How has the level of European governance changed since 2004? Trends and fault lines

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Abstract

This article deals with the current issues of the development of European economic integration in terms of the level of governance in Member States of the European Union. The differences in the level of governance impact the countries' ability to act as a whole and to achieve convergence. This article is devoted to the analysis of governance in the EU. First, the status of governance of Member States was evaluated; then, we examined whether there has been a reduction in the disparity since the 2004 EU enlargement. We have also summarized the existing heterogeneity in EU indicators and the basic data concerning economic, political and social variables as part of the governance. In the second part, the analysis of the results was carried out. The main task of this chapter was to closely examine how homogenous/heterogenous Member States are. Finally, the actual status of the level of governance of the EU was explained in the conclusions.

Keywords: Governance, Economic Integration, European Union.

Introduction

For the European Union (EU), as the deepest form of regional integration in the world, it is important to have a proper and efficient functioning. Through its tools and measures, the Union is committed to responding to the current global challenges in the world economy.

European leaders firmly believed that deepening economic integration should be based on shared values and the ideas of ever closer unity, solidarity and reciprocity. The process of territorial expansion is an integral part of the European integration process. The European Union with 28 Member States has a much greater influence not only in Europe but also in the global economy. The entry of new members brings not only the expansion of the internal market but also new economic opportunities that contribute to increasing the competitiveness of the whole EU. The accompanying phenomenon is also the fact that the new Member States do not reach

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the levels as the original EU15 countries within real indicators. It is clear that with the access of new countries with different economic and social conditions, EU heterogeneity is growing and it is a question of whether EU integration is strong enough to overcome this border and work effectively.

Under Article 2 of the Treaty on European Union, the main objective is 'to promote economic and social progress and a high level of employment, and to achieve balanced and sustainable development, in particular by creating an area without internal frontiers, strengthening economic and social cohesion and establishing economic and monetary union ...' the European Union is striving to achieve a wide range of instruments and measures that fall under the modern concept of governance.

The aim of this article is to find out how individual EU states have developed in the field of governance. It is in the interest of the EU to achieve a reduction in heterogeneity, i.e. increasing homogeneity in the EU, both economically and socially. To determine whether EU heterogeneity has reduced, the main components analysis (PCA) and cluster analysis were used. The relationship between control indicators was examined by correlation analysis. The driving indicators were chosen subjectively. However, this is just a part of the report and the indicators do not include all the aspects. The analysis was conducted over the period 2004-2017, i.e. from the entry of the new Member States to the present. Selected indicators are also based on other studies that use the same or similar distribution to measure variables. If countries share similar preferences, they will take similar measures within a homogeneous group. Identifying homogeneous groups of countries can increase opportunities for establishing common rules on the principle of enhanced cooperation.

The article structure is as follows. The first chapter deals with theoretical assumptions. Firstly, the concept and management system and its interdisciplinary nature are defined. The second chapter deals with the methodology and explanation of the use of statistical methods and the use of individual indicators. The third chapter is based on the theoretical-methodological framework defined in the first and second chapters and deals specifically with the application of these approaches in the EU. Data collection is given in Chapter 2. Quantitative research and subsequent statistical analyses and calculations are based on the data from international organizations e.g. EU, OECD, IMF. Based on the calculations, the current situation and also the difference as compared to 2004 can be observed.

1. Theory of governance

This chapter focuses primarily on the process of implementing and monitoring the EU's objectives, and the related division of the decision-making power between transnational and national levels. First, by using theoretical tools, the concept of governance will be explained in general, and then governance in EU terms will be

described, which will be the starting point for the next chapter. As EU governance is embedded in the integration process of a relatively heterogeneous group of nations, the processes of convergence and divergence are to be clarified as well as concepts of heterogeneity and homogeneity in the economic and social spheres, which are the starting conditions for analysis in the next part of this article.
Since governance is a broad concept, there is also a relatively fragmented literature dealing with this topic. The theory of governance should cover the analysis of the hierarchy of governance, markets and networks as types of organizations, while considering empirical debates about the changing form of social and political life. The theory of governance used in this article is based on a diversity of views, actions and responses to unpredictable events.

There are different definitions of governance and different views on it. Most definitions have a similar grip on government as the World Humanity Action Trust (WHAT, 2000, p. 7), which says that governance is "a framework of social and economic systems, and a legal and political structure to control people". What is important is that governance involves more than organizations, i.e. relationships between entities, e.g. governments and societies. Guibernau (2001, p. 29) understands governance as a "shifting power in the system of governance" and highlights a new process of governance that is not necessarily based on the nation state as a political body. This process is characterized by blurring responsibilities for social and economic issues.

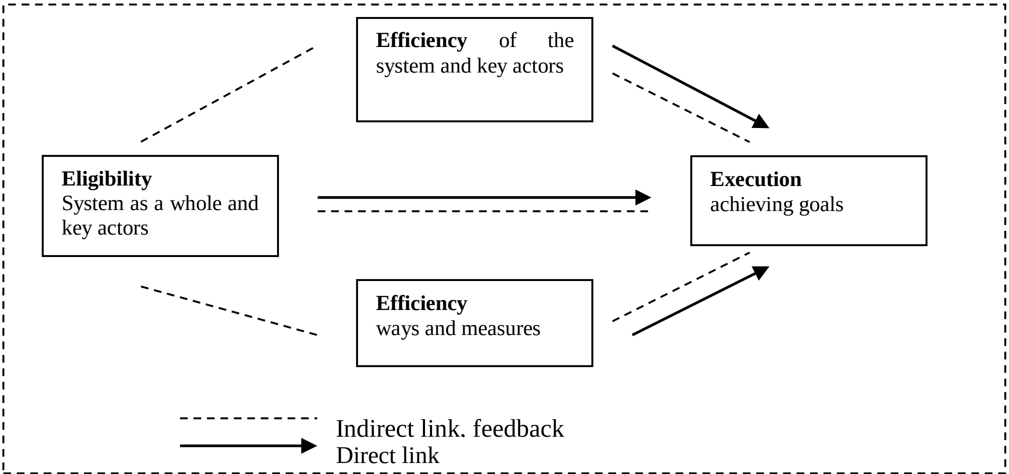
Another definition (UNDP, 2005, p. 3) follows the above-mentioned approaches and is more complex, governance being understood as „a system of values, policies, and institutions by which society manages its economic, political and social affairs by interacting within and among the state, civil society and the private sector. It is the way the company organizes itself to decide by mutual agreement. It includes mechanisms and procedures for both citizens and groups to meet their interests, to accept their differences and to apply their legal rights and obligations. These are rules, institutions and practices that set limits and provide incentives for individuals, organizations and businesses. Governance, including its social, political and economic dimensions, takes place at all levels by the action of individual actors".

These links within the framework of governance are extended by Anheier (2013, p. 13) who distinguishes between:

- Eligibility: Set of institutional rules and regulations related to the responsibilities, rights and obligations of actors, and the trust of actors to be respected by the authorities;
- Efficiency: the ability of authorities mandated by management and administrations to solve identified public problems in the near future;
- Effectiveness: the ability to implement strategies, policies and measures with the desired outcome;

- Execution: is a *dependent variable* in terms of good governance, defined as the ability of a system to achieve defined goals, or at least achieve satisfactory results to guarantee stability over a certain period.

Figure 1. Model of governance implementation



Source: Anheier, 2013, p. 14

In Figure 1, one may to see those links within the governance. Efficiency, effectiveness and efficiency are closely related to the achievement of goals.

In the so-called good governance, an effective and reliable mix of legitimate institutions and actors engaged in a process of public interest, whether in the individual markets or across local, national and international levels. These entities are divided into several levels of governance as follows:

Table 1. Levels of governance

Level of governance		Examples of decision makers
Global	Supranational	International organizations, institutions and regimes, transnational corporations
Regional		Regional integrations and organizations
National	National	National governments and institutions
Local	Subnational	Local and regional authorities and organizations
Individual		Companies, civil society, individuals

Source: Hnát (2009, p. 51)

The table above shows us the levels of the decision-making process and the actors at three levels of government - supranational, national and subnational. Taking the example of the European Union, its governance falls under the system of regional governance, which is characterized by the cooperation of several regions/countries. This cooperation is particularly evident in areas such as macroeconomic stability, development funding, market liberalization etc. (Cihelková, 2011, p. 75).

Governance is therefore conceived as *a system of values, policies, institutions that serve to manage economic and social affairs within a society*. It is a way of organizing a company to make decisions to reach agreement and cooperation among the actors of governance, while being a means of understanding and identifying their optimal response to changes in the global environment.

Governance theories emphasize procedures for studying government. It should be stressed that all existing governance models will have some shortcomings, which will lead to reforms of governance followed by changes in the political and social agenda. It has been shown that governance applies to all governance processes, but it is a much wider concept than government, because it focuses not only on the role of decision-makers but also on the creation of rules. All these changes are governed by laws and standards prescribed by institutions and determine how reforms should be made. The result is a complex and sustained process of interpretation, conflicts and actions that produces constantly changing governance. Governance is not a new concept; it has been part of social and political life for a long time but since the 1970s, we can see changes in political organization. Governments at national, regional and global levels have implemented several reforms addressing socio-economic issues and emergence of new partnerships. There is also a division of political power. There is no independent self-sufficient state or institution; all economies are governed by several complex rules that regulate their activities (Bevir, 2013, pp. 209-216).

Effective governance in the EU [1] depends not only on the set of institutions representing certain measures of individual governments, but also on the share of their influence and the realization of their own interests. There are two aspects of governance (Anheier, 2013, pp. 190-193):

- Politicians' independence from the interests they regulate;
- Analytical and innovative ability of governments to identify and solve problems.

Both combine government with society, but neither of these aspects is systematically measurable. However, some criteria that can bring us closer to governance were found. These criteria could be divided into political and economic. Political criteria are based on indicators of government efficiency, political stability, role of law and democratic institutions, and political and social integration. Economic criteria are based on the level of socio-economic development, market and competitiveness, currency and price stability, economic performance and sustainability. These criteria were used in the analytical part of this article to quantify the governance indicators.

[1] Unless otherwise stated, the term "governance" stands for "EU economic governance" in the next section.

1.1. Heterogeneity vs. Homogeneity

The European Union is heterogeneous in many aspects - population, economic power, socio-economic background (industrial North, poorer and less developed South), culture, political structure, national and ethnic diversity, etc. On the other hand, there are aspects, such as the European integration idea that unify Europe. The fact that the EU will remain heterogeneous in most areas is undisputed, but the question is: what difference will one tolerate, to what extent and what principles will be decisive for regulating this heterogeneity?

It is assumed that it is necessary to have as homogeneous a group as possible for good governance. However, a certain degree of heterogeneity is inevitable. This can have both positive and negative consequences depending on the content and objectives that the Union wants to achieve. EU heterogeneity is characterized by states with unique needs and interests. It is in the EU's interest to reach a compromise and to find a strategy for everyone. The larger the cluster of actors, the more difficult it is to agree. Since the 1990s, there has been a continuous process of territorial expansion, thereby increasing economic and social heterogeneity on the whole. The question therefore arises as to whether the integration that operates here is strong enough to reflect the interests of all its members.

The enlargement in recent years, as well as increasing intensity and expanding integration bring new challenges and incentives for international and intra-European cooperation. Over the past decades, these trends can be seen in de Mooij and Tang (2003) and Baldwin (2008):

- Increasing heterogeneity of the European Union: With the expansion of members, the diversity of the economies of Member States is constantly increasing. The European Union is no longer an exclusive club of economic cooperation between advanced countries, as presented in the 1990s, but rather an economic integration with a membership base within a region. Moreover, the differences between the richest and the poorest EU countries are remarkable and they are likely to grow with every further expansion.
- Increasing cooperation: International cooperation, which began as a coal and steel co-operation, has transformed into a huge colossus of intergovernmental cooperation in many areas with a distinctly superior element over the last sixty years.
- Increasing number of areas as a subject of EU decision-making: There is an increase in the number of issues managed by EU institutions, which may lead to a simplification of the decision-making process and a strengthening of the role of the European Union, but to the detriment of the role of national states.
- Democratic deficit of the European Union: Democratic deficit as an insufficient level of democracy is a problem that is important in the context of the previous two trends. Whether it is the European Commission or the European Council, none of these bodies are directly elected by the EU citizens, and their legal

legitimacy is only derived from the national elections of the Member States, which then delegate their representatives. The only directly elected EU body is the European Parliament, but its role does not reflect the importance and status of the national parliament in a normal democratic establishment yet. However, it is true that, with the development of integration, the democratic deficit is gradually decreasing. (Follesdal and Hix, 2006, p. 533)

Over the past ten years, the European Union has undergone significant changes, increased its membership of thirteen members initially to almost double, which has led to the need to considerably reform the governance structures. But are there any limits to the integration process in Europe? And is it even possible for this integration group to fit into effective institutional structures that encompass all the heterogeneity of its members?

1.2. Theory of clubs

The theory of clubs is an economic theory developed in the 1960s by James M. Buchanan. This theory investigates the possibilities of providing a so-called club house, this property being accessible to members of the club only. The club owner can either decide on the amount of goods offered or check the size of the club and the number of members (Sandler and Tschirhart, 1997, p. 335). The theory then operates with the optimal size of the club and the optimal amount of goods offered, as well as with the club's equilibrium. With some modifications, the model can be applied to integration in Europe, where the size of the club corresponds to the number of members and the extent of EU integration to goods offered by the club. The theory of clubs can then answer the question of how big and wide the European Union should be.

In the light of this theory, we can identify goods provided by the European Union, including: the single European market and the free movement of goods, persons, services and capital, the common currency and European monetary cooperation, customs union, common agricultural policy, structural funds and cohesion policy, common foreign and security policy and others. Among the assets, we can include the Western European Union, which was not a part of the EEC, but was assigned and dissolved in the EU structures, especially within the framework of the common foreign and security policy. Furthermore, we can also include the Schengen Agreement, which was annexed to the European Treaties (Schengen Area and Cooperation) by the Treaty of Amsterdam, and builds on the concept of free market and, above all, on the free movement of persons. Each of these goods brings other benefits and costs and represents another club. In theory, it is up to individual members whether they decide to join the club and consume its goods or not.

The current European Union can be considered as one large club and several smaller interlocking sub-clubs according to membership. Individual clubs are created in Europe and can be of dual origin: officially, when a club is created by one of the founding treaties (e.g. the internal market or the Eurozone) and unofficially, when a club spontaneously emerges outside the EU structures (e.g. the Schengen area or the Western European Union). Most of these clubs are ultimately connected to the European Union acquis communitaire. Clubs may be either of full membership, where all members are also members of the EU (e.g. customs union or the single internal market), or there are clubs where only some EU members are members of a club (e.g. Eurozone). There are also completely free membership clubs that comprise both EU and non-EU members, and some EU member states do not participate in this club (e.g. the Schengen area) (Ahrens *et al*., 2005).

Theoretically, however, the European Union can also be considered as many clubs where everyone offers only one item. We can find a single market club, an agricultural policy club or a common foreign and security policy club. The management of these clubs and their institutional form is then merged into a single one (e.g. the European Commission), with individual commissions being understood as the exclusive institutions of the club.

At present, the consumption of some club's goods is already within the European Union membership; if a country became a member of the EU, it automatically entered the internal market club, for example. Each club, in addition to the benefits, also brings considerable costs, in which case, for example, Member States must waive customs tax on goods entering the EU from other EU countries. As an advantage, they also gain free movement for their goods on other EU Member States' markets.

The theory of clubs brings a new perspective on the future functioning of the European Union, which would be better able to cope with some issues such as rising membership, EU heterogeneity, increasing scope and complexity of EU activities, etc. The solution is to create multiple clubs covered by one of the main clubs of the European Union. In such a system, individual EU members themselves would decide what policies and activities they want to take part in. The concept is very close to that of the so-called *Europe a la carte* or so-called *Multi-speed Europe*. In many areas, complex multilateral negotiations and the need for a compromise would be avoided for all. A Member State could choose whether to join a club or not.

Such a solution would also bring more complex European processes, greater demands on governing bodies and probably greater differentiation of contemporary Europe in the political and international sense. On the other hand, decision-making processes would be streamlined and speeded up and, above all, such solutions would help to overcome the heterogeneity of the current European Union and the differences between Member States. In addition, country-to-country relations could get improved and, overall, the intra-European political environment would be likely to improve.

The current institutional structure of the EU is not a very effective solution to the organization, just like the multi-speed Europe model is only a half-way solution that is not very welcome as a solution to any problem. This is shown by the fact that all new Member States are also required to participate in the monetary integration and are obliged to adopt a common currency and implement a common monetary policy. An integration group composed of such a large number of members can be effectively managed only if it can cover the heterogeneity of its members, which, however, proves to be a big problem (Ahrens *et al*., 2005).

It is possible that a consistent persistence on homogeneous practices and EU unity (i.e. the Eurozone), on the contrary, will lead to a greater diversification of the membership base, especially in the political field. Therefore, the European Union should consider greater flexibility in the integration process. The opt-out has already been used in the adoption of the common currency and it does not seem that the absence of Great Britain and Denmark in the common currency would pose any danger to the future development of the European Union. So why not offer this option to other states? Answers to these questions are brought to the theory which suggests a breakdown of the integration process into several clubs covered by the institutional structure of the EU, where individual Member States can choose which common policies to join.

On the other hand, such a solution is not politically acceptable. One of the drivers of European economic integration is above all a political motive. The idea of a united Europe which can compete economically with the main economic centers of the world while preserving European culture and lifestyle, is the main motive. For EU leaders and their Member States, such fragmentation of the EU into sub-groups of cooperating states is not acceptable. Therefore, this theory represents only a theoretical solution and an alternative to the mainstream of EU development.

2. Methodology

If we want to quantify the properties of governance and find a correlation between selected indicators, we need to look at the complexity of governance as such and find the most comparable characters to help identify and measure it. Empirical studies by liberal economists especially highlight the market aspects of governance, namely governance capabilities that reduce transaction costs and allow all markets to operate more efficiently. For the purposes of this article, the socio-economic role of governance that promotes the growth and capacities of governance to overcome the diversity of states and to increase labor productivity while preserving political stability in the context of rapid internationalization and globalization was addressed. For these reasons, the Worldwide Governance Indicators of the World Bank (WGI), which represent six dimensions of governance (World Bank, 2018), were used:

- public opinion and responsibility (VM): ability to participate in government, freedom of expression, press, etc.;
- political stability and the level of violence and terrorism (PS);

- government efficiency (EV): quality of public services, the degree of dependence on political pressure, the implementation of individual policies, and the credibility of the government;
- role of law (RP);
- quality of legislation (KL);
- control of corruption (KK).

These indicators combine the views of a large number of businesses, citizens and professionals in all surveyed countries. They are based on 32 data sources produced by various research institutes, non-governmental organizations, international organizations and private companies that provide us with up-to-date information and opinions on economic subjects. Due to such a wide range of data, it is better to understand the main elements and to ensure greater measurability than individual data sources. In addition to WGI indicators, other sources such as the Index of Economic Freedom (IES), which is based on the institutional quality of the country, were used. There, the role of the state in the economy is evaluated, especially regarding domestic and foreign companies. The index is developed by the Heritage Foundation and considers 10 factors: business, trade policy, tax policy, government size, monetary policy, investment, banking and finance, property rights, corruption and labor market regulation. To assess the competitiveness of the Member States and to maintain long-term economic growth and a high standard of living (as the main objectives of the Lisbon Strategy), the ranking of World Economic Forum was used. The ranking is based on the so-called Global Competitiveness Index (GCI), which consists in hundreds of indicators. To measure competitiveness, there are 12 categories (so-called pillars). They evaluate: institutional structure, infrastructure, the macroeconomic environment, health and primary education, higher education, efficiency of production markets, efficiency of commodity and labor markets, degree of financial market development, technological readiness and market size, complex business environments and innovation. The GCI index takes into account a number of indicators that are first divided into three sub-indices and eventually merged into GCI. These sub-indices apply to (GIGA, 2018):

- basic requirements of international competitiveness - institutions, infrastructure, macroeconomic stability, health and education;
- efficiency factors - human capital (higher education and training), efficiency of production markets, labor markets and financial markets, technological capacity and performance of companies and the size of the domestic market;
- innovation and knowledge-enhancing factors where the company's level of competence is characterized by the complexity of its products and business processes.

These last two indicators also give us a part of governance to some extent, because the inclusion of competitiveness explains different economic performance.

However, the individual indicators are dependent on each other[2], and therefore, we present table 2 of the correlation matrix. Correlation is evident among all dimensions of governance. If only a certain area of government is improved in the country, the overall governance will be improved as well, including all the listed indices.

Table 2. The initial correlation of individual indices for measuring governance

	GCI	IES	VM	PS	EV	KL	RP	KK
GCI	1	0,673993	0,850621	0,4924	0,829844	0,900595	0,874112	0,89168
IES	0,673993	1	0,573062	0,550158	0,548037	0,786183	0,628087	0,613505
VM	0,850621	0,573062	1	0,64879	0,93641	0,904829	0,961521	0,94294
PS	0,4924	0,550158	0,64879	1	0,596601	0,620754	0,604687	0,549116
EV	0,829844	0,548037	0,93641	0,596601	1	0,84166	0,945045	0,95389
KL	0,900595	0,786183	0,904829	0,620754	0,84166	1	0,921586	0,900875
RP	0,874112	0,628087	0,961521	0,604687	0,945045	0,921586	1	0,961533
KK	0,89168	0,613505	0,94294	0,549116	0,95389	0,900875	0,961533	1

Source: Author's calculations based on World Bank, 2018; Heritage Foundation, 2018; WEF, 2018

A very strong and significant link between governance indicators shows the quality of governance and, in combination with the PCA analysis, it becomes measurable. Since the quality of governance values for individual indicators are at different levels, data normalization has been achieved with the Z-score algorithm, which recalculates the values by average and standard deviation.

The governance indicators selected for the analysis are also taken as the main indicators of governance not only by the international organizations mentioned below but also by most of the empirical studies (e.g. Benczes, 2013a, b; Kaufmann and Kraay, 2002; Albassam, 2013) and specialized institutions and centers dedicated to governance (e.g. Hertie School of Governance, Berlin; The Quality of Government Institut, Gothenburg etc.). Both institutions also issue annual reports on the quality of governance, especially for EU countries and other institutions. The reports also examine changes in EU governance since the beginning of the Eurozone crisis and reflect on the challenges the EU faces. Emphasis is placed in the following analysis of the institutional dilemma, which presents new ways of deciding within the EU as well as the concept of governance as an approach to understanding the decision-making processes resulting and a set of governance indicators to measure convergence and divergence between EU Member States over time[3]. Contemporary

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[2] E.g. if the efficiency of government‘s operations increases, the quality of legislation will also improve, and it also has a positive impact on the decline in corruption.
[3] A detailed list of governance indicators available online http://www.qog.pol.gu.se. Teorell, Jan, Stefan Dahlberg, Sören Holmberg, Bo Rothstein, Felix Hartmann & Richard

governance therefore focuses mainly on the management of the Eurozone, migrant crisis, interdependence, heterogeneity of economies, policies and externalities stemming from the decisions taken at the level of the national states, and the following part will be based on this.

To compare heterogeneity and to determine how it evolves over time, the following statistical analyses were used - principal component analysis (PCA) and cluster analysis.

Principal component analysis (PCA)

Principal component analysis is a multidimensional statistical method based on the assumption of linear dependence between factors. This method allows us to reduce a number of variables that, after normalization, allow a better understanding of the area, since they include all the characteristics of the original characters. Characters are in a relationship with each other, and it is therefore possible to reduce the observed attributes in a few of the major components that form most of the scatter of the observed characters. The EU is a relatively small sample of countries with low variability, so it is appropriate to use the PCA method. The number of major components is less than or equal to the number of original properties. The result is a set of variables that are a linear combination of the original variables, and they capture the variability in the input data to the maximum extent (Rapidminer, 2018). Through this analysis, we will know how each country stands in each group and how it has improved its position over the years among the rest of the EU.

Cluster analysis

Cluster analysis (hierarchical dendrogram)[4] is based on PCA analysis and complements it by generating so-called clusters. The analysis consists in a sequence of decomposition: on the one hand, we have a cluster containing all the objects and on the other hand, one-element clusters. The hierarchical methods of clustering are divided into divisional and agglomerating ones based on the direction of access. The clustering of this method is represented by a binary tree called a dendrogram. In the analysis, the so-called nearest neighbor method was used, where the clusters of objects are judged by each other according to the smallest distance compared to other objects/clusters (Kučera, 2015). On the dendrogram, the height of the top (number) means the distance between the individual clusters. Thanks to the dendrogram, it is possible to see in detail which states are in which group from the pair to the whole.

Svensson. 2018. The Quality of Government Standard Dataset. University of Gothenburg: The Quality of Government Institute.
[4] RapidMiner, Matplotlib and SciPy were used to create a dendrogram.

3. Analysis of governance indicators

The results of the quality of governance in the EU are shown in Table 3. The PCA analysis includes 95% variability of input data of governance (indicators WGI, GCI, IES), i.e. an almost accurate display of variables in individual years. The indicators show that Scandinavian countries, together with the Netherlands and Luxembourg, obtained the best placement among the EU15. By contrast, southern states have devalued, notably in the efficiency of public services and the formation and implementation of public policy. Corruption in the public sector has increased, particularly in Italy and Greece. Greece and Portugal also have to deal with the weak government's ability to support the private sector. Southern states have also fallen in the ranks of economic freedom. However, it must be acknowledged that Spain is at a good level among the countries of Southern Europe within its group. Hungary, on the other hand, recorded a 5-point slump, mainly due to lower government efficiency. The last position is held by Greece with its quality of governance across the EU28.

Table 3. Changes in governance indicators

	PCA 2004/2005	Ranking 2004	PCA 2016/2017	Ranking 2017	Change
Denmark	3,91	2	3,70	3	-1
Sweden	3,58	3	3,76	2	+1
Finland	4,39	1	3,99	1	0
Germany	1,71	9	2,48	6	+3
Netherlands	3,13	4	3,38	4	0
Great Britain	2,44	6	2,32	8	-2
Austria	2,32	7	2,47	7	0
France	0,41	12	0,30	12	0
Belgium	1,14	10	1,60	10	0
Ireland	2,04	8	2,09	9	-1
Luxembourg	3,02	5	3,19	5	0
Spain	0,13	14	-1,24	19	-5
Estonia	0,22	13	0,56	11	+2
Czech Rep.	-1,30	19	-0,47	14	+5
Cyprus	-0,58	16	-0,65	15	+1
Slovenia	-0,86	17	-1,57	21	-4
Portugal	0,45	11	-0,85	17	-6
Lithuania	-1,33	20	-0,69	16	+4
Slovakia	-1,56	21	-1,78	22	+1
Italy	-1,76	23	-2,59	24	-1
Malta	-0,03	15	0,09	13	+2
Poland	-3,13	25	-1,01	18	+7

Latvia	-2,11	24	-1,47	20	+4
Croatia	-3,86	26	-3,35	25	+1
Hungary	-0,89	18	-1,97	23	-5
Greece	-1,63	22	-4,22	28	-6
Romania	-5,66	28	-4,03	27	+1
Bulgaria	-4,20	27	-4,00	26	+1

Source: Author's calculation, World Bank, 2018; WEF, 2018; Heritage Foundation, 2018

Among the new Member States (NMS) and, in particular, among the Eurozone countries, attention is paid to Estonia, which is ranked 11th in the quality of governance across the EU28. Generally speaking, most NMS, particularly the Czech Republic and Poland, are quite well and have experienced a significant institutional transformation both before and after enlargement, especially in the area of the role of law and legislation. While the Czech Republic has achieved the greatest improvements in the area of corruption and economic freedom, Estonia has done so in the role of law and public opinion. Poland leads in the area of political stability and, compared to 2004, the country even recorded a 7-step jump up. It is quite possible, therefore, that the NMS beats the core of the EU15 in the area of governance in the near future. The worst quality of governance can be observed in Romania, followed by Bulgaria. Croatia and Slovenia are somewhat better.[5]

According to the Global Competitiveness Index (GCI), know-how, innovation, business environment and infrastructure are the dominant factors for EU15 countries, mainly due to the good evaluation of telephone, transport and energy networks. Relatively good evaluation can be seen by the states in terms of innovation and sophisticated factors. By contrast, the labor market remains lagging behind, with low flexibility in salaries and high costs for job creation although it helped Germany keep employment in times of crisis). The Czech Republic and Estonia have been some of the most competitive countries in Central and Eastern Europe. Like in previous years, the main strengths of education and highly efficient and well-developed production markets, the financial market and the labor market, as well as strong will and commitment to further progress in technical readiness remain (WEF, 2018).

The Economic Freedom Index (IES) is best for Estonia, Ireland and Denmark for 2017. It is also worth mentioning the Czech Republic which, although on the 11th place, has made a 5-shift move in the last 10 years and Romania, which jumped 7 straights upwards. Cyprus experienced the biggest slump. The least liberal is Greece, holding the last position. Overall, the European economy is fairly resilient to global economic uncertainty. In the NMS, there has been a significant improvement in the area of labor freedom, but the management of government spending offsets a higher level of corruption compared to other Member States. For

[5] However it should be mentioned that in 2004 Bulgaria, Romania and Croatia were not EU members yet.

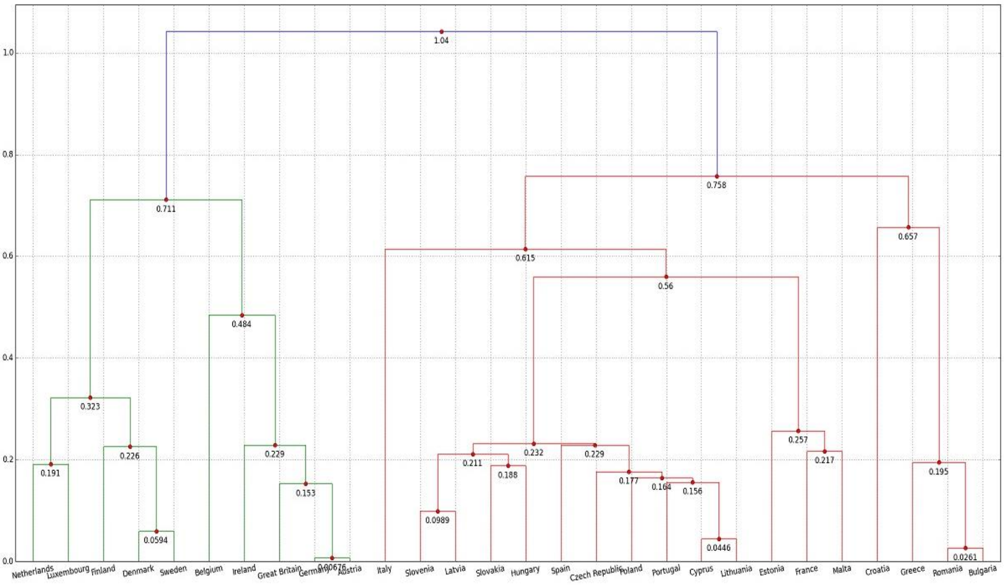
small open economies, there has been a decline in trade and investment flows in recent years (Heritage Foundation, 2018).

In WGI indicators, southern states are the most problematic ones. The worst in terms of political instability, violence and terrorism are Spain and Greece. The efficiency and credibility of the government is at the lowest level in Romania, and the role of law and the control of corruption are also the worst here. But Italy, Greece and Bulgaria are also fighting against long-term corruption.

Cluster analysis

The cluster governance analysis for EU28 illustrates the dendrogram in Figure 2. The analysis is based on PCA indicators and shows us which states are the most similar in governance. Within the quality of governance, it is possible to see individual clusters in 2017, when the 10 original states are in one group and the new Member States, together with the countries in southern Europe, are in the second cluster at a relatively significant difference.

Figure 2. Quality governance dendrogram



Source: Author’s calculation

The cluster management analysis for the EU28 states is based on the PCA indicators and shows which countries are the most similar in terms of governance. Within the quality of governance, it is possible to see individual clusters where the ten original states are in one group and the new Member States, together with the countries in southern Europe, are in the second cluster at a relatively big difference.

Conclusion

The European Union is trying to act internationally as a homogeneous group of countries. However, it should be taken into account that the EU is in fact a very heterogeneous cluster of 28 states that differ not only in terms of economy but also in terms of their socio-economic development and interests. With every enlargement of the EU, heterogeneity is increasing, which is reflected, among other things, in the difficulty of managing economic affairs, the decision-making process and the consequences affecting not only EU policies but also individual members, which is reflected in the overall EU governance.

In the analytical part, the theoretical approaches to governance and heterogeneity were applied, which helped us divide individual states by the level of governance, to find their strengths and to show how their position has changed since 2004. The EU is a system of governance based on the cooperation between independent states that developed and are developing a transnational policy and a decision-making center. This requires the existence of a regulatory authority for a wide range of policy areas, primarily based on the competences passed between the national entity and the EU. Applying theoretical approaches has helped to understand the multidimensionality of governance. Using quantification of individual indicators, we could measure and assess the evolution of selected indicators over time and see how governance changes and how states in this area are heterogeneous. Based on the results, it can be stated that there are no significant changes in the governance indicators in the long run. Convergence can be observed over the past 5 years in the indicators of political stability and government efficiency. The reduction of heterogeneity is also shown by the Index of Economic Freedom and the Global Competitiveness Index, while there is an increase in heterogeneity in the area of legislation and the role of law.

However, there are also limits of this research. The analysis was conducted over a relatively short period of time, over a period of 13 years, which is certainly not enough time for evaluating the integration process in Europe and cannot infer the generally valid conclusions of its applicability to other regional integration clusters. For the governance indicators calculation, the data were used not only based on real macroeconomic data (hard data), but also on a subjective and weighted component from international institutions, including opinions and perceptions of citizens that may reflect their current moods rather than actual status.

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