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Are financial crises similar during periods of 'hegemonic power' as compared to periods of 'struggle for power'?

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Abstract

The literature on regulation underscores a pendulum dynamic between deregulation and financial crises in the Western world. It often begins with public dissatisfaction with excessive bureaucracy, prompting governments to opt for deregulation. However, this can subsequently lead to financial crises. In response, governments introduce stricter regulations, which, in turn, elicit public complaints, leading to a recurring cycle.

Nonetheless, a deeper examination of the historical record spanning the past 350 years reveals distinct cycles in financial crises. There are periods characterized by a 'contagion' effect, where financial crises swiftly traverse borders and sectors. Conversely, there are also periods typified by 'isolation,' where the financial system adopts measures to prevent the spread of crises, keeping markets and nations separate.

This paper contends that these cycles in financial crises are intricately linked to shifts in the international power structure.

The historical record of the international power structure over the past 350 years discloses cycles featuring periods of a dominant nation-state exercising leadership and alternating with 'struggle for power' phases when no single state holds dominance, and many nations share similar levels of power.

The aim of this paper is to establish the correlation between two distinct cycles: hegemony is associated with 'isolation' periods, while 'contagion' tends to occur during phases of 'struggle for power'.

First, this paper presents empirical data illustrating the interconnectedness of these cycles. Some might argue that the presence of hegemonic power, which is often associated with periods of free trade, could lead to financial contagion. However, this paper will demonstrate the contrary: it is during 'struggle for power' periods that financial contagion tends to occur, whereas hegemony fosters 'isolation'.

The second part of this paper delves into an explanation of this correlation, grounded in theories concerning 'power and cooperation in regulation.' These theories have evolved following the establishment of the European Union (EU) and the EU Commission.

In conclusion, this paper will show that periods of crisis isolation result from the implementation of international global policies that circumvent the propagation of crises.