

Book Reviews

In Defense of Free Capital Markets: The Case against a New International Financial Architecture. By David F. DeRosa, Princeton, NJ: Bloomberg Press, 2001.

David DeRosa's *In Defense of Capital Markets* would make a great secondary textbook for a macroeconomics or development economics course. The focus is on the financial crises in the modernizing world during the 1990s (Mexico, Thailand, Indonesia, Malaysia and Russia). The book's purpose is threefold: (1) to provide foreign exchange (ForEx) policy regime lessons learned for the modernizing world, (2) to provide a primer on this more than \$1 trillion per day ForEx market, and (3) to describe why institutions such as the International Monetary Fund (IMF), the U.S. Treasury, and the U.S. Federal Reserve should not intervene to try to forestall these crises, in that these interventions remove national political accountability for a country's macroeconomic policies.

In Defense of Free Capital Markets is more than a free-market argument for reducing the moral hazards and reform stalling caused by bailouts and subsidized loans from the IMF in exchange for superficial "cookie-cutter" fiscal reforms. Throughout the book's survey of the causes and responses to the crises (and several near-crises, such as those in Brazil and Korea), are text boxes that provide basic technical descriptions of the ForEx market. These primers include "Spot and Forward

Exchange," "Components of the Monetary Supply and the Basics of Monetary Aggregates," "The Mechanics of Currency Hedging," "What is a Current Account Deficit?" and "More on the Operations of a Currency Board." These instructional primers tie the mechanics of the market to policy implications.

DeRosa makes a case against the "bipolar" ForEx regimes currently supported by mainstream fiscal and monetary economists. The bipolar argument says that a country should either have free-floating ForEx or money that is fixed relative to a major currency (such as the U.S. dollar, the Japanese yen or the Euro). Bipolarity says that ForEx target zones (or floating pegs) are an unnecessary drain on the taxpayers in the modernizing world because pegs mean that a country is using its hard-currency reserves for trading positions in the ForEx market to support a noncompetitive currency that is devaluing because of unsound in-country macroeconomic policies. These hard-currency reserves are gained from central bank or treasury department interventions in nonfloating (nonmarket) private-and/or public-sector international financial transactions, that is, ForEx.

DeRosa shows that a fixed regime is also an unnecessary drain on the taxpayer unless it is in effect a complete "dollarization," that is, unless a country actually adopts a hard currency as its medium of exchange. The study

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