Editorial: the economic and monetary future of European Union

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We have in front of us the special issue of *International of Diplomacy and Economy*, Volume 6, Number 2, or as we call it among the editorial board members – the autumn edition of the Journal.[1] This special issue is devoted to the future of the EU and especially the economic, monetary and financial spheres of the Union.

This Journal was launched in the year 2012, just on the brinks of the great financial and economic crisis, by which the European integration was hit very hard. Especially some Mediterranean European monetary Union (EMU) members were hit the hardest, like Greece. The disintegration of EMU was a big issue at that time and our Journal presented some of the first scientific papers in this regard, namely the financial diplomacy of EU (Bayne, 2012).

Nevertheless, since that time many new critical points of 'no return' have 'popped up' in the developments of the EU. The Brits have decided to leave the integration and migration flows have destabilised the Schengen area. Just recently a new European leadership under the Commission president von der Leyen, has took over the offices in Brussels, which will have to deal with all these issues.

Yet, if looking in the past, we have to note that already from its inception, the euro was both a political and an economic project. It was designed to support the creation of the European single market by making it easier to trade across borders and facilitate capital flows, and to encourage closer alignment of macroeconomic policies (Committee for the Study of Economic and Monetary Union, 1989). But this dual nature led to the Eurozone's lack of democratic legitimacy. As long as countries had their own currencies, floating exchange rates and the ability to pursue independent fiscal policies, voters could vote for different parties. Governments could opt for tighter or looser monetary policies, different approaches to fiscal surpluses and deficits – and a government that got the mixture 'wrong' could be replaced at the next election (Gostyńska-Jakubowska, 2017). With the EMU, some troubled (fiscally speaking) countries could now simply find a scapegoat in the European Central Bank (ECB).

Despite some member states leaving the integration (Brexit), some member-states that are legally obliged to adopt the euro in the future (most of them in Central Europe) or that have an opt-out from the common currency (Denmark), are on the other hand worried that further Eurozone integration would marginalise them from EU decision-making (Wolf, 2017). On the other hand, EU creditors, like the Netherlands and Finland, have objected to Macron's idea of giving the EU institutions more powers in economic governance. The Finnish government has argued that "since responsibility for economic policy is with the member-states, political legitimacy and accountability of economic policy-making is best secured at the national level through national parliaments" (The European Commission, 2015).

There is an excellent overview of the dividing lines in the Eurozone between the supporters of the 'stability union' and 'fiscal union' in 'The divided Eurozone paper' (Hacker and Koch, 2017).

It is interesting that even in its reflection paper on the future of the EU's finances, the European Commission said that the EU could use the Cohesion Fund, which aims to reduce economic and social disparities between member-states, to reward member-states for reforming their economies (Oettinger and Creţu, 2017). The European Commission has suggested the EU could avoid going through the cumbersome process of treaty change. The Commission has argued that it can use Article 352 of the treaty on the functioning of the EU to reform Eurozone governance. The article provides that "if action by the Union should prove necessary, within the framework of the policies defined in the treaties, to attain one of the objectives set out in the treaties, and the treaties have not provided the necessary powers, the Council, acting unanimously on a proposal from the Commission and after obtaining the consent of the European Parliament, shall adopt the appropriate measures".[2]

In sum, there is a lot going on in regard of economic, fiscal and monetary debate. And after the Brexit case, we have to be prepared for everything in the near future. Therefore, the special issue, which is in front of us, presents six papers from France/Germany, Slovenia, Croatia, Austria and Greece.

The first paper is authored by a former German ambassador, now professor of International Law in France, and therefore offers practical and fresh insights into the EU diplomacy after Brexit. According to author, Brexit is the latest symptom of an international institutional failure to live up to public expectations. It is caused by the perception of unfulfilled participatory governance and lack of problem-solving capacities (immigration and financial crises, changing transnational identities, internal and external security) and it bears the seeds of further disintegration. Brexit has again revealed the lack of (not only institutional, but) mental preparedness of the linear mind-set ('sleepwalking into crises') for the international management of disruptive events which will continue to be a regular feature and is becoming the new normality. Diplomacy and its civilising virtues (solidarity, subsidiarity, inclusion of the general public, acceptance of change as opportunity) could provide the practical values for a result-orientated mind-set of problem-solving. This changing nature of issue-related decision-making would move foreign policy from consensus to intergovernmental and trans-societal ad hoc coalitions, building public support by taking into account domestic audiences and international public opinion. For Diplomacy as social interaction to be successful in the context of Brexit we need innovative and creative practical initiatives (instead of traditional 'procedures') corresponding to public expectations and demands (common immigration policy, coordinated internal and external security) and leading to sustainable solutions which provide efficiency, attract support and regain legitimacy for and trust in a functional European Union.

The second paper is authored by professors from Slovenia and Austria. The paper explores the key issues related to data security and cryptographic currencies and block chaining, and reassesses the emergence of the digital central bank currency and the arguments against issuing digital central bank money. This paper also starts from the premise that digital currency can be the vice that spreads the fervour of the euro in intercultural transactions and that there is a direct relationship between a nation's currency and culture and its image. The questions for assessing the adequacy of the market infrastructure and the digitalised currencies extend the premonition of arguments about the weaknesses of the euro Central Bank Digital Currencies in an effort to develop a context-specific model for the euro zone.

The third paper comes from Croatia and discusses the issue of credit unions. The author, professor of economics argues, that credit unions as one of the prominent examples of mutual or cooperative societies in the financial sector share important tasks ranging from financial intermediation for different affinity groups, fostering financial inclusion and community development to social cohesion. In CEE countries, the mutual and cooperative sector in general and credit unions, as well, are less developed compared to advanced economies. This is due to historical and political reasons but also because of competitiveness in the financial sector, financial integration, regulatory requirements, low level of consumer protection and financial literacy. Low interest rate environment, digitalisation, development of the FinTech sector and demanding regulatory compliance could pose diverse effects on prospects of development of credit unions. The aim of the paper is to discuss development prospects of credit unions in Croatia from the perspective of regulatory changes, contemporary challenges in the financial sector, role in society and consumer perspective. Credit unions as cooperative financial institutions are heavily involved in cooperative movement of a particular economy and have an important impact on society and democracy, as well as, economic development of a particular country.

The fourth paper comes from Slovenia and talks about the recent crises, which have spurred efforts at reform in specific areas of the European Union, particularly in the domain of economic and monetary union. It is evident that issues linked to the reform of the Economic and Monetary Union are unavoidable in the face of the economic consequences of the Covid-19 crisis. Deep integration among euro area members calls for higher degrees of mutuality and risk-sharing. The underlying question they face concerns the extent to which the European integration process – as well as the concept of the Economic and Monetary Union in particular – is commensurate with the idea of the community of fate. The Covid-19 pandemic crisis highlights the challenge of effective collective action and its embeddedness in prelegal and pre-market relationships, which are not contractual in nature. They are social bonds that serve as the foundation for both trust and cooperation.

The fifth paper presents the Greek case, in especially the case of FDI in Greece, after the financial and economic crisis. Further on his study investigates the effects of national and European Union economic diplomacy action on the stock of Greece's foreign direct investment (FDI) held by 22 destination countries. The results indicate the effect of economic diplomacy instruments on the location of Greece's outward FDI vis-à-vis the respective effect of other determinants. The results are tested for differences across countries with different levels of income and for different levels of economic integration. The findings contribute to the debate on the role of economic diplomacy in international business and on the significance of developing a European economic diplomacy strategy.

The final paper is dealing with EU banking regulation, which was an important factor in many EU countries contributing to the 2007/2008 financial crisis. Its purpose and value added is to present the weaknesses of the EU prudential framework most relevant for Slovenia. Most notably in the area of liquidity, regarding the absence of rules limiting short-term borrowing on wholesale markets, and procyclical accounting rules which impacted capital adequacy. In the last ten years the EU banking regulation has been subject to extensive modification and in the analysis, the author reviews the progress in areas most relevant for Slovenia.

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Notes

1 The special issue of the Journal and this paper has benefited from the support of the Slovenian Research Agency within the framework of the research project No. J5-1791 (A) "An integral theory on the future of the European Union".

2 Article 325 of the treaty on the functioning of the EU, OJC 326, 26 October 2012.