Counter-cyclical and Cross-cyclical Adjustments in the Context of Financial Crises

Zihan Zhang

Business and Management College, Jilin University, Changchun, Jilin, 130000, China
E-mail:z18104326909@outlook.com

Abstract. Against the backdrop of global financial integration, counter-cyclical adjustments are employed to tackle short-term financial crises, stabilize market expectations, and prevent risk contagion. Cross-cycle adjustments, on the other hand, focus on long-term economic issues, aiming to optimize economic structures and financial systems. Policy-making requires a comprehensive utilization of both adjustments to ensure foresight, precision, and cross-departmental coordination, thus promoting sustainable economic development.

Keywords: component; Counter-cyclical adjustment; Cross-cyclical adjustment; Financial crisis; Subprime crisis; Asian financial crisis.

1 Introduction

In the context of deepening global financial integration, the frequent occurrence of financial crises and their profound impacts have become significant challenges to the economic security of countries. Especially in the current complex international financial environment, the chain reactions of financial crises have become increasingly prominent, making the need for counter-cyclical and cross-cyclical adjustments increasingly urgent. As a short-term regulatory measure, counter-cyclical adjustment aims to smooth out economic fluctuations through the comprehensive application of fiscal and monetary policies, but it has limitations in addressing long-term structural issues. On the other hand, cross-cyclical adjustment focuses more on long-term trends and structural issues, aiming to resolve long-term risks and promote high-quality economic development.

Financial security, as an essential component of national economic security, is particularly important in maintaining stability in cross-cyclical and counter-cyclical adjustments. With increasing volatility and uncertainty in financial markets, the task of preventing and resolving financial risks has become even more challenging. Therefore, conducting a thorough study on maintaining financial security under cross-cyclical and counter-cyclical adjustments is of great significance for safeguarding national economic security and maintaining the stability of financial markets.

This study aims to delve deeply into the mechanisms of counter-cyclical and cross-cyclical adjustments in the context of financial crises, analyzing their roles and effects in maintaining financial security. Through this research, we hope to provide useful

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references and insights for policy-making and financial regulation, offering more scientific and effective policy tools and regulatory measures for responding to potential future financial crises. At the same time, this will also contribute to enhancing the stability and risk resistance capabilities of domestic financial markets, providing beneficial experiences and references for the stability and cooperation of international financial markets.

In summary, the study on maintaining financial security under cross-cyclical and counter-cyclical adjustments holds significant theoretical value and practical significance, deserving our thorough exploration.

2 Literature Review

Counter-cyclical adjustment, serving as a short-term economic stabilizer, mainly draws its theoretical foundation from Keynesian Economics. Keynes advocated that during economic recessions, governments should stimulate aggregate demand through active fiscal policies (such as increasing public spending) and monetary policies (such as reducing interest rates) to counter the downward trend of the economy. However, some scholars have also pointed out that over-reliance on counter-cyclical adjustments may lead to resource misallocation and market distortions [1]. In contrast, cross-cyclical adjustment focuses more on optimizing the economic structure and preventing long-term risks. According to the viewpoint of New Structural Economics, cross-cyclical adjustment should prioritize structural reforms and adjustments based on changes in the factor endowment structure of the economy to achieve long-term balanced economic development [2].

Against the backdrop of the Asian financial crisis, governments generally adopted counter-cyclical adjustment measures to respond to the crisis. While these measures played a stabilizing role in the short term, they also brought about long-term issues such as debt accumulation and asset price bubbles [3]. In contrast, cross-cyclical adjustment played a more crucial role in economic recovery after the crisis. Through measures like optimizing the economic structure and improving financial regulation, cross-cyclical adjustment laid the foundation for long-term stable economic development [4].Zhan and Lu (2023) emphasize the need for context-specific monetary policies in China, underlining the importance of cross-cyclical adjustments in developing economies[5]. Tornell and Velasco (1992) highlight that such adjustments, by enhancing property rights, can stabilize capital flows, crucial for economic stability[6]. Thus, while counter-cyclical measures offer immediate relief, cross-cyclical adjustments are vital for long-term resilience and growth.

However, existing literature lacks comprehensive analysis of the integrated application of counter-cyclical and cross-cyclical adjustments in the context of financial crises. Most studies either focus on evaluating the effectiveness of counter-cyclical adjustments or on implementing strategies for cross-cyclical adjustments, lacking a systematic analysis that combines the two. Additionally, how to balance the intensity and timing of counter-cyclical and cross-cyclical adjustments in the context of finan-

cial crises to achieve smooth economic transition and long-term development remains an urgent issue to be addressed.

3 Analysis of Counter-cyclical and Cross-cyclical Regulation in the Financial Crisis

In the context of global financial integration, financial crises occur frequently and have far-reaching impacts. Counter-cyclical and cross-cyclical regulation, as key means of macroeconomic regulation, play a significant role in financial crises. This article selects the US subprime mortgage crisis and the Asian financial crisis as the objects of analysis for three reasons:

Firstly, both events are financially significant crises with major historical implications. The US subprime mortgage crisis, triggered by the burst of the real estate bubble, severely shook the global financial market; while the Asian financial crisis, amidst fluctuations in the international financial market, exposed the fragility of Asian financial markets. Both crises possess distinct era characteristics and can fully demonstrate the application of counter-cyclical and cross-cyclical regulation in financial crises. Secondly, these two events adopted different counter-cyclical and cross-cyclical regulatory measures in response to the financial crises, providing us with rich case materials for a deep analysis of the applicability and effectiveness of these two regulatory approaches in different contexts. Lastly, through analyzing these two cases, we can gain a more comprehensive understanding of the mechanisms of counter-cyclical and cross-cyclical regulation in financial crises, providing useful references for responding to potential future financial crises.

Therefore, this article will delve into these two typical cases, exploring the application and effectiveness of counter-cyclical and cross-cyclical regulation in financial crises, aiming to provide valuable insights for policymaking and financial regulation.

3.1 Counter-cyclical and Cross-cycle Adjustments during the US Subprime Mortgage Crisis

The US subprime mortgage crisis was a financial crisis triggered by the collapse of the real estate market, which had profound impacts on the global economy. During this crisis, counter-cyclical adjustment, as a macroeconomic policy tool, was widely used to ease economic fluctuations and maintain financial stability. The US subprime mortgage crisis originated in the early 2000s, when the real estate market was booming and financial institutions issued a large number of subprime mortgages. However, as the real estate bubble burst, a large number of borrowers were unable to repay their loans, leading financial institutions into difficulties. The crisis quickly spread to the entire financial market, triggering a series of chain reactions such as credit tightening and asset price collapses.

Analysis of Counter-cyclical Adjustment Measures.

After the outbreak of the US subprime mortgage crisis, the US government promptly took a series of counter-cyclical adjustment measures to respond to the crisis. These measures mainly included:

Reducing interest rates: The Federal Reserve significantly lowered the benchmark interest rate to stimulate loans and investments and promote economic growth. This measure helped reduce the borrowing costs for enterprises and individuals and facilitate the recovery of economic activities.

Quantitative easing policies: The Federal Reserve implemented multiple rounds of quantitative easing policies, injecting a large amount of liquidity into the market by purchasing Treasury bonds and other financial assets to stabilize the financial market. This measure helped alleviate credit tightening and restore market confidence.

Bailout plans: The government launched large-scale bailout plans, including purchasing bad assets of financial institutions and providing financial support, to stabilize the financial system and prevent the crisis from spreading further.

These counter-cyclical adjustment measures played a role in stabilizing the market and alleviating economic pressure in the short term. By stimulating economic growth and providing liquidity support, they helped the United States overcome the most difficult period of the crisis.

Counter-cyclical adjustment effectively alleviated short-term economic fluctuations by increasing the money supply and providing liquidity support. This helped stabilize market expectations, prevent panic sentiment from spreading, and provide necessary breathing space for financial institutions to cope with the impact of the crisis. Through bailout plans and financial regulatory reforms, counter-cyclical adjustment effectively prevented the spread of financial risks. The government's purchase of bad assets of financial institutions and provision of liquidity support helped prevent financial institutions from falling into bankruptcy and reduced the impact on the entire financial system. At the same time, strengthening financial supervision also helped identify and correct vulnerabilities and risk points in the financial system and prevent similar crises from recurring.

Analysis of Cross-cycle Adjustment Measures.

In addition to counter-cyclical adjustment measures, the United States also focuses on cross-cycle adjustment to address economic structural and institutional issues from a longer-term perspective. After the crisis, the United States strengthened its supervision of the financial market and introduced the Dodd-Frank Wall Street Reform and Consumer Protection Act, which imposed stricter supervision on financial institutions to prevent similar crises from recurring. The US government promoted the adjustment and transformation of the economic structure, encouraged technological innovation and industrial upgrading, and improved the competitiveness and risk resistance of the economy.

Effects and Implications.

The counter-cyclical and cross-cycle measures in the US subprime crisis eased the impact but exposed issues like regulatory gaps and economic imbalances. This highlights the need to balance policies, strengthen financial supervision and risk management, and strike a balance between stability and innovation. Counter-cyclical measures must consider long-term impacts to prevent market distortions. Cross-cycle adjustments are crucial for addressing long-term economic issues, requiring in-depth research and scientific policymaking. Additionally, international cooperation, policy communication, and information sharing are essential for crisis prevention. By adopting a comprehensive approach, we can better prepare for and respond to future financial crises.

3.2 Analysis of Counter-cyclical and Cross-cycle Adjustments Under the Asian Financial Crisis

The Asian Financial Crisis, a significant event in the late 20th century, severely impacted Asian economies. Spreading rapidly from Thailand to Korea, Japan, and China, it caused currency depreciations, stock market crashes, and capital outflows, damaging financial institutions and destabilizing the economy. Governments and international institutions responded with counter-cyclical and cross-cycle adjustments to stabilize markets and promote recovery. The former smoothed short-term fluctuations, while the latter addressed long-term structural issues. Their combined use was crucial, requiring flexible application by governments and strengthened global coordination.

Analysis of Counter-cyclical Adjustment Measures (with Hong Kong as an Example).

During the Asian Financial Crisis, the Hong Kong SAR government took decisive counter-cyclical adjustment measures to stabilize the economy, ease market panic, and lay a foundation for recovery. These measures aimed to smooth out economic fluctuations and reduce systemic risks. The government stimulated growth through fiscal and monetary policies, such as increased public investment, tax incentives, and interest rate cuts. This boosted market demand, stabilized expectations, and provided confidence to businesses and investors. The government also worked with financial institutions to provide liquidity support and maintain market stability.

Beyond addressing short-term fluctuations, the SAR government focused on cross-cycle adjustments to address structural issues. It diversified the economy, reduced reliance on a single industry, and strengthened financial regulation to enhance transparency and stability. These counter-cyclical adjustments stabilized the economy, guided resource allocation, and optimized the industrial structure. They also enhanced Hong Kong's economic resilience and risk resistance, enabling it to better cope with future fluctuations.

In conclusion, the counter-cyclical adjustments implemented by the Hong Kong SAR government during the Asian Financial Crisis were crucial for stabilizing the

economy and laying a foundation for long-term growth. These experiences provide valuable insights for other countries and regions facing similar crises.

Analysis of Cross-cycle Adjustment Measures (with Hong Kong as an Example).
During the Asian Financial Crisis, the Hong Kong SAR government effectively tackled economic fluctuations with counter-cyclical adjustments, while emphasizing cross-cyclical strategies to address structural and institutional issues. The core of cross-cyclical adjustment lies in structural reforms and long-term strategies to enhance overall economic competitiveness and resilience, laying a solid foundation for stable and healthy growth.

Firstly, the SAR government actively diversified the economy, reducing reliance on single industries. Realizing the risks of over-dependence during the crisis, the government sought diversified economic paths. By promoting tourism, trade, professional services, and other industries, it successfully increased the economy's resilience and risk-resistance. This not only eased short-term economic pressure but also secured long-term stability. Secondly, the SAR government strengthened the financial regulatory system. Recognizing the instability and risks exposed during the crisis, the government reformed regulatory agencies, intensified supervision, and improved regulatory frameworks. These measures improved financial market transparency and stability, boosting investor confidence and providing solid financial support for economic health. Moreover, the SAR government emphasized enhancing Hong Kong's international competitiveness and strengthening cooperation with global financial centers. With globalization, Hong Kong's position as an international financial hub became more prominent. By promoting financial innovation and openness, the government attracted international capital and talent, fostering long-term economic health. This not only raised Hong Kong's global standing but also supported its cross-cyclical development.

In summary, cross-cyclical adjustments during the Asian Financial Crisis significantly supported Hong Kong's economic stability. By diversifying the economy, strengthening financial regulation, and enhancing international competitiveness, the SAR government successfully addressed crisis challenges and laid a solid foundation for long-term healthy growth. These experiences offer valuable insights for other countries and regions in managing financial crises.

Effects and Implications.
During the Asian Financial Crisis, Hong Kong SAR's cross-cycle adjustments strengthened economic resilience, diversified its industries, and tightened financial regulations. This strategy mitigated risks, stabilized the economy, and fostered long-term growth. Hong Kong's experience offers valuable insights to other economies on enhancing resilience and attracting global capital in the face of financial challenges.

3.3 Summary

By analyzing the US subprime crisis and the Hong Kong financial crisis, we gain a deeper understanding of the general characteristics of financial crises and the advantages of cross-cycle and counter-cycle adjustments in addressing them. Financial crises are often accompanied by asset price bubbles, excessive leverage of financial institutions, and risk management failures, leading to market turbulence and economic slowdown. Cross-cycle adjustments focus on optimizing economic structures and financial systems, while counter-cycle adjustments stabilize markets and boost investor confidence in the short term. However, they complement each other and should be used synergistically. In conclusion, these adjustments effectively mitigate crisis impacts and maintain financial stability, offering valuable insights for future crises.

4 Challenges and Countermeasures of Counter-Cyclical and Cross-Cyclical Adjustments Challenges

Cross-cycle and counter-cycle adjustments, as macroeconomic policies, play crucial roles in maintaining financial stability and promoting economic growth, but they also pose potential risks, especially when improperly implemented or in volatile market environments.

For cross-cycle adjustments, risks stem from policy complexity and uncertainty. Balancing endogenous factors like business cycles and policy cycles with exogenous ones like technological innovations and global market fluctuations requires precision and timeliness. Failure to do so may lead to undesired outcomes or new risks. Long-term structural and trend changes must also be considered, demanding strategic and forward-thinking policymaking. Overemphasis on short-term goals can lead to structural imbalances and increased financial fragility. Counter-cycle adjustments risk market distortions and moral hazards. Measures like monetary adjustments or taxation can disrupt market efficiency. Reliance on such policies can erode risk management capabilities and lead to asset bubbles or overleverage. Once bubbles burst, it can trigger a financial crisis.

To maximize benefits and minimize risks, policymakers should: deeply understand economic dynamics, ensure policy coordination, enhance scientific and transparent policymaking, and establish risk prevention mechanisms.

In conclusion, by understanding economic dynamics, coordinating policies, enhancing policymaking transparency, and establishing risk prevention mechanisms, we can better leverage cross-cycle and counter-cycle adjustments while minimizing their drawbacks.

5 Conclusion

This study aims to delve into the mechanisms of counter-cycle and cross-cycle adjustments in the context of financial crises and their roles and effects in safeguarding financial security. Through a systematic review of relevant literature and case studies

of the US subprime crisis and the Asian financial crisis, we analyzed their specific applications and implementation effects during financial crises. Our findings reveal that counter-cycle adjustments effectively smooth economic fluctuations in the short term, ensuring stability, while cross-cycle adjustments focus on long-term trends and structural issues, contributing to resolving long-term risks and promoting high-quality economic growth. Additionally, the implementation approach and response attitude of financial policies significantly impact financial security, emphasizing the importance of moderate reforms and a prudent approach. However, this study has limitations, including incomplete coverage of all relevant factors and the lack of modeling analysis to present more specific results. Future research will broaden perspectives, incorporate modeling analysis, strengthen empirical research, monitor policy developments, and explore interactions with other economic policies to achieve more comprehensive insights in this field.

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