Review of Lacina, Rozmahel, and Rusek
"Eurozone and Its Neighbors: The Tird Year of Crisis"
Martin Striz Publishing, 2011

Three years after the financial crisis, the recession has become a protracted crisis. The influence on the members of the European Union and its neighbors is enormous. There appear even fears and speculations that the common currency euro and possibly even the EU itself is in danger. These developments are reviewed in contributions collected and published by Lubor Lacina, Petr Rozmahel and Antonin Rusek.

Given the importance of the topic, there are plentiful publications on the financial and economic crisis. What is the main contribution of the presented volume? Indeed there are several specific features which make the work distinct from similar books. First, the collection of papers concentrates on EU developments. Second, the new member states of the EU, which were affected especially strongly by the financial crisis, receive a special attention. Third, the volume provides a comprehensive and critical review of several aspects of the economic and financial crisis. This makes the book an importance source of reference both for economic policy makers and teachers of economics in EU and especially in Eastern Europe.

The book is divided into three parts apart from the detailed introductory summary by Antonin Rusek and the epilogue by Lubor Lacina. Lucina picks up the possible steps towards solving the problems due to the financial and economic crisis in Europe and discusses a variety of possible scenarios. He bases his well-thought arguments on the contributions of the other authors and some basic assumptions.

As Rusek puts it in a nutshell, the first part of the volume discusses the Eurozone problems and hints at the possible solutions.

The first Chapter is written by Antonin Rusek from the Susquehanna University in Selinsgrove, Pennsylvania. He disagrees with the two main suggested solutions to the European crisis: A debt monetization, or a Eurobond. He puts his focus on the seldom mentioned possibility of a second currency alongside the existing euro. To support his thesis, he states it with plausible and existing reasons for and possible consequences of the so-called parallel currency. This chapter ends not with a conclusion but with something in lieu of conclusion. Rusek once again emphasizes the advantages of a second currency but also admits that any realistically conceivable solution is not “optimal” in the purely economic sense.

Luboš Smrčka of the University of Economics in Prague continues with the second chapter. He concentrates on stagflation, which might be appearing in some countries. Smrčka reminds us that separate events are likely to exert a strong influence over each other and mostly intensify each other instead setting each other off. In his chapter, Smrčka develops an intelligible new definition that reflects the reality of today’s European economy more accurately than the other explanations from various perspectives. He also assesses various risks currently observed in Europe, the risks of recession, the issues of demand and debt, the development of the US economy in BRICS economies and their effect on Europe. He closes with the appeal not to ignore the stagflation, although the risk of stagflation is relatively low at this time.

A discussion about the monetary and fiscal policies is presented in Chapter 3 by Dimitri Blueschke and Reinhard Neck from the Klagenfurt University, Austria. They use the OPTGAME algorithm for approximate solutions of dynamic games. Dynamic games models the conflicts between monetary and fiscal policies. By the comparison and the interpretation of results from this modeling exercise, they can illuminate current sovereign debt problems in Europe. Even though they say their model is very stylized, they tend to predict that a “haircut” (debt reduction) of public debt in the long run may hurt both the “core” and the “periphery” bloc of the monetary union. In this context the “core” of the European Union and the Monetary Union (EMU) consists of fiscally sound states and the “periphery” in return consists of unstable states. Blueschke and Neck bring their chapter to an end by stating that a fiscal part of a fiscal union may be preferable to noncooperative (nation based) fiscal policies, provided it is based on principles of balanced budgets. They add that it goes that such an agreement requires a credible and strong commitment of all participants and an effective mechanism for monitoring and enforcing its rules.

The last chapter of Part 1 was contributed by Petr Koráb and Klára Burešová from the Mendel University in Brno. The topic retunrs to the issue raised alredy by Antonin Rusek in Chapter 1. Koráb and Burešová provide a basic concept of introducing a parallel currency in a Eurozone country. They put great effort into the research of this topic and now believe that the idea of a dual currency market in Eurozone countries may be settled and that it may have positive effects on the economy. Koráb and Burešová also get into detail when describing the proper and thoughtful way of achieving positive effects. They mention the theoretical background, the benefits and costs of the introduction of a second currency.

Adam Koronowski from the Collegium Mazovia in Siedlce, Poland, introduces the second part of the book. It analyzes the impact of the European financial and economic crisis on the Eurozone members to the East. He approaches the Estonian and Hungarian Economic paths into and through the crisis by comparing the economic policies before and during the crisis and by assessing the outcomes of the policies. Eventually he forms a conclusion and an interpretation with the regard to different policy results. He first points out the similarities in the Estonian and Hungarian economies and the differences in their economic policies in an exemplary way. This basis was then used to sketch the outcomes of the steps that had taken place in these countries. Koronowski's contribution ends with the conclusive draft interpretation of the difference of the economic performance of Estonia and Hungary. His research doubts the alleged benefits of having a fixed exchange rate and eventually the common currency, even when fiscal order is preserved.

Alfred Sitz from the Vienna University of Economics and Business, Austria, comes to similar conclusions. He investigates the reasons for extremely different effects of the financial crisis in "new" EU-member states. He focuses on Poland and the Baltic countries. Sitz's achievement is the conclusion that three main arguments excuse or explain the vastly different impact of the international financial crisis in the two regions that he has put his focus on. He lists the differences in the exchange rate strategy, the very diverse reactions in economic policy, and the different degrees of international indebtedness and encumbrance in foreign currency.

Pavla Vodová from the Silesian University in Opava, Czeck Republic, specifies her research in Chapter 7 more than the previous authors. She is especially interested in the liquidity ratios of banks in Slovakia. Her research is based on the question whether the strategy for liquidity management differs by the size of the bank. Vodová uses a clear structure for answering her question. She defines the two main terms liquidity and liquidity risk, describes her methodology and the data that was used, deals with values of liquidity ratios in Slovakia.

Chapter 8 is the last one of Part 2 and was authored by Irena Szarowská from the University in Opava. Szarowská's focus lies on the relationship between the economic performance in Czech Republic and the government expenditures. She does a great job in providing the direct empirical evidence on the business cycle relationship over a period of 15 years. She also deserves commendation for examining the main public expenditure variables. On top of providing direct empirical evidence for the business cycle relations between GDP and government expenditure, Szarowská analyzes the long-term relationships between the GDP components and the government's expenditure variables.

The third part of the book is introduced by Barbara Wieliczko from the Institute for Agricultural and Food Economis in Warsaw. The six following authors (including Wieliczko) provide some helpful and interesting views on the miscellaneous topics as they relate to the European crisis, but transcend the national boundaries.

Wieliczko focuses in the degree of homogeneity in the EU's Common Agricultural Policy (CAP). The first paragraph of her conclusion sums up her results perfectly. She states that the development of a common fiscal policy in the whole EU is a demanding and challenging task. She continues that therefore, it should be led by a big scale project of implementation of a common tax system in a significant but limited number of entities. She suggests using the EU agriculture as the right representation. As the reason for her point of view, she mentions the 12 million holdings of the agriculture in the EU. She brought a completely new and probably little acknowledges topic into consideration which is commendable.

Chapter 10 was prepared by Jan Vavřina and Jitka Janová from the Mendel University in Brno. Their research is based on the multi-disciplinary field area of financial analysis of the corporate economic performance and its sustainability and the various methods that are used. Because the agricultural sector receives the most public subsidies from the EU, they used it as a good example for the dissatisfactory applicability of the methods of bankruptcy prediction. Vavřina and Janová were eventually able to evaluate the bankruptcy prediction models Z-score, G-index, and DEA. Their results give an impulse to do further research on agricultural enterprises not only in Czech Republic but also in other EU member states.

Thomáš Otáhal from the Mendel University in Brno, and Václav Rybáček of the University of Economics in Prague, look back into the past and open the thesis "Every financial crisis induces governmental responses". In this context they derived a rent-seeking model with endogenous rent explained in a historical narrative in accordance with a theoretical concept. This theoretical concept explains the functioning of the financial institutions under the gold and silver standard and under the fiat money standard when the central bank decision-making is dependent on government. They also provide great insight into the behavior of the US government at the end of the 19th century and the beginning of the 20th century.

Chapter 12 is the last chapter and contains Petr Wawrosz's discussion of the relationship between the "new consensus" in macroeconomics (NCM) and inflation targeting. He operates at the University of Finance in Administration in Prague, Czech Republic. His goal is to analyze the problems of the previously mentioned phenomenon with the respect to the world economic crisis. The structure of his contribution is already evident in his introduction. He introduces the NCM model for the open economy and then examines the effectiveness of the policies and the question as to what extent the reaction to the crisis was consistent to the NCM models. In his last section he talks about critical methodological evaluations of the NCM approach with respect to the course of the economic crisis after 2007. Wawrosz gives special attention to countries with small open economies which can definitely be appreciated.

Lubor Lacina has the honorable role to present the epilogue of the book. He uses this place for the discussion of ten possible scenarios for the future development of the Eurozone.

In sum, the volume collects several contributions on a huge variety of issues. It maybe does not solve the current economic problems, but it surely correctly identifies the most important issues and it provides different perspectives on them. Indeed, one of the most important contributions of the volume is the documented variety of opinions, which are unified by a critical viewpoint.

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