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The Interactions Between Political Economy and Global Financial Crises: A Case Study of the 2008 Global Recession

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Abstract

The 2008 Global Financial Crisis was one of the biggest shocks in the history of modern economics, and it revealed the lack of strength of the global economic structure. Besides the financial catalysts of the crisis, it is increasingly being viewed through the prism of political economy, where the regulatory regimes, institutional frameworks, and the state-market interactions played a central role in the development and exacerbation of the systemic instability. This paper examines the connection between political economy and the world financial crisis using the example of the 2008 recession. This paper is founded on a political economy qualitative case study approach. It incorporates the secondary data, which is policy reports, institutional publications and the available empirical studies to assess the role of the regulatory frameworks, policy of financial liberalisation and mechanisms of global governance in the dynamics of the crisis. The comparative institutional analysis is also used in the study to comprehend cross-country transmission effects. The results suggest that financial market deregulation, along with disjointed regulatory frameworks in key economies, were key contributors to excessive risk-taking and bubble formation of assets. The downfall of major financial institutions like Lehman Brothers caused a very quick contagion effect, which proved the interdependence of the global financial system. Moreover, central banks and international responses in the form of policy measures in order to stabilise markets revealed imbalances in international financial regulation and uneven recovery patterns of economies. The paper concludes that the crisis in 2008 cannot be explained in the absence of the structural political economy that influenced the behaviour of the financial sector and policy reactions. It explains why more powerful international regulatory coordination is necessary, institutional responsibility, and transformed financial governance frameworks to reduce future systemic risks. The example of the 2008 recession, therefore, gives important insights into the ongoing tension between market liberalisation and financial stability in the world economy.

Keywords: Political Economy, Global Financial Crisis, 2008 Recession, Financial Deregulation, Systemic Risk, Global Financial Governance, Regulatory Failure.

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Introduction

The 2008 Global Financial Crisis is one of the most significant events in modern economic history, revealing the underlying structural weaknesses of the global financial systems and demonstrating the significant role of political economy in influencing financial stability. Whereas original crisis explanations focused on market inefficiency and failure of financial innovation, recent studies emphasise institutional, regulatory and geopolitical environmental factors that enabled the build-up of systemic risk (Wernli et al., 2023). Excessive leverage, speculative bubbles and systemic financial instability were a result of deregulation in financial markets and ineffective supervisory systems (Begenau & Landvoigt, 2022). In this respect, political economy provides a critical analytical lens to understand how the state policies, regulatory ideologies and world systems of governance contributed to the creation and spreading of crises (Kwilinski et al., 2022).

The empirical evidence shows that the financial liberalisation policies adopted in the developed economies contributed to a high degree of exposure of the economies to cross-border impacts of contagion (Alnabulsi et al., 2022). Besides, institutional asymmetries between the developed and emerging economies increased the asymmetric effect of the crisis, exposing weaknesses in the global financial governance (Gunay & Can, 2022). The involvement of the international financial institutions and the central banks in the process of crisis containment can also be discussed as another example of asymmetrical power relations inherent in the global economic system (Aloui et al., 2023). It has also been revealed post-crisis that regulatory reforms, although making the system more resilient, have not entirely helped to mitigate underlying systemic risks in shadow banking and international capital markets (Chaturvedi & Singh, 2023).

Recent studies point out that financial crisis is not just an economic phenomenon but is entrenched within political decision-making and ideological changes to market-oriented governments (Foster & El-Ojeili, 2023). The 2008 crisis, thus, is a key case to study how the political economy structures can impact financial instability and recovery patterns (Altinoglu & Stiglitz, 2023). Also, the continuously changing interdependencies across the globe are making the systems even more vulnerable, and it is feared that there can be financial shocks in the future (Sharma & Jain, 2025).

Study Objectives

- To examine the contribution of structures of the political economy to the onset of the global financial crisis of 2008.
- To test the effects of the deregulation of the financial system in terms of systemic risk build-up.
- To measure the efficacy of the global financial governance systems as part of crisis management.
- To measure the transmission impact of the crisis between the developed and the emerging economies.

Research Questions

RQ1: What are the contributions of the political economy factors towards the development of the 2008 financial crisis?

RQ2: How did financial deregulation contribute to the rise in systemic risk?

RQ3: To what extent were global financial governance institutions effective in dealing with the crisis?

RQ4: What were the differences in the effects of the crisis on developed and emerging economies?

Key contributions

- ❖ Created a political-economic-based explanation of the 2008 Global Financial Crisis as opposed to a financial explanation.
- ❖ Determined the combined effects of financial deregulation and institutional fragmentation in the accumulation of systemic risk.
- ❖ Conducted the comparative study of the transmission of crisis between the developed and emerging economies.
- ❖ Highlighted governance asymmetry in world financial institutions and how this affects inefficiency in crisis management.

There are five sections in the paper. Section I presents the background of the research, the objectives of the research and the research questions regarding the 2008 Global Financial Crisis. Section II is the synthesis of scholarly literature on the topics of political economy, financial deregulation, systemic risk, and global financial governance to provide the theoretical framework of the paper. Section III explains the qualitative case study approach, sources of data, purposive selection of important institutions and the research framework to describe the crisis within the context of political economy. Section IV comprises the objective-related analysis, which is supported by the research questions and supported by the institutional evidence and comparison tables that show the difference in the impact of the crisis on the developed and emerging economies. Section V includes the summary of the key findings and contributions of the study and suggests future directions of research in such aspects as global financial governance reform and systemic risk analysis.

Literature Review

Recent studies of world financial crises are laying a structural role of political economy in financial instability, particularly in the institutional design, regulatory asymmetry, and world capital integration. Recent studies have argued that the post-2008 reforms have enhanced banking resilience, but that there are still systemic vulnerabilities due to the expansion of shadow banking and beyond digital financial intermediation (Sun, 2025). These findings suggest that the tightening of regulations cannot guarantee that financial systems are free of cyclical shocks.

Further research indicates that the introduction of the macroprudential frameworks after the crisis has been partially effective in reducing the risk at the bank level and is insufficient in terms of reducing the cross-border contagion processes (Khalif, 2024). It implies that the international financial regulation remains at its rudimentary level, and there is no coordination between domestic regulating bodies and international bodies (Manogna et al., 2025). Similarly, studies on financial globalisation indicate that the greater the capital mobility, the greater the velocity at which it is felt in the crisis period, particularly among the emerging economies which have fewer institutional cushions (Scheubel et al., 2025).

The recent empirical investigation also shows that the monetary policy actions in the developed economies in stabilising the domestic markets are likely to create the spillover effect of heightened financial turmoil in the developing regions (Hou et al., 2025; Ahmad et al., 2023). This aids the argument that there is unequal distribution of financial stability in the world and that it is highly influenced by the choice of policy by the major economies (Castelblanco et al., 2022). Furthermore, financial network studies show that interrelated banking systems reveal systemic risk and, therefore, localised shocks are more likely to turn into a global crisis (Torri & Giacometti, 2023).

Besides this, the new literature also talks about the impact of political ideology on regulatory reforms, which indicates that switches to market-focused governance in the past have led to a reduction in the intensity of regulatory oversight, thereby increasing financial vulnerability (Wood & Stockhammer, 2024). Further studies show that institutional trust and quality of governance significantly contribute to the determination of the effectiveness of crisis management systems in various countries (Sutton & Arku, 2022).

The above-reviewed literature indicates that there has been a general agreement that, despite the existence of post-crisis reforms that have strengthened certain aspects of financial stability, structural vulnerability still persists due to fragmented regulation, inadequate coordination of policies and enhanced financial interconnectedness. The focus of this research is that the forms of political economy are relevant in identifying the occurrence of financial crises alongside their transmission. The lessons taught by the accessible literature provide a strong foundation for studying the Global Financial Crisis of 2008 as a case study, namely in the understanding of how institutional and policy-based factors interact to cause systemic financial instability.

Methodology

Research Design

The study relies on the qualitative case study design, which is founded on the analysis of political economy. The approach is used to study the interaction of institutional arrangements and regulatory ideologies and the financial market structures during the period of the Global Financial Crisis of 2008. It is an explanatory, not a measuring, paper, in the wake of the growth and spread of systemic risk and its spread to world financial networks. One embedded case of addressing the crisis of 2008 is to understand more of the bigger structural processes within international finance.

Study Area

This research is limited to the world financial system over the period of the crisis of 2008 to 2010, but with particular focus on three related regions. The United States is regarded as the epicentre because of the downfall of the subprime mortgage market and the bankruptcy of key financial institutions like Lehman Brothers. Other significant transmission hubs that contributed to the impact of the crisis with banking interdependence include the United Kingdom and the Eurozone. The emerging economies that include India, China, and Brazil are examined to understand the secondary spillover effects like capital flow reversal, currency volatility, and contraction of trade. These delimitations enable the research to understand the genesis of the crisis and its spread around the world.

Sampling

The study sample is purposive, and it is institutionally relevant. The analysis is not done on a person or a statistical sample but on major financial, regulatory and governance institutions that were at the centre of the crisis. These include the International Monetary Fund, the World Bank, the Federal Reserve of the United States, the European Central Bank, the Bank of England, the huge investment banks of Lehman Brothers and Goldman Sachs, as well as the credit rating agencies of Moody and Standard and Poor. These institutions are selected because they have a direct input on financial regulation, market operations, and mechanisms of crisis response.

Data Collection

The study is based on qualitative secondary sources. Data is collected through a systematic search of policy texts, central bank reports, international financial institutions report, official reports of a crisis investigation and scholarly peer-reviewed publications. Institutional white papers and previous financial reports are other supporting evidence. It is interested in extracting interpretive evidence about regulatory frameworks, financial practices and processes of escalation of crisis rather than numerical data.

Analytical Approach

As fig. 1 presents, the framework of the analysis has a sequential structure. It begins with a qualitative research design, which goes by the theory of political economy, proceeds to the collection and analysis of secondary institutional documents, and policy reports. Thematic and process-based interpretation is used to analyse this data and identify weaknesses in the global financial governance system. This leads to the case study of the 2008 crisis with a specific interest in its origin, how it expanded and how it disseminated to other regions of the world. The framework is then disseminated to a comparative analysis of the developed and emerging economies and concludes with results on systemic risk and failure of governance. According to the model, the relationship between institutions, financial structures and crisis outcomes is symbiotic.

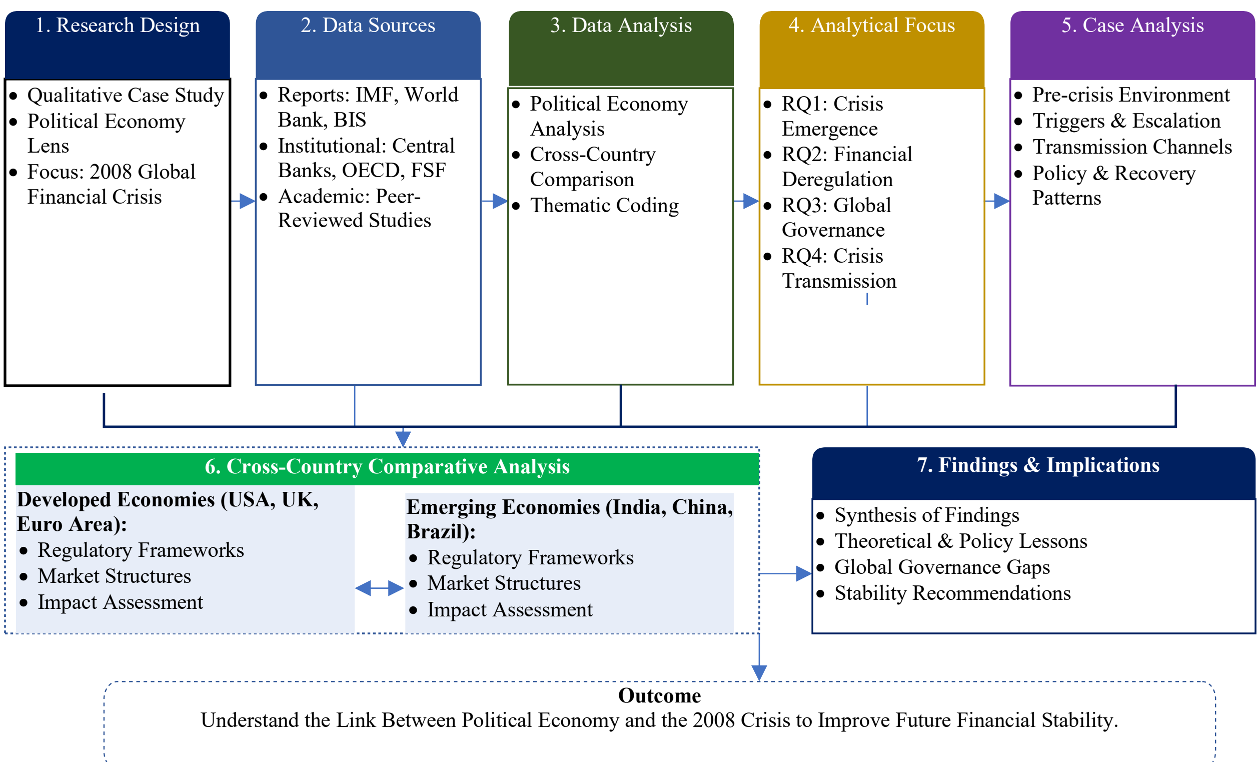

Fig. 1: Research Methodology Framework for the Study of the 2008 Global Financial Crisis

Political economy interpretation is used to conduct the analysis along with the thematic and process-based analysis. The political economy analysis is employed to explain how systemic instability has been caused by deregulation, financial liberalisation and institutional weaknesses. Thematic analysis is used to see regular patterns like accumulation of risks, regulatory failure and gaps in governance. Process tracing is applied in rebuilding the events that occurred since the bursting of the housing bubble to the global financial meltdown. To make sense of the disparities in the effects of the crisis in the advanced and emerging economies, comparative interpretation is used.

Results and Discussion

Case Study Context and Scope

The article talks about the Global Financial Crisis of 2008 as a unique example of the global financial system. The years 2000-2010, before the crisis (during the accumulation phase) and after the crisis (during the stabilisation phase), are discussed. The scope includes the key institutional actors such as central banks, international financial institutions, investment banks and credit rating agencies that played key roles in developing, transmitting and reacting to the crisis. It examines the case globally with a specific emphasis on the United States, Europe and emerging economies to encompass the forces of origins and spill overs.

Objective-Based Analysis

RQ1: Political Economy and Crisis Emergence

The political economy factors that contributed greatly to the crisis in 2008 were political economy deregulation and market liberalisation in the developed economies. Fewer regulations led to a high level of risk-taking, quick credit growth and lax lending criteria in the housing sector. This allowed expanding more sophisticated financial products like mortgage-backed securities, which masked inherent credit risk. These conditions, over time, led to systemic vulnerabilities that were ingrained in the global financial system and eventually resulted in the crisis.

RQ2: Deregulation and Systemic Risk

Deregulation of the financial sector contributed greatly to systemic risk through the greater use of leverage, the increase of speculative mortgage lending and shadow banking systems that were not subject to regulation. The elimination of cross-border barriers among the financial sectors elevated the interrelationship between financial institutions, whereby institutions became susceptible to common shocks. Securitisation also diversified risk among the investors around the world, leading to a decrease in transparency. These closely correlated exposures increased a contagion effect when housing prices fell, causing market stress and a worldwide financial meltdown.

RQ3: Effectiveness of Global Financial Governance

There was only partial effectiveness of global financial governance mechanisms. Federal Reserve, ECB and Bank of England central banks stabilised the markets by providing liquidity and by monetary easing. These were, however, reactive and not preventive. Organisations such as the IMF offered the emergency aid but lacked the power to impose global regulation. Disjointed control and a lack of equal authority to make decisions diminished the efficacy of crisis management on the global level.

RQ4: Crisis Transmission Across Economies

Financial integration had different impacts on economies in the crisis. The banking failures, liquidity crises and collapses of the asset markets were terrible in developed economies because were highly exposed to the complex financial products. Other indirect effects were witnessed in emerging economies, like the outflow of capital, currency depreciation, and contraction of trade. But they were not as exposed to toxic assets and hence could recover more quickly. This underscores the unequal contribution of global financial integration to the economies.

Table 1: Institutional Roles in the 2008 Global Financial Crisis

Institution Category	Key Institutions	Role in Crisis Development
Central Banks	Federal Reserve, ECB, Bank of England	Liquidity provision, interest rate cuts, and financial stabilisation
International Institutions	IMF, World Bank	Emergency lending, policy coordination, stabilisation support
Investment Banks	Lehman Brothers, Goldman Sachs	High leverage operations, securitisation of toxic assets
Credit Rating Agencies	Moody’s, S&P, Fitch	Risk mispricing of mortgage-backed securities
Regulatory Bodies	SEC, national regulators	Weak oversight and delayed regulatory response

Table 1 presents an overview of the main institutions that were involved in the 2008 crisis and their role. It reveals that central banks and international institutions played a stabilising role in the crisis, but investment banks and rating agencies played a large role in risk accumulation by taking excessive leverage and misjudging risk. The regulatory authorities were very poor in averting systemic accumulation because of poor oversight mechanisms.

Table 2: Comparative Impact of the Crisis Across Economies

Dimension	Developed Economies	Emerging Economies
Financial System Impact	Banking collapse, liquidity crisis	Limited banking distress
Capital Flows	Severe withdrawal and deleveraging	Sudden outflows followed by stabilisation
Currency Stability	High volatility in major currencies	Depreciation pressure but partial resilience
Trade Impact	Deep contraction in global demand	Export slowdown, moderate recovery
Recovery Speed	Slow and prolonged recovery	Relatively faster recovery

In table 2, a comparative analysis of the effects of the crisis on developed and emerging economies is given. The developed economies suffered more due to the fact that were more exposed to the complex financial products and interdependence between banks. The emerging economies, on the contrary, experienced mostly external shocks in the shape of capital outflows and trade falls, yet failed to experience systemic banking collapse, leading to faster recovery in certain cases.

Implications and Recommendations

Overall, the results support the theory that the 2008 Global Financial Crisis was not just the collapse of a financial character but a structural implication of the actions of the political economy. Deregulation, institutional fragmentation and global financial interconnectedness are some of the attributes that increased systemic risk. The crisis also brought out the imbalanced rule of the global financial systems and failures in the strength of the economies.

The paper emphasises the importance of better coordination of regulation by the global community, better macroprudential policies and more stringent regulation of the shadow banking systems. To curb the risk of mispricing through credit ratings, credit rating agencies need to be more responsible. Financial governance should also be more inclusive so as to make the emerging economies balanced in making decisions around the world.

Suggestions for Future Work

Future studies should expand on quantitative models of financial contagion in network form and compare different crises worldwide to establish common systemic vulnerabilities. The contribution of digital finance and shadow banking to the rise of modern financial instability may also be studied further.

Conclusion and Future Work

This paper reviewed how the structure of political economies interacts with the 2008 Global Financial Crisis using a qualitative case study research method. As the results show, the crisis was not only the consequence of miscalculations in finances, but it was firmly connected with the structural characteristics of the global political economy. The deregulation of finances, ideological changes towards market liberalisation, as well as inadequate supervisory systems, all facilitated excess leverage, risky lending behaviour and the growth of opaque financial structures. The analysis also reveals that the effectiveness of coordinated response to crises was also restricted because of the asymmetries in governance in the international financial system, with the advanced economies taking a lead in decision-making, and emerging economies being comparatively limited in their influence. The comparative evidence also brings out the imbalanced effects of the crisis, with the developed economies facing severe banking instability, and the emerging economies only a few effects through the external avenues of reversals in capital flows and trade contractions. Overall, this study upholds the premise that the principal determinants of global financial stability are the institutional design, regulatory ideology and cross-border financial integration.

This study must be extended in future research efforts by using quantitative research techniques such as financial network modelling to follow systemic interdependencies and pathways of contagion more precisely. Multi-crisis research would also be compared in order to identify structural weaknesses, which are prevalent in different economic crises in the world. Further research on reforms in global financial governance should also be conducted to ensure inclusivity and reduce the asymmetry between the developed and developing economies. The macroprudential coordination and regulatory harmonisation at the global level are yet to be enhanced in improving resilience to future financial shocks.

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