MONETARY CRISES (EMPIRICISM AND THEORY)

Helísek, M: Měnové krize (empirie a teorie), Monetary Crises (Empiricism and Theory); published in Prague by Professional Publishing, 2004, 180 pages, ISBN 80-86419-82-7.

Měnové krize (empirie a teorie) by doc. Ing. Mojmír Helísek was published by the Institute for Integration of the Czech Republic into the European and World Economy as part of a research objective of the Faculty of International Relations at the University of Economics in Prague: "Economic, political and legal issues concerning the integration of the Czech Republic into the World Economy" MSM311200001.

The publication here reviewed focuses on current issues concerning monetary crises, which have come to the attention of the wider professional community, as well as the general public, largely due to the major crises of the 1990s. These included the European Monetary System crisis (1992–1993), the Mexican crisis (1994–1995), the South-East Asian crisis (1997–1998), the Russian crisis (1998–1999), the Brazilian crisis (1999) and the Argentinean crisis (2002). In this monograph, the author seeks to provide an overview of the historical development of the monetary crises and to make generalisations about their causes, development and consequences. The work has a coherent structure comprising eight logically linked chapters.

In the introductory chapter, Defining Monetary Crises, the author explains the basic terms "monetary crisis", "financial crisis" and "banking crisis" and draws attention to their ambiguous usage.

Monetary crises are not just a feature of the recent past but in fact represent a much older phenomenon. Here they are subjected to an historical analysis, going back to the era of the Gold Standard, which begins with the second chapter, "Historical Development of Monetary Crises", and continues in the third chapter, Main Crises since the 1990s.Whereas monetary crises were the exception during the Gold Standard, they have been notably frequent post-Bretton Woods. According to the author, this is related to declining currency and capital regulation followed by high mobility of capital and financial globalisation, as well as to the increasing effect of banking crises on the money market and to the lower transaction costs of foreign-exchange operations, which has made exchange-rate speculation easier.

As for the most significant monetary crises of the past 15 years, the author describes them according to the following scheme: a description of the pre-crisis development – an explanation of how the crisis actually developed, including the identification of its causes – a description of the post-crisis development and the results of the crisis – the main features of the monetary crisis. There is also a look at the contrasting historical contexts in which these crises developed and at certain aspects of specific examples.

The question "Why do monetary crises happen?" is addressed by the fourth chapter: Causes of Monetary Crises. In seeking out the causes of monetary crises, the author begins with devaluation expectations caused (more or less) by the unfavourable development of the affected economy. These are reflected in the decision-making of investors, whether foreign-exchange speculators or portfolio investors. Another explanation is that monetary crises are caused by the profit-seeking activities of financial speculators. The author analyses the general risks that may lead to monetary crises, including excessively expansive policy, external economic imbalance, and risky behaviour on the part of the banking sector.

The fifth chapter, Theoretical Models of Monetary Crises, familiarizes the reader with individual models divided into three generations. The first-generation models comprise models with fundamental causes and policies that are inconsistent with the maintenance of a fixed exchange rate. The second generation models include an "escape clause" under which the authorities may, in certain circumstances, cease their commitment to a fixed exchange rate. The third-generation models are focused on the corporate sector.

The sixth chapter, Consequences of Monetary Crises and Correctional Measures, illustrates the macroeconomic and microeconomic effects of monetary crises, including deep recessions, unemployment growth, the effect on the redistribution of income and output, and the increase in corporate bankruptcies. A separate analysis is made of the effects on the central authority in terms of public finances and the wider international context. Space is given at the end of the chapter to interesting criticisms levelled by Joseph Stiglitz against the restrictive policy of the IMF.

In the seventh chapter, Predicting and Preventing Monetary Crises, the author asks whether monetary crises are foreseeable and whether they are preventable through timely countermeasures. In his view, various methods (mainly regression analysis and the signal approach) provide somewhat less than satisfactory results. Nevertheless, he believes there should be investigation of "timely warning signals" and analysis of preventive measures, within the context of both ordinary economic policy and systemic measures.

The final contribution is contained in the eighth chapter, Currency Mini-crisis in the Czech Republic in 1997, where the reader is informed about the causes, development and consequences of the monetary crisis that occurred in the Czech Republic in the spring of 1997.

Altogether this publication offers an integrated presentation of monetary crisis issues. The author has gone through an extensive selection of economic literature from both home and abroad (201 references), enabling him to explore the given topic with sound theoretical and empirical knowledge. The writing style is lucid and the overall clarity of the treatment is enhanced with a list of abbreviations, a list of tables and charts and a subject index. This monograph may be recommended for theoretical economists, students of economics, and also for the general reader.

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