sharma, James Sparrow, Josh Whitford, and participants of the Many Hands of the State Conference (University of Chicago, May 2014) for helpful remarks and suggestions. Earlier versions of this chapter were presented at the annual conference of the Social Science and History Association (2013) and at seminars at Columbia University and George Washington University. Finally, Daniel Kluttz provided excellent research assistance, and I am grateful to Dasom Nah for her valuable editorial help.

1 Pierre Bourdieu, *On the State: Lectures at the Collège de France* (Cambridge: Polity, 2014).

2 Paul Starr, "Social Categories and Claims in the Liberal State," *Social Research* 59, no. 2 (1992): 263–95.

3 Emile Durkheim, *The Division of Labor in Society* (New York: The Free Press, 2014)

4 Bourdieu, *On the State*, 162–75.

5 John W. Meyer, John Boli, George M. Thomas, and Francisco O. Ramirez, "World Society and the Nation-State," *American Journal of Sociology* 103, no. 1 (1997): 144–81; John W. Meyer, "The Changing Cultural Content of the Nation-State: A World-Society Perspective," in *State/Culture: State-Formation after the Cultural Turn*, ed. George Steinmetz (Durham, NC: Duke University Press, 1999), 123–43.

6 Sally Engle Merry, "Measuring the World: Indicators, Human Rights, and Global Governance: With CA Comment by John M. Conley," in *Corporate Lives: New Perspectives on the Social Life of the Corporate Form*, eds. Damani J. Partridge, Marina Welker, and Rebecca Hardin, *Current Anthropology* 52, no. S3 (2011): S83–95; Kevin E. Davis, Benedict Kingsbury, and Sally Engle Merry, "Indicators as a Technology of Global Governance," *Law & Society Review* 46 (2012): 71–104.

7 Michael Power, *The Audit Society: Rituals of Verification* (Oxford: Oxford University Press, 1999); Wendy Espeland and Mitchell Stevens, "Commensuration as a Social Process," *Annual Review of Sociology* 24 (1998): 313–434.

8 Durkheim, *Division of Labor*, 282 (my emphasis).

9 Stuart Hall, "Encoding/decoding," in *Culture, Media, Language*, eds. Stuart Hall, Dorothy Hobson, Andrew Love, and Paul Willis (London: Hutchinson, 1980), 128–38.

10 Morgan and Orloff, Introduction.

11 See Clemens, Chapter 1; Mayrl and Quinn, Chapter 2.

12 Incidentally, this is why an entire consulting industry exists around the branding or rebranding of nations, aimed at shoring up legitimacy so that tourists and investors will take their money there. See Melissa Aronczyk, *Branding the Nation: The Global Business of National Identity* (New York: Oxford University Press, 2013).

13 Caitlin Zaloom, "How to Read the Future: The Yield Curve, Affect, and Financial Prediction," *Public Culture*, 21, no. 2 (2009): 245–68.

14 Ian Hacking, *Historical Ontology* (Cambridge, MA: Harvard University Press, 2004).

15 Marion Fourcade, "The Economy as Morality Play, and Implications for the Eurozone Crisis," *Socio-Economic Review* 11 (2013): 620–27.

16 Nigel Thrift, *Knowing Capitalism* (London: Sage, 2005).

17 Marion Fourcade, "The Symbolic and Material Construction of the BRICS," *Review of International Political Economy* 20, no. 2 (2013): 256–67; Leon Wansleben, "Dreaming with BRICS: Innovating the Classification Regime of International Finance," *Journal of Cultural Economy* (2013): 453–71; Samuel Brazys and Niamh Hardiman, "From 'Tiger' to 'PIIGS': Ireland and the use of heuristics in comparative political economy," *European Journal of Political Research* 54 (2014): 23–42.

18 Marion Fourcade and Kieran Healy, "Classification Situations: Life-Chances in the Neoliberal Economy," *Accounting, Organizations and Society* 38 (2013): 559–72.

19 Marc Flandreau, Juan Flores, Norbert Gaillard, and Sebastián Nieto-Parra, "The End of Gatekeeping: Underwriters and the Quality of Sovereign Bond Markets, 1815–2007," in *NBER International Seminar on Macroeconomics*, eds. Lucrezia Reichlin and Kenneth West (2010), www.nber.org/chapters/c11906.

20 Bruce Carruthers, "From Uncertainty toward Risk: The Case of Credit Ratings," *Socio-Economic Review* 11, no. 3 (2013): 525–51; Barry Cohen and Bruce G. Carruthers, "The Risk of Rating," *Sociétés contemporaines* 1 (2014): 39–66.

21 Rawi Abdelal, *Capital Rules. The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007); Richard Sylla, "An Historical Primer on the Business of Credit Rating," in *Ratings, Rating Agencies and the Global Financial System*, eds. Richard M. Levich, Giovanni Majnoni, and Carmen Reinhart (New York and London: Springer, 2002), 19–40.

22 Norbert Gaillard, *A Century of Sovereign Ratings* (New York and London: Springer, 2012); Standard & Poor's, "Default Study: Sovereign Defaults and Rating Transition Data, 2012 Update," (March 29, 2013), www.standardandpoors.com/ratings/articles/en/us/articleType=HTML&assetID=1245350156739.

23 The Interest Equalization Tax (IET) of 1963 taxed investment by U.S. firms in foreign securities – thus making investing in sovereign bonds from other countries unappealing.

24 Gaillard, *Century of Sovereign Ratings*, 8.

25 Standard & Poor's, Moody's (both U.S.-based) and Fitch (U.K.-based).

26 Michel Callon, Yuval Millo, Fabian Muniesa, eds., *Market Devices* (London: Blackwell 2007). On the concept of market "judgment devices," see Lucien Karpik, *Valuing the Invaluable* (Princeton, NJ: Princeton University Press, 2010).

27 Meyer, Boli, Thomas, and Ramirez, "World Society."

28 After the Brady debt restructuration plan of 1989, "countries accepted the policy of paying to be assigned a rating: the most creditworthy governments (e.g., Chile) wanted to demonstrate that their credit standing had recovered from previous crises and middle- and low-income countries preferred a low rating to no rating at all" (Gaillard, *Century of Sovereign Ratings*, 36).

29 This may include the nature of the social contract *between* nations: the sovereign debts of the Southern European nations (and Ireland) were cheap until mounting tensions revealed that the rest of the Eurozone may be unwilling to absorb losses.

30 Odette Lienau, "Who is the 'Sovereign' in Sovereign Debt?: Reinterpreting a Rule-of-Law Framework from the Early Twentieth Century," Paper 594 (Cornell Law Faculty Publications, 2008), 64.

31 Odette Lienau, *Rethinking Sovereign Debt: Politics, Reputation and Legitimacy in Modern Finance* (Cambridge, MA: Harvard University Press, 2014).

32 Lienau, "Who Is the 'Sovereign,'" 66.

33 Alexander Wendt, "The State as Person in International Theory," *Review of International Studies* 30, no. 2 (2004): 289–316.

34 Theodore Porter, *Trust in Numbers: The Pursuit of Objectivity in Science and Public Life* (Princeton, NJ: Princeton University Press, 1995).

35 For instance, in a rating downgrade of Greek sovereign bonds released on April 29, 2015, Moody's explicitly refers to the views of the far left of the Syriza party and the prospect of a referendum on any new financing agreement.

36 CRAs willingly acknowledge the subjective and speculative element in these component scores. According to Standard & Poor's, the political score

"reflects *our view* of how a government's institutions and policy making affect a sovereign's credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic and political shocks. It also reflects *our view* of the transparency and reliability of data and institutions, as well as potential geopolitical risks." (Standard & Poor's, "RatingsDirect: Sovereign Government Rating Methodology And Assumptions," June 30, 2011, www.standardandpoors.com/spf/upload/Ratings_EMEA/2011-06-30_CBEvent_CriteriaGovSovRatingMethodologyAndAssumptions.pdf). In Moody's case, "institutional strength" includes the subcategories of government effectiveness, regulatory quality, rule of law, and control of corruption, all of which are based on the quantification of qualitative assessments.

37 Glen Biglaiser and Karl De Rouen, "Sovereign Bond Ratings and Neoliberalism in Latin America," *International Studies Quarterly* 51, no 1 (2007): 121–38.

38 Manfred Gärtner, Björn Griesbach, and Florian Jung, "PIGS or Lambs? The European Sovereign Debt Crisis and the Role of Rating Agencies," *International Advances in Economic Research* 17 (2001): 288–99.

39 Giovanni Ferri, Li-Gang Liu, and Joseph E. Stiglitz, "The Procyclical Role of Rating Agencies: Evidence from the East Asian crisis," *Economic Notes* 28, no. 3 (1999): 335–55.

40 Donncha Marron, "'Lending by numbers': credit scoring and the constitution of risk within American consumer credit," *Economy and Society* 36, no. 1 (2007): 103–33; Martha Poon, "From New Deal Institutions to Capital Markets: Commercial Consumer Risk Scores and the Making of Subprime Mortgage Finance," *Accounting, Organizations and Society* 34, no. 5 (2009): 654–74; Fourcade and Healy, "Classification Situations."

41 FRB (Federal Reserve Board), *Report to Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit* (Board of Governors of the Federal Reserve System, 2007).

42 Ricardo Hausmann and Ugo Panizza, "Redemption or Abstinence? Original Sin, Currency Mismatches and Counter Cyclical Policies in the New Millenium," CID Working Paper no. 194 (2010), www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/centers-programs/centers/cid/publications/faculty/articles_papers/hausmann/Redemption_or_Abstinence.pdf. Marwan Elkhoury, "Credit Rating Agencies and their Potential Impact on Developing Countries," United Nations Conference on Trade And Development, *Compendium on Debt Sustainability and Development* (2008), 165–89, http://unctad.org/en/docs/gdsddf20081_en.pdf#page=170. C. Archer and Glen Biglaiser, "Sovereign Bonds and the 'Democratic Advantage': Does Regime Type Affect Credit Rating Agency Ratings in the Developing World?" *International Organization* 61, no. 2 (2007): 341–65.

43 Carmen Reinhart, "Sovereign Credit Rating Before and After Financial Crises," in *Ratings, Rating Agencies and the Global Financial System*, eds. Levich, Majnoni, and Reinhart, 265. Also see Timothy Sinclair, *The New Masters of Capital. American Bond Rating Agencies and the Politics of Creditworthiness* (Ithaca, NY: Cornell University Press, 2005), and Pierre Pénet and Grégoire Mallard, "From Risk Models to Loan Contracts, Austerity as the Continuation of Calculation by Other Means," *Journal of Critical Globalization Studies* 7 (2014): 4–47.

44 Cited in Andrew Fight, *The Ratings Game* (John Wiley & Sons, 2001), 114.

45 Standard & Poor's, "RatingsDirect," June 30, 2011.

46 Barry Eichengreen, Ricardo Hausmann, and Ugo Panizza, "The Pain of Original Sin," in *Other People's Money: Debt Denomination and Financial Instability in Emerging Market Economies*, eds. Barry Eichengreen and Ricardo Hausmann (Chicago, IL: University of Chicago Press, 2005), 30.

47 Immanuel Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," *Comparative Studies in Society and History* 16, no. 4 (1974): 387–415.

48 Eichengreen, Hausmann, and Panizza, "Original Sin," 13–47.

49 David Graeber, *Debt: The First 5,000 Years* (New York: Melville House, 2010).

50 Richard Shweder, *Why Do Men Barbecue? Recipes for Cultural Psychology* (Cambridge, MA: Harvard University Press, 2003), 177.

51 Leslie Salzinger, "Beneath the Model: From 'Developing Nation' to 'Emerging Market,' Deal by Deal," Annual Conference of the International Sociological Association, August 4, 2012.

52 Pierre Bourdieu, "Le Nord et le Midi: Contributions à une analyse de l'effet Montesquieu," *Actes de la Recherche en Sciences Sociales* 35, no. 1 (1980): 21–25.

53 Matthias Matthijs and Kathleen McNamara, "The Euro Crisis' Theory Effect: Northern Saints, Southern Sinners, and the Demise of the Eurobond," *Journal of European Integration* 37, no. 2 (2015): 229–45.

54 Klaus Armingeon and Lucio Baccaro, "Political Economy of the Sovereign Debt Crisis: The Limits of Internal Devaluation," *Industrial Law Journal* 41, no. 3 (2012): 254–75.

55 Bruno Latour, *Science in Action: How to Follow Scientists and Engineers through Society* (Cambridge, MA: Harvard University Press, 1987). See also Barry Cohen and Bruce G. Carruthers, "The Risk of Rating," footnote 20.

56 Cited in Frank Partnoy, "The Siskel and Ebert of Financial Markets: Two Thumbs Down for the Credit Rating Agencies," *Washington University Law Quarterly* 77 (1999): 620.

57 John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Harcourt, Brace and World, 1965), 156.

58 Keynes, *General Theory*, 162.

59 See Robert J. Shiller, *Irrational Exuberance*, third ed. (Princeton, NJ: Princeton University Press, 2015) and George A. Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives The Economy, and Why It Matters for Golbal Capitalism* (Princeton, NJ: Princeton University Press, 2009) for a modern treatment on the subject.

60 Pierre Pénet, "Ratings Reports as Figuring Documents. How Credit Rating Agencies Build Scenarios of the Future," in *Making Things Valuable*, eds. Martin Kornberger, Lise Justesen, Anders Koed Madsen, and Jan Mouritsen (Oxford University Press, 2015), 62–88.

61 These ratings are from S&P's (see Standard & Poor's, "Default Study," www.standardandpoors.com/ratings/articles/en/us/articleType=HTML&assetID=1245350156739, 14).

62 Since countries frequently borrow to repay prior debts, a spike in interest rates can make such borrowing unaffordable, precipitating the crisis.

63 Timothy Sinclair, "Credit Rating Agencies and the Global Financial Crisis," *European Economic Sociology Newsletter* 12, no. 1 (2010): 5.

64 Hacking, *Historical Ontology*, 108.

65 Andreas Kruck, *Private Ratings, Public Regulations. Credit Rating Agencies and Global Financial Governance* (New York: Palgrave, 2011), 6.

66 Kruck, *Private Ratings*.

67 However, under Basel II rules, banks were incentivized to hold sovereign bonds denominated in local currency, because states insisted they should be considered risk-free. An obscure (political) decision by the European Central Bank at the time of the creation of the euro allowed *any* Eurozone country's sovereign debt to be considered as the safest kind of asset, usable as collateral in Eurosystem monetary policy operations. Both of these decisions explain why sovereign bonds became so attractive to banks, which could borrow from the central bank at very low cost against these assets and pocket the difference in yield.

68 For instance, in post-1945 France, banks were forced to hold a certain level of national treasury bonds, emitted at a fixed price, which allowed the government to finance its expenditures cheaply from domestic savings. A market for debt existed, but it played a relatively subaltern role compared with what Lemoine calls the "administrative management of state debt." This administrative system was progressively dismantled in the late 1960s, as French (and many other) governments began to experiment with the sale of large quantities of state bonds (whose price now fluctuated) on financial markets. The concern at the time –coming from economic liberal circles and taking inspiration from the British system – was to force the state to behave like *any* responsible borrower. See Benjamin Lemoine, L' ordre de la dette: enquête sur les infortunes de l' Etat et la prospérité du marché. (Paris, La Découverte, 2016). For a similar evolution in Israel, see Roi Livne and Yuval Yonay, "Performing Neoliberal Governmentality: An Ethnography of Financialized Sovereign Debt Management Practices," *Socio-Economic Review* 13, no. 4 (2015).

69 C. Bruner and Rawi Abdelal, "To Judge Leviathan: Sovereign Credit Ratings, National Law, and the World Economy," *Journal of Public Policy* 25, no 2 (2005): 193. Note that the European Union has sought to contain this influence after the Eurozone sovereign debt crisis.

70 Dominique Linhardt and Fabian Muniesa, "Du ministère à l'agence: Étude d'un processus d'altération politique," *Politix* no. 95 (2011): 73–102.

71 See Marwan Elkhoury, "Credit Rating Agencies and their Potential Impact on Developing Countries," United Nations Conference on Trade And Development, *Compendium on Debt Sustainability and Development* (2008), 165–89, http://unctad.org/en/docs/gdsddf20081_en.pdf#page=170. The policy message, however, has been more expansionary in times of crisis. As an illustration of this ambivalence, the following is a statement by the Standard and Poor's bureau in Germany, accompanying a ratings downgrade for the Southern European countries: "*The current financial turmoil stems primarily from fiscal profligacy at the periphery of the Eurozone.*" "In our view, however, the financial problems facing the Eurozone are as much a consequence of rising external imbalances and divergences in competitiveness between the EMU's core and the so-called 'periphery.' As such, *we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating*, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues." (My emphasis, see S&P Frankfurt bureau Standard & Poor's, "Credit FAQ: Factors Behind Our Rating Actions On Eurozone Sovereign Governments," January 13, 2012, www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245327305715.) Note that most commentators have refuted the "fiscal profligacy" thesis, except in the Greek case; see Mark Blyth, *Austerity: The History of a Dangerous Idea* (New York: Oxford University Press, 2013).

72 Yann Le Lann and Benjamin Lemoine, "Les comptes des générations. Les valeurs du futur et la transformation de l'État social," *Actes de la recherche en sciences sociales* 194 (2012): 62–77; Benjamin Lemoine, "Quantifier et Mettre en Crise la Dette Souveraine: Agences de notation, techniques comptables et constructions privées de la valeur des Etats," *Politique Européenne* 2, no. 44 (2014): 24–51.

73 However, S&P moved the country's rating down one notch, from AAA to AA + in the summer of 2011, owing to "political brinksmanship" in Congress. Moody's and Fitch left the AAA rating standing, only changing their outlook to negative.

74 Guillermo Calvo, "Servicing the Public Debt: The Role of Expectations," *American Economic Review* 78, no. 4 (1988): 647–61.

75 Irving Fisher, "The Debt-Deflation Theory of Great Recessions," *Econometrica* 1, no. 4 (1933): 344.

76 Blyth, *Austerity*.

77 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of our Time* (Boston, MA: Beacon Press, 1944).

78 Clemens, Chapter 1; Mayrl and Quinn, Chapter 2.

79 Timothy Mitchell, "State, Economy and the State Effect," in *State/Culture: State Formation after the Cultural Turn*, ed. Georges Steinmetz (Ithaca, NY: Cornell University Press, 1999), 76–96.

80 For the state as actor/state as arena distinction, see Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in *Bringing the State Back In*, eds. Peter Evans, Dietrich Rueschmeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985), 3–37. Also see Novak, Sawyer, and Sparrow, Chapter 9.