

Global Financial Crisis (GFC) and Its Implication on COVID-19 Pandemic Crisis

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ABSTRACT

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We know from the research into Global Financial Crisis (GFC) in 2008 that the root causes of the crisis were invariably viewed from the three perspectives, namely (a) increasing global imbalances (capital flows), (b) monetary policy that might have been too relaxed, and (c) poor supervision and regulation. However, what remains poorly understood is the interplay between financiers, bankers, and the institutional and structural context. This study examines the interactions between financiers, bankers, and the institutional and structural context and how they engendered financial crisis and the implication of GFC to the COVID-19 pandemic crisis. The literary study was deployed to answer these questions. The findings showed that, firstly, institutional pressures and specific profit opportunities had been conceived in the financial markets and then shaped the risky behaviour of the bankers. Secondly, structural pressures conceived in a 'systemic risk' in financial markets promoted the scale of the financial crisis, and thirdly, the COVID-19 pandemic is different from GFC, the pandemic crisis exerting a more radical and sudden effect. It has placed the real economy out of action immediately and wholly – evaporating supply and demand concurrently.

Keywords:

Competitive Pressures, Covid-19 Pandemic, Financial Crisis, Herding Behaviour

INTRODUCTION

This article discussed the global financial crisis (GFC) in 2008, mainly focused on the US and the implication of the GFC on the COVID-19 pandemic crisis. It claims that to analyse the origins and causes of the GFC, we should examine the interplay between financiers, bankers, and the institutional and structural context (Bell and Hindmoor 2015: 2). This article explores these interactions and how they engendered financial crisis, and by that, we build three arguments. Firstly, institutional pressures and specific profit opportunities had conceived in the financial markets and then shaped the behaviour of the bankers. The banking markets enforced robust competitive pressure and encouraged bankers in severe pressures to reengineer banks' balance sheets to add profits. In this situation, the primary opportunities were excessively leveraged MBS trading (mortgage-back securities), and it was the crash in this market that induced a financial crisis. Secondly, structural pressures conceived in a 'systemic risk' in financial markets promoted the scale of the

financial crisis. We will also explore how the agents in financial markets interacted and helped to create the financial crisis.

Nevertheless, we also recognised that excessive credit, inadvertent mortgage lending, the US housing market's crash and deregulation of banks were essential to understanding the financial crisis. However, these factors were not the direct causes to encourage the behaviour of bankers and financiers in the market; nonetheless, they were part of the story of crisis. For instance, deregulation promoted risky lending; however, it was not fundamentally driving bankers to trade immense leverage structures. It is the dynamics of the market that created banker's behaviour which further engendered financial crisis. This paper is organised as follows; firstly, we will examine the leading (the root) causes of the financial crisis and then discuss why economists and other actors did not see the crisis coming, and a conclusion will end this paper.

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THE BACKGROUND BEFORE THE CRISIS

The US housing market

To analyse the root causes of the global financial crisis (GFC) in 2008, we need to trace US history. After WWII, the US was committed to re-establishing its economy and making new grounds of housing and to achieve this,

Derwin Tambunan, Global Financial Crisis (GFC) and Its Implication on COVID-19 Pandemic Crisis

America adopted a new lending system from the UK, called mortgage (Thakor 2015). A mortgage permits loan money from financial institutions like banks to finance a house (Parkinson 2006). The loan was only granted to prime market citizens, implying that many Americans would not own a house. Therefore in 1992, the US launched a new policy of lending to augment the rate of homeownership for low and medium American citizens (Matthews 2016). Standard of traditional underwritings, such as down payment, was loosened, and the market for subprime mortgages was also offered. The National Bank of America dropped interest rates to 1% from 2001-2004 to support the target to increase homeownership and create jobs and boost economic growth during a recession in 2001, and consequently, there was a fundamental shift in the housing market. The US banks and investors saw a possibility to obtain profits in the housing market, and since the interest rates were lowered, it was very profitable and easy for banks to borrow money at the interest rate of 1% to make large mortgages.

Deregulation and financial risky behaviour

As the government determined to deregulate the market, the financial sector became more competitive and encouraged inventing brand-new financial instruments. Deregulation was also allowed financiers and banks to introduce financial products with high risk and speculative nature. Further, investment bankers were free to build their business, focusing on speculation and subprime mortgages to finance housing. The US banks began to sell these mortgage-backed securities (MBS) to investment banks and sell this MBS again to other investors. Further, investment banks introduced a new financial derivative, collateralised debt obligation (CDO), and they went to credit rating agencies to obtain their CDO's risk and value. Here, I will discuss the three examples of deregulation which contributed to causing the global financial crisis.

In 1980 the US federal government passed the Depository Institutions Deregulatory and Monetary Control Act (DIDMCA); it diminished interest rates' limit and rose deposit insurance. Consequently, the banks gave aggressive lending without analysing the interest rate's risk (Bhide 2009:91). The Act also omitted interest rate ceilings, enabled banks to rival with investment options for deposits and promoted saving because banks were authorised to offer aggressive interest rates. The Act also eliminated state usury laws; originators were permitted to make earnings with subprime lending, charged a high-interest rate, and allowed the originators of nonbank mortgages in the shadow banking system (Shiller 2008:51).

Further, in 1982, Garn-St. Germain Act or the Depository Institution Act (DIA) was stipulated to deregulate banking industries and enhanced competition between Saving and Loans (S&L) banks and associations. This Act admitted banks to produce accounts without rates limitation or reserve requirements. The Act also eliminated the interest rate ceiling

for banks and thrifts. With this Act, S&L took more risky behaviour to cover losses such as lending investments and commercial real estate. Moreover, the Act also deleted the statutory limitation of national banks on real-estate lending that imposed maximum loan-to-value ratios and obliged principal repayment within 30 years (Bhide 2009:91). Since the Act deleted the maximum loan-to-value ratios, banks were allowed to increase their credit risk and granted an enormous loan to borrowers who could not repay the loan (FDIC 1997: 95).

Moreover, the Gramm Leach Bliley Act (GLBA) was passed in 1999 and licensed banks to affiliate with companies to underwrite securities and permitted holding companies of banks to underwrite securities. Consequently, growth and consolidation were encouraged, and commercial banks became investment banks (FCIC 2011: 55). After the Act was issued, the consolidation and the growth were promoted across and within securities, insurance and banks. In further, the biggest bank holding companies emerged as the primary players in investment banking. The biggest commercial banks' strategies and holding companies became more like investment banks' strategies (FCIC 2011: 56).

After deregulation, the financial market increased the financial activity; finance increasingly globalised, and consequently, before the crisis in 2008 derivatives market skyrocketed to \$473 trillion; this number was ten times larger than the entire world economic output.

Investment banks, credit ratings and conflict of interests

Credit rating agencies (CRAs) assessed the borrowers' creditworthiness and were authorised to settle the interest rate of corporates, banks and insurance enterprises (Afonso et al. 2007:7; White 2011:11). In the US, three CRAs are referred to as the most potent credit ratings: Fitch, Moody's and Standard and Poor's (S&P) (Kerwer 2005:463; OECD 2010: 12). The Securities and Exchange Commission (SEC) designated these corporations as Nationally Recognised Statistical Rating Organisations (NRSTOs), and therefore, CRAs had controlled financial actors like banks, broker-dealer, insurers, mutual funds, and pension funds. Consequently, issuers and investors depended on CRAs (Nölke and Perry 2007:136 OECD 2010:7; White 2011:11). These dependencies further caused issuers/investors and CRAs in conflict of interest; issuers pay CRAs to obtain high credit ratings, and in return, CRAs overestimate their creditworthiness (Partnoy 2009:4; Rafailov 2011:37). The problems were intensified since CRAs did not have any risk even though they issued inaccurate ratings (Hull 2010:7).

Moreover, CRAs also overrated Collateralised Debt Obligation (CDO), mortgage backs securities (MBSs) and other financial corporations (FCIC 2010: 3-4) and hid the mortgages real risk; consequently, delinquencies and foreclosures skyrocketed in subprime mortgages (Hull 2010: 5-6). Historically only less than 1% of AAA-rated securities faced losers. However, from 2006 to 2007, more than 90% of

Derwin Tambunan, Global Financial Crisis (GFC) and Its Implication on COVID-19 Pandemic Crisis

MBSs, like AIG and Lehman Brothers, rated AAA, underwent failures (Hull 2010:5).

Investment banks, credit ratings and conflict of interests

Credit rating agencies (CRAs) assessed the borrowers' creditworthiness and later became 'principal public regulator' (Hawkins et al. 2006:7; Nölke and Perry 2007:136). CRAs were authorised to settle the interest rate of corporates, banks and insurance enterprises (Afonso et al. 2007:7; Kerwer 2005:463; Nölke and Perry 2007:124). In the US, three CRAs are the most powerful credit ratings: Fitch, Moody's and Standard and Poor's (S&P) (Iva and Vukasin 2010:3; OECD 2010: 12). The Securities and Exchange Commission (SEC) designated these corporations as Nationally Recognised Statistical Rating Organisations (NRSTOs). Public regulatory like FDIC, Federal Reserve, OCC, SEC and the Office of Thrift Supervision (OTS) also applied credit ratings for regulatory purposes (Gras 2003:14); this demonstrates that regulations of ratings-based had controlled financial actors like banks, broker-dealer, insurers, mutual funds, and pension funds. Rosenbaum (2004:10) claims that upper 50 federal regulations, eight federal statutes, and over 100 regulations and state laws employed credit ratings as the standard on financial regulation.

Consequently, CRAs became oligopolistic (White 2011:11). As the market was skyrocketed, the need for credit rating became important. Credit rating agencies (CRAs) assessed the borrowers' creditworthiness (Afonso et al. 2007:7; White 2011:11). Banks, issuers and investors enormously depended on CRAs and caused a conflict of interest (bribery); issuers had to pay CRAs to obtain high credit ratings, and in return, CRAs overestimate their creditworthiness (Nölke and Perry 2007:136; OECD 2010:7; Partnoy 2009:4; Rafailov 2011:37; White 2011:11). Hull (2010: 7) states that CRAs did not have any risk even though they issued inaccurate ratings (Hull 2010:7; Partnoy 2009:5).

Moreover, CRAs overestimated Collateralised Debt Obligation (CDO), mortgage backed securities (MBSs) and other financial corporations (FCIC 2010: 3-4). Not only that, Hull (2010: 5-6) says that CRAs also hid the mortgages real risk; consequently, delinquencies and foreclosures skyrocketed in subprime mortgages. Historically less than 1% of AAA-rated securities encountered failures. However, from 2006 to 2007, more than 90% of MBSs rated AAA underwent failures (Committee on Homeland Security and Government Affairs 2011; Hull 2010:5). These facts implied that CRAs failed to appraise financial instruments' risk like AIG and Lehman Brothers, severely influenced by subprime crises since they have many MBSs (Hull 2010: 5).

The leading causes of financial crises 2008

There are many perspectives to examine the causes of the global financial crises. And in this article, we will discuss mainly institutional incentives, market opportunities,

competitive pressures, systematic risks and the interaction of these aspects to cause financial calamities.

Institutional incentives, market opportunities, competitive pressures and market crash

Since the government decided to deregulate the market, banks started to invent a hazardous business model and created new market competition and opportunities. These market opportunities and market competition had affected risk-taking and banking behaviour in the US and the UK. Institutional arrangements created tremendous competitive pressures and excessively focused on profits in the short term. These pressures pushed the bankers to execute in excessively leveraged trading of mortgage-backed securities (Bell and Hindmoor 2015:5). For instance, in 2004, Morgan Stanley made a return amounting to \$6.2 billion with an RoE of 15.8%, a little below Goldman's 16.9%. Consequently, in June 2005, the shareholders attacked Purcell, the CEO, for his inability to manage the growth of profits comparative to its rivals. Then Mack replaced Purcell in 2006 and increased a 36% share price and net income growth by 44% by leveraging global franchise to chase its rivals in equity derivatives, leveraged finance, and household mortgages (Bell and Hindmoor 2015:5).

Changing market structural dynamics also shaped the banking system, particularly in reducing profits in conventional banking enterprises and proposing a new way to earn profits. The conventional mortgage market's saturation and small lending margins were progressively diminished possibilities in the conventional banking market in the UK and US. Since banks were coerced to contend for the consumer, the margin of interest rates also started to crash. In the UK, the interest rate dropped from 3.9% to only 1.1% in 1979 and 2006, respectively (Bell and Hindmoor 2015:6-7). The crash of interest rate enhanced the consumer's position; however, it imperilled banks' profits. In this context, the new profits possibilities mounted enormously in profoundly leveraged financial trading that caused structural shifts in the markets of financial. Traditionally, building societies in the UK and commercial banks in the US diminished from financial trading. However, since 1980, as market has been freed and deregulated, commercial banks are trying to reengineer their balance sheet and seek a new way to earn profits. Progressively, profit pressure encouraged banks and other entities to reengineer their balance sheet to obtain profits by leveraging securitisation and other brand-new and innovative derivatives trading (Gowan 2009).

Securitisation believed that liquid debt forms in the previous like mortgages could be repacked into more tradable securities. In further, securitisation morphed into other complex structures like collateralised debt obligations (CDOs) and traded to outside investors and the 'senior' higher-rated tranches. Regulators and executives believed that the system's risks had been effectively distributed and also calibrated and therefore, the financial system was secure.

Derwin Tambunan, Global Financial Crisis (GFC) and Its Implication on COVID-19 Pandemic Crisis

CDOs emanated from sub-prime mortgages; market actors like bankers were convinced since the assets they possessed on their balance sheet obtained the ratings of AAA issued by credit rating agencies, and these assets were also protected by insurance (Bell and Hindmoor 2015:8; OECD 2010:7; Partnoy 2009:4; Rafailov 2011:37; White 2011:11).

To evade regulation and expand markets, financiers and bankers created new investment instruments incorporated in the giant sector of shadow banking that emerged to compete with the formal sector without the support of capital virtually (Bell and Hindmoor 2015:8). The banks can raise funds and rely on the funds borrowed to broaden the ownership in trading. For instance, in terms of its primary investment and proprietary trading, Lehman Brothers increased its proprietary trading from 32% in 1984 to 80% in 2006, and Goldman Sachs upgraded from 39% in 1997 to 68% in 2007. Therefore the banks' income in the US and the UK derived from the source of non-interest increased from 24% in 1984 to more than 48% in 2007. This phenomenon indicated that derivatives trading had become the leading business in the banking sector (McLean and Nocera 2010:53). Between 2004 and 2007, trading stratospheric levels and leverage saw the ten most prominent bank in the world, showed that their balance sheets were more than twice in size, and the UK's bank balance sheet increased to five times its gross domestic product (Acharya et al. 2011:22). Hence, before the crises emerged, the growth of profits in the banking sector was primarily powered by skyrocketing volumes of trading and leverage, and since the prices of assets escalated, banks created more and more leverage to aid securities trading to increase the volume of fund (FCIC 2011:65).

Systemic risk of market pressures, profit opportunities, and market crises

As described above, market and profit opportunities pressures encouraged bankers and financiers to reengineer the banks' balance sheets and chase market activities with hazardous leveraged trading which subsequently engendered financial system structural change and created new origins of systemic risk that inevitable subvert the whole system of finance (Bell and Hindmoor 2015:12; Afonso et al. 2007:7; Kerwer 2005:463; Nölke and Perry 2007:124).

In the earlier of 2006, houses prices in the US began to drop (FCIC 2011:87). Many homeowners struggled to repay mortgages as their houses were worth less than their loan's value. The housing crash morphed into a significant financial disaster scale, which started in June 2007; French Bank BNP and Bear Stearns, with their hedge fund, published that they faced enormous losses on securities investment they placed in the US housing market. Tragically, these damages happened on the AAA credit rating assets that should be safe as US Treasury bonds (Afonso et al. 2007:7; Nölke and Perry 2007:124).

Further, the IMF reckoned that the failures in subprime securities were amounting to \$500bn in 2008, and

the subprime mortgages total losses were equal to 2-3% of the stock market in the US (Dodd and Mills 2008:16). Nevertheless, why these failures caused a horrific financial disaster? The answer is that the subprime securities catastrophe was the 'igniter which sparked the bomb'. So essentially, the bomb itself was a systemic risk (Cable 2009:33). This system destroyed the structural characteristics, a moderately minor perturbation condition that created substantial chain reactions (domino effects) or streaming failures and then induced crash in the whole finance system (Bell and Hindmoor 2015:12-13).

The systemic risk and the impacts that it made on the financial market appeared in two modes. Firstly, *asymmetric information, opacity and complexity of exotic securities created the financial market vulnerably*. Traders, regulators, and risk managers did not anticipate that a drop in assets values in subprime securities would spark a crash in other presumably unrelated assets categories. Moreover, when the market of subprime securities crashed, investors started to fear the reaction of market and counterparty risks, reflecting the effects of interaction as a primary structural trait of the system. Increasing panic, volatilisation of the market and uncertainty caused investors not to differentiate less safe and safer securities (Milne 2009:64); consequently, the market become more panic and assets dumping destroyed the markets of securitisation. Besides, investor sentiment and sharp swings in the financial market, from excitement/euphoria to fear/panic and myopia and behaviour of herding, intensify the market crash. Even though the total asset-backed securitisations and mortgages were much bigger than the market of subprime securities and most asset-backed securitisations and mortgages were comparatively secure, however, the panic in the market even more intensified. Hence, market panic and its inter-dependencies created crises rather than 'toxic assets' per se (Milne 2009:25). Crises emerging at the onset from subprime securities were promptly escalated into a loss of confidence and panic across the whole structure of the credit market (Bell and Hindmoor 2015:12).

Furthermore, many banks shifted from originating and then selling securitised assets to one originating and then holding the AAA-rated securitised assets super senior tranches on their balance sheets. This implies that dropping assets values affected the banks (Afonso et al. 2007:7; Kerwer 2005:463; Nölke and Perry 2007:124). The actors realised that their solvency and balance sheet were in danger since the prices of assets started to drop. Moreover, the interaction of the market between the actors who were looking to acquire supplementary funding and at the same time was also trading their assets caused the following crash values in their assets. Actors became worried about counterparty risks debt exposures. Furthermore, this saw the freeze of the market of credit, and eventually, these actors were panic, and this mood was herding and circulating quickly in a structural context; interconnection of complex financial and dependence of high debt has escalated the crisis of liquidity and intensify the

crisis of the whole financial system (Bell and Hindmoor 2015:15).

Circulated panic about the price of securitised assets was jeopardised by the intricacy of which banks experienced the most money losses caused by the assets bubble bursting. In 2005 as the complex credit evolved so quickly, the banks were in tight competition. They covered their activities secretly, making the outsiders unable to track how the market was working (Tett 2010:126). Consequently, Crotty (2009:566) says that 80% of \$700 trillion derivatives trades were arranged confidentially and bilaterally between the banks and other financiers and was not recorded in a central stock market.

Uncertainty on the most prominent losses location also caused the incendiary and immediate impact, generating a vast loss of investors' confidence and eventually, the market in all form of securities was frozen. The market value in the securitised assets started to crash suddenly, and the global financial system turned to a dangerous downwards spiral. CRAs were also lowering the grades of these securities, and large investors who held AAA-rated assets started to sell their shares and further constraining the market price fall (Nölke and Perry 2007:136; OECD 2010:7; Partnoy 2009:4; Rafailov 2011:37; White 2011:11). The value loss in securitised assets subsequently engendered serious problems for asset holders and banks. The banks run down their level of capital and powerless to tackle the losses. At this point, funding pressures progressively caused bank leverage spotlight and dependence on large-scale funding market. The banks operated with huge maturity mismatch, borrowing short to hold longer-term assets (Bell and Hindmoor 2015:13; OECD 2010:7; Partnoy 2009:4; Rafailov 2011:37; White 2011:11).

The second mode of systemic risk was short-termism in funding markets which caused structural challenge. Since the crisis concentrated, fear and ultimately panic circulated via the short-termism of the funding market. The nexus among the primary banks, the means of how banks borrowed fund from one bank or from other entities such as the Reserve Primary Fund, implied that susceptibility of all banks engendered a systemic risk for the whole sector of banking business. And panic in the markets quickly impacted the crisis of general liquidity and subsequently created down banks (Bell and Hindmoor 2015:13). The banks supposed that leverage risk was still controllable by trading securities in the markets (Crotty 2009:567; Nölke and Perry 2007:136; White 2011:11). However, this presumption was wrong; instead, the market of funding suspended amid the panic. And when the market of mortgages and other financial instruments like securities crashed, securities froze, and the squeeze on short-termism funding trapped the banks. The banks could not raise short-term funding and then caused bank collapses like Lehman Brothers and Bear Stearns in the US and Northern Rock in the UK (Bell and Hindmoor 2015:15). The crisis was also intensified by the failure of the wholesale funding market

(Brunnermeier 2009; Gorton 2009). And the dependence of banks on wholesale funding was the best prediction of the total losses of banks amidst the crisis (Hull 2010; Partnoy 2009; Ratnovski 2011).

Short-termism structural challenge was also aggravated by the banks being constrained to trade their assets in a crashing market to raise funds. It is common to sell assets to restructure a balance sheet; however, this approach was not working and the situation even worse by accounting rules of mark to market, which coerced banks to appraise their assets based on the current values market. This rule was reasonable since they impeded banks to conceal their losses from stockholders by feigning that their capital/assets were valued more than they should be. In economic growth, mark to market rules permitted banks to adapt their assets' values upwards continually (Gowan 2009).

However, in a downtrend, banks were constrained to trade their capital in a crashing market (Friedman 2009:168). Banks were also demanded to preserve minimal capital ratios and fulfil their duty; the banks try to get more capital (which is almost impossible in the crisis) or restructure their holdings by selling assets in a crashing market, and further, this action reduced prices. The spiral was aggravated when moneylenders like money market funds begun to face their runs. Hence, the crises of liquidity and assets were interconnected. The degree of the crisis of original assets was exceptionally amplified by systematic risk. So how financial institution and banks were exposed to these dynamics of the crisis was differentiating the global financial crisis from the others; investor panic and 'hot money' withdrawal had enormously escalated the downswing more than any financial crisis before 2008 (Milne 2009:39).

Why economists did not see the crisis coming

Failures to see the crisis can be traced back to the paradigmatic assumption about the system in banking. Many economists still see that the financial market is self-regulating; markets were deemed the most effective to guard the interests of the consumers (Turner 2009:87). Besides, for more than 30 years, 'academic orthodoxy' has controlled economics which believed that economic cycles mainly were driven by producers and consumers of services and goods, banks and other financial institutions were considered less important.

This paradigmatic assumption had caused the operation and values of financial and political institutions trapped in this framework; the banks in the US and UK trust securitisation (Hindmoor and McConnel 2017:87). For instance, John Gieva (2006) confidently says that contagious crisis probabilities have been eliminated since risks had been distributed across many financial institutions. Financial Times' leader writers have also convinced the virtues of securitisation; the editorial still claimed that there are advantages from distributing credit risk throughout the economy, so securitisation secured banks from risk and credit

Derwin Tambunan, Global Financial Crisis (GFC) and Its Implication on COVID-19 Pandemic Crisis

rating companies consistently control ratings (Financial Times 2007). The faith of policymakers and economists in the virtue of securitisation and the market itself were the vulnerabilities in the financial system, and these actors did not recognise this (Hindmoor and McConnel 2017:87-88).

Besides, Reinhart and Rogoff (2009:78) assert that the actors in financial booms inclined to coax themselves that this current situation is different. Hence, they believed that the new financial instrument and its risks had been controlled, and the potential benefits have been guaranteed effectively. Economists were also weak to comprehend what the banks were doing. They failed to understand the nexus of the financial system and failed to recognise the risk of new derivatives of financial instruments like mortgage-back securities. They were also unaware of credit default swaps, a derivative form employed to insure the failure of borrowers to repay loans and has created a massive collapse in American financial companies (Turner 2009:88).

On the other hand, Frankin Allen (2009) claims that some economists had foreseen that home prices would form a bubble; however, they failed to understand its implication. While some other economists existed in free-market bias in the profession coincided with simplistic or outmoded analytical tools that blindfolded many of them to see the financial crisis. Allen also says that many economists who employed mathematical models missed to explain the essential roles of financial institutions and banks in the economy, and ironically, many central banks referred to this model. Moreover, some of these models failed to recognise the factors of 'hard to measure' such as psychology and people's expectations. They also heavily believed that humans are rational and ignore irrational behaviour, as sociology and psychology documented.

Moreover, the bankers and financiers continued to believe in the virtue of securitisation since they had self-interests. The bankers and executives were reluctant to question the presumption about risk distribution across the financial system since they received massive bonuses in the short-termism profits (Treasury Committee 2009:25). Risk managers were also reluctant to challenge risk-taking practices as they feared being sidelined. Credit rating companies had no advantages in challenging the ratings granted to securitised loans since the banks that sold the loans could always pay to obtain another rating (Richardson and White 2009). Economists who take advantages from government patronage and firms had no reason to question

the faith of orthodox economics (Wade 2012:22-23). Pettit (1995) states that commonly, self-interests performs most effectively as a 'standby cause' that explains specific modes of behaviour. So, these also hinder the bankers and financiers and economists from warning the global financial crisis.

An implication of global financial crises (GFC) on the COVID-19 pandemic crisis

The COVID-19 pandemic is having a massive impact in the United States and around the world. COVID-19 has suspended many activities and economic sectors in the United States, creating a puzzling situation in the growth outlook and facing a deep recession. It should be noted that the pandemic has caused enormous disruption to the country's economy since the Great Depression. GDP fell 32.9% to the highest annual rate since the Great Depression. Unemployment was also a big surprise: 30.2 million workers received unemployment benefits at the end of July. In addition, industrial production is also experiencing a significant decline, and the growth of the country has wholly outweighed the growth of the past five years. In addition, revenues increased as consumer savings increased from \$1.59 trillion to \$4.59 trillion in the first quarter. In that regard, which accounts for more than two-thirds of the US economy, consumer spending fell 34.6% this year. Investments in oil exploration and non-residential areas fell 34.9 per cent this year, while total business investment fell 27 per cent this year. Investments in infrastructure fell by 38.7 per cent (Zongyun Li et al. 2021).

The recent economic impact of the pandemic has been significant on the US economy. Border closures, ban on transport routes, restriction of movement and reduction of international trade flows (Zongyun Li et al. 2021). In Table 1, the industrial production index had fallen from 109.2 in January 2020 to 98.9 in July 2020, and the average decline is even more striking than the GFC. During the GFC 2008, economic losses were structural, man-made and well-controlled at the time. In addition, it should be noted that this pandemic has affected all areas of resources, import or export and raw materials production. Another contrast is that in the GFC, banks were dried up, liquidity shrank, and the economy recovered after two years due to the endogenous nature of the crisis. In contrast, during the recent pandemic, everything was normal, banks were full of reserves, and due to the exogenous nature of the crisis, industrial production has been hit harder than the GFC (Zongyun Li et al. 2021).

Table 1. Industrial production (Zongyun Li et al. 2021)

Time Period	Financial Crises
2008-08-01	100.8
2008-09-01	96.366
2008-10-01	97.3
2008-11-01	96.1
2008-12-01	93.3
2009-01-01	91.1
Time Period	COVID-19
2020-01-01	109.2
2020-02-01	109.3
2020-03-01	104.6
2020-04-01	91.3
2020-05-01	92.07
2020-06-01	97.6
Average Total Decline in Industrial Productivity	
Financial Crises	COVID-19
95.8	98.9

Table 2 provides a breakdown of actual household consumption expenditure, also known as consumer spending, which declined sharply in the first and second quarters due to the impact of shutdowns and business closures in the United States. In 2008 it fell due to the financial crisis, and there was no money problem (Zongyun Li et al. 2021). However, the pandemic still had a relatively strong impact on the decline in consumer spending; as shown in Table 2, consumer spending declined from \$10,603 million to \$1,050.6 million, with the average financial crisis over the past six months totalling 10,515.3. On the other hand, COVID-19 has fallen sharply,

averaging to \$ 12,489.3 million, which makes it easy to understand that the pandemic has impacted consumer spending more than the GFC. The sharp drop is that the government closed stores and businesses in the first two-quarters of the 2020 pandemic due to the extreme first wave of virus transmission (Zongyun Li et al. 2021). While during the GFC, the problems were financial crises and mortgage problems that panicked banks, then the government introduced new laws and pocketed billions of dollars to save the economy (Bell and Hindmoor 2015:8; OECD 2010:7; Partnoy 2009:4; Rafailov2011:37; White 2011:11).

Table 2. Real personal consumption expenditure (Zongyun Li et al. 2021)

Time Period	Financial Crises
2008-08-01	10603.0
2008-09-01	10537.9
2008-10-01	10514.9
2008-11-01	10487.6
2008-12-01	10447.6
2009-01-01	10500.6
Time Period	COVID-19
2020-01-01	13416.4
2020-02-01	13402.4
2020-03-01	12536.1
2020-04-01	10999.3
2020-05-01	11936.7
2020-06-01	12644.7
Average Total Decline in Real Personal Consumption Expenditure	
Financial Crises	COVID-19
10515.3	12489.3

CONCLUSION

Deregulation, excessive credit, inadvertent mortgage lending, and the US housing market's crash were the backdrop of the financial crisis. However, these factors were not contributed directly to the risky bankers and financiers' behaviour. Market and profit opportunities pressures promoted bankers and financiers to reengineer their balance sheets and chase market activities with hazardous leveraged trading. So to understand

the global financial crisis should be based on this perspective which subsequently engendered financial system structural change and made new origins of systemic risk, which inevitable subvert the whole of the financial system. The degree of the crisis was also magnified by systematic risk. Financial institutions and banks were exposed to these systematic risks differentiated the global financial crisis and pandemic COVID-19 crisis; investor panic and 'hot money'

withdrawal had enormously increased the crisis more than any financial disaster before 2008.

The COVID-19 pandemic looks more radical and more sudden than GFC. This wholly and immediately crippled the real economy - supply and demand evaporated at the same time. Factory closures, initially in China, caused supply lines to dry up. Unemployment causes workers to lose income while consumption falls and is held back because most businesses are closed. The COVID-19 pandemic hit many industries harder than the 2008 financial crisis, and most industries will take longer to recover from the losses they suffered.

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