

Bail Out Policy Model Comparison of America and England

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Abstract

This research would explain the difference of bailout policy by England and United States of America in facing global financial crisis in 2008. This research use qualitative method and economic political perspectives. This research takes the range of time from 2009 until 2010 where in that year was a condition after buying bailout found by England and United States of America. Bail out is a term used to explain about situation for the bankrupt entity or almost bankrupt, like a company or a Bank by giving a liquid fresh fund injection. It can be said simply that bailout is a direct government intervention in economy. According to Keynes, government intervention is needed in economy minimal in the form of policy. As countries with liberal economy, America and England have different bailout policy orientation to solve Subprime mortgage case. Subprime mortgage case was assumed as a trigger of this financial crisis. Bail out done by America refers to save their corporations and strengthen their economy in the future without damaging the system of liberal they believe. In spite of that England disposed to save their corporations and economy that was to side with the society, to avoid rush and public trust. As a result, England bail out was faster than America in decreasing crisis fluctuation by giving big budgeting. America was not as faster as England in decreasing crisis fluctuation because of the difference of time in giving bail out, bail out's funding, corporations that should be given bail out, and another obstacle in the parliament.

Keywords

Financial crisis; subprime mortgage; economic policy; bailout



I. Introduction

This research is a research that raises the issue of international political economy. The financial crisis that occurred in 2008 was not only in the economic sphere but also in politics. The policies taken by various countries can influence the policies of other countries, especially now is the era of globalization where interconnection between countries is a benchmark in developing business, especially the service business. The service business referred to here is financial or banking services. -Banks are now internationalized, meaning that it is normal for one bank to have branches in another country. Thus, the banking market is now so broad, not limited to the domestic market only.

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law

of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

This interconnection and globalization turned into a disaster in 2008. Just because of the subprime mortgage problem that started in the United States, this disaster spread and damaged the financial systems of other countries. Subprime mortgage is a case of bad credit in the property sector in the United States. Called subprime because the recipient of the credit is a class of society 'lower class' in the United States. There are two categories for granting housing loans in America, the first is the prime category, namely people belonging to the upper class or groups who are definitely able to pay for credit, and it can be seen from the monthly/yearly income, commonly referred to as a prime mortgage. Meanwhile, for the second category,

Economic bubble is the term used to describe the above phenomenon. Pumping the economy as big as possible with a fairly fragile foundation for a country as big as America. As a result, the bubble burst into a terrible financial crisis. "There is no bubble that does not burst". This is a very popular phrase when the American financial crisis occurred.

The economic bubble has a wide impact, Britain and America are some of the countries affected by this economic bubble. Britain and the United States both use monetary policy to deal with this crisis. Monetary policy is an action by the government (or the Central Bank) to influence the macro situation carried out through money market. This is a general definition of monetary policy which can be interpreted as a macro government action by influencing the money creation process.

Problems in macroeconomics include: poverty and equity, exchange rate crisis, foreign debt, banking, bad credit, inflation economic growth, unemployment. From some of these macroeconomic problems, this research will focus on banking and non-performing loans, although in the end all these macro elements will be interrelated with each other. Macroeconomic issues concern all economic activities, including the private sector and the government. The role of government in macroeconomics can be seen in Keynes' views. The author will use Keynes's theory of government intervention in the economy.

Keynes's opinion on the role of government in the economy was based on his observations of the economic depression in the 1930s. Keynes recommended that the economy should not be carried out simply on the market mechanism. To a certain extent, the government's role is necessary. For example, if there is unemployment, the government can increase its spending on labor-intensive projects. If prices rise quickly, the government can withdraw the money supply by imposing higher taxes. Uncontrolled inflation will not occur.

II. Review of Literature

2.1 Subprime Mortgage

The courage of property business exposures to provide housing loans to the lower classes in America, had consequences that caused the financial crisis in America to spread widely. The problem of draining liquidity is one of them, falling stock prices to the collapse of world stock markets is another consequence. What is subprimemortgage? America since 1925 has had the Mortgage Act. Mortgage laws are regulations relating to the property sector, including mortgages. Citizens of the United States can get easy property ownership credit with certain conditions.

There are two categories that are commonly used to measure the feasibility of receiving property loans, namely the prime and sub prime categories. The prime category is a category that deserves credit, in terms of guarantees and adequate income. Meanwhile,

the sub prime category is the category of the lower class people who do not deserve credit. Due to excessive speculation from lenders to pursue high profits, this credit eventually falls on people with Non-Income Non-Job Non-activity (NINJA) backgrounds who do not have the economic power to settle their loan obligations. .

This condition triggered the occurrence of bad loans in the United States property sector (subprime mortgage). The bad credit caused a domino effect of the collapse of large financial institutions in the United States before eventually damaging financial markets in Europe and other regions. In general, sector financing institutions borrow short-term funds from other parties, including financial institutions. The guarantees provided by property credit financing companies are debt securities, similar to subprime mortgage securities, which are sold to investment institutions and investors in various countries. In reality, the debt securities are backed by debtors' guarantees with low credit repayment abilities. The number of arrears on property loans, finance companies cannot fulfill their payment obligations to financial institutions, both investment banking and asset management. This affects the liquidity of the capital market and the banking system.

After that, there was a drain on liquidity in financial institutions because they did not have the asset funds to pay their existing obligations. Financial institutions are threatened with bankruptcy because of the inability to pay obligations to borrowers from other financial institutions. The conditions faced by large financial institutions in the United States also affect the liquidity of other financial institutions, both from the United States and outside the United States. Especially institutions that invest their money through large financial institutions in the United States. This is where the global financial crisis began.

III. Results and Discussion

3.1 Efforts to Rescue the 2008 Global Financial Crisis

a. United States

As the country that caused the crisis, America has been slow to make rescue efforts. On September 18, 2008, the United States Government asked Congress to approve an economic rescue package, in the form of a USD 700 billion government bailout. On September 29, 2008, the United States Congress rejected the bailout plan. As a result, the Dow Jones Index fell 778 points, the largest position in the history of the stock market in the United States. Finally on October 3, 2008, Congress approved the bailout. Subsequently, President Bush signed the 2008 Emergency Economic Stabilization Act. The law contains plans for a USD 700 billion government bail-out to take over several companies and financial institutions that are losing money in the United States capital market.

This crisis began in 2007 and exploded in 2008. As a result of the 2008 crisis, almost all countries had to take fiscal expansion policies to overcome the adverse effects it caused. To overcome the crisis they are experiencing, the United States Government together with Congress have agreed to provide a bailout of US \$ 700 billion to financial companies that are threatened with bankruptcy.

The bailout carried out by the United States government was against exposure to debt securities of poor quality, especially to financial institutions and banks. If a bailout is not carried out, it is feared that this condition will encourage the creation of a systemic effect on the financial sector which will trigger an overall economic recession. The bailout is carried out in the form of the government buying non-performing sub-prime mortgage bonds, which are held by investors who are financial institution investors, such as banks, mutual funds, pension funds and insurance. The purchase price of the bonds was the

market price, which at that time was well below the nominal value. The bailout funds were obtained from the issuance of government debt securities on the money market.

There are two answers that have implications for different policy responses. First, this turmoil was simply a management procedure error that resulted in the phenomenon of market failure. Then the solution is simple rescue by the state. Therefore, why Ben Bernanke and Henry Paulson (minister of finance) agreed to inject AIG 85 billion US dollars. Previously, the two largest home finance companies in the United States, Fannie Mae and Freddie Mac, were also taken over by the government. Merrill Lynch was acquired through Bank of America. Second, the root of the problem lies in the nature of the economy itself. The source of economic (financial) instability is in itself (endogenous), not external factors (exogenous). Technically,

b. English

On February 8, 2007, HSBC Holdings, one of Europe's largest banks specifically cited rising non-performing loans in its housing loan portfolio for the United States as the reason behind the bank's first profit warning. British government intervention began to be seen when the government took the initiative to save the Northern Rock Bank, this bank was nationalized on 17 February 2008 which had previously been given an emergency loan on 13 September 2007 by the British Central Bank. Northern Rock is the UK's fifth largest property lender.

Table 1. List of European Giant Banks

European giants	Total assets (Billion euro)	Total assets as % GDP
RBS	2,079	126 (UK)
Deutsche Bank	1,917	86 (Germany)
BNP Paribas	1,695	104 (French)
UBS	1,427	484 (Switzerland)
ING	1,370	290 (Netherlands)
Unicredit	1,022	89 (Italy)
Santander	913	132 (Spanish)
Fortis	886	254 (Belgium)
ErsteBank	206	85 (Austria)
Bank of Ireland	183	102 (Ireland)

Source: *financial times*

On the other hand, the UK is consistent in providing bailout funds to its troubled banks. The British monetary authority cut interest rates from 0.5 percent to 4.5 percent. The decline was the largest in the last seven years. Another step taken is to capitalize on Santander, Barclays, HBOS, HSBC, Lloyds TSB, Nationwide Building Society, Royal Bank of Scotland, and Standard Chartered. The government also guarantees debt in the form of short-term securities with a value of USD 250 billion for the medium term. The Bank of England also provided GBP 200 billion (£200 billion) for short-term banking loans. The government also provided injections of funds to banks including Royal Bank of Scotland, Lloyds TSB, and Barclays, which required an injection of USD 26 billion each.

4.2. Policy of the Bank of England

The Bank of England is the central bank of England. This bank was founded in 1694, thus making it one of the oldest central banks in the world as well as a model for other central banks throughout the world. The bank act (bank act) 1946 delegated the authority to supervise banks to the government.

Table 2. Crisis management in the European region

CRISIS MANAGEMENT	COUNTRY NAME
Lowering Interest Rates	UK, EU, Canada, Switzerland, Sweden
Nationalizing the Company	English
Taking over for health	Iceland
Provision of bailouts (Bailout)	Belgian, German, British
Stock Closing	Russia
Increase Deposit Guarantee	England, Germany, Ireland, Austria, Denmark, Greece, Bulgaria, France, Italy, Netherlands, Portugal, Slovenia, Spain and Sweden, Russia, Ukraine and Romania
Prohibit Short Selling	English, German, Italian, Irish, France and Switzerland

The UK government's decision to bail out Northern Rock turned out to be a further reason for the government to continue seeking to inject funds into troubled corporations by recapitalizing Santander, Barclays, HBOS, HSBC, Lloyds TSB, Nationwide Building Society, Royal Bank of Scotland, and Standard Chartered. This indicates that Britain is trying hard to protect its corporations from bankruptcy.

A number of banks in Europe have also become victims, so governments in Europe must step in to help and solve their banking problems. The governments of Belgium, Luxembourg and the Netherlands stabilize Fortis Group by providing 11.2 billion euros of capital or around Rp 155.8 trillion to increase its solvency and liquidity. Fortis, the second largest bank in the Netherlands and the largest private company in Belgium, has 85,000 employees worldwide and operates in 31 countries, including Indonesia. The three governments own 49 percent of Fortis. Fortis will sell its stake in ABN AMRO it bought last year to rival ING. The German government and a banking consortium are also trying to save Bank Hypo Real Estate, Germany's largest home mortgage lender.

England is no less busy. The British Ministry of Finance nationalized the mortgage provider bank, Bradford & Bingley, by injecting 50 billion pounds or Rp.864 trillion. The government also had to pay £18 billion to facilitate the sale of its branch network of Bradford & Bingley to Santander, a Spanish bank which is Europe's second-largest bank. Bradford & Bingley is the third UK bank to be affected by the US financial crisis after Northern Rock was nationalized in February 2008 and HBOS was sold off its owner to Lloyds TSB Group.

4.3. Comparison of US and UK bailout policies

Basically the BoE Liquidity Assistance and the United States Bail Out policies have the same goal, namely to save the country's economy. Both are policy packages of financial assistance by the government to business actors. The institution responsible for

these funds, between the Fed and the BoE, is the same, in the United States bailout the government is responsible through the Minister of Finance as well as the British bailout.

In the United States bailout, the funds were channeled to buy troubled debt securities from housing credit distribution companies so that the company would not collapse. England also buys debt securities while guaranteeing customer funds. Thus, the difference between the American and British bailouts is, in the United States bailout, what we want to save are companies that are shaky due to this economic recession. Meanwhile, in the British bailout so that people do not lose funds in the bank, the people who are saved are the people.

In the United States bailout, the Minister of Finance must first assess the risks, the effects that will be caused and other important matters before distributing the bailout funds. The Minister of Finance within 60 days of the approval of this aid program must report its implementation to Congress including the latest financial condition. For every \$50 billion worth of asset purchases, The Secretary of the Treasury is required to report to Congress the details of the transaction. Companies that receive bailout funds will temporarily become the property of the United States government whose ownership is adjusted to the grant funds received by the company.

For the United States bailout, the debt securities purchased by the Government were adjusted to the current market price, at which time the price of these debt securities was dropping drastically so that the Government's losses could be minimized.

Table 3. UK and US bailout comparison

ENGLISH AND AMERICAN BAILOUT COMPARISON	
EQUA LITY	DIFFERENCE
Bail out is given to banks that actually still have capital positive	Causes of the crisis: 1. America: from within 2. England: from abroad
Always ask the bailed bank to "solve it yourself" the problem in Clear (and short) target time.	Countermeasures: 1. America: matchmaker, loan, bailout 2. UK: bailout, loan
Save bank, "sacrifice" bank to teach anti-moral hazard lessons"	Cost: 1. America: 700 billion USD 2. United Kingdom: 50 billion Pounds
The person in charge of the bailout is the government through the Minister of Finance.	Distribution of bailouts: 1. America: to buy troubled debt securities (company remedied) 2. UK: people don't lose money in banks (which people save)
Ownership of assets after the bailout: the company is temporarily owned by the government. Debt securities were purchased by the government according to the market price which at that time had fallen drastically.	Bank supervision: 1. America: AIG is on bailout because during this time AIG is being watched sec. partial: actually there is no authority that is fully responsible for the supervision of AIG as a single entity. 2. UK: negligent in monitoring risk management, as in the case of Northern Rock.

The bailout policy carried out by the American and British governments were both to save the country's economy.	Government role: 1. America: government as matchmaker, borrower of funds, and injecting funds. 2. English: no know matchmaker, inject capital.
	Time for bailout: 1. America: October 2008 2. England: February 2008

Source: Processed by the author

The table above is a summary form of the elaboration of the results of the comparison of the bailout by the governments of the UK and the United States after the global economic crisis.

IV. Conclusion

From the 2008 crisis, we can see various policy methods or methods adopted by the governments of various countries, such as monetary and fiscal policies and the accompanying instruments. The bailout is only an attempt to fulfill short-term (very short) funds. So, don't misinterpret it as the most effective crisis solution. Since no policy can stand alone it will need other policies—whether as advocates or as follow-up efforts. Bailouts are used to dampen a volatile market because usually the market reaction is terrible when a crisis occurs. Therefore, it is impossible to completely surrender the economy to the market. Here government intervention will be seen as something real.

In trying to save their banks during the crisis, Britain and America seemed to ignore their liberal ideology. Actually the bail-out is not very “liberal” but it is a legitimate and common policy. Regarding this stabilization policy, the author uses Keynes's theory which states that the government at least plays a role in economic affairs through policy making, which is better known as macroeconomics. The author has the view that even if government intervention in the form of policies is seen as counterproductive, mistakes and truths in policy implementation can only be corrected by policy making itself.

Britain and America are liberal countries, economically both prioritize the private sector but politically they are different, Britain is in the form of an empire while America is a republic. Politics will affect the economy and vice versa, a clear example is in policy making. Kingdoms and republics certainly have different views in running the government, both in structure and implementation.

The UK, which is seeking a massive rescue, is actually not on the side of its banks but rather on its people so that there will be no repeated rushes (the case of Northern Rock). Meanwhile, America is more in favor of large corporations, because it is clear that what the government saves are companies where the government does not immediately provide a bailout but the government acts as a matchmaker and borrower of funds. This strategy turned out to be good for the continuity of their banking in the future because they finally have their own foundation in recovering from adversity and not being 'pampered' by the government.

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