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THE LEVEL OF GOVERNANCE IN THE EUROPEAN UNION[1]

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ABSTRACT
This article deals with the current issues of the development of European economic integration and analysis of the level of governance in Member State of the European Union. The need to streamline EU economic governance was mainly during the debt crisis in the Eurozone, where several member countries got in serious economic problems. The economic crisis has affected all members of the EU, but with a different intensity. The following crisis has exposed several weaknesses and specially a high degree of heterogeneity of all Member States. The first part will be devoted to the theory and methods used for real and nominal economic variables in the EU. First, we evaluate the status of governance of Member States and examine whether there has been a reduction in the disparity from the enlargement of the European Union in 2004. We also summarize the existing heterogeneity in EU indicators and basic data concerning economic, political and social variables. In the second part, we will deal with analysis of the results. The main task of this chapter will closely examine how homogenous/heterogeneous the Member States are. Finally, we conclude by explaining the actual status of the level of governance of the European Union. In doing so, we show how each new component of governance and its tools are key factors for not only economic prosperity and development of the EU, but also for preserving and strengthening the EU's position in the world economy.

Key words: 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 instruments and measures, the Union is trying to respond to current global challenges in the world economy. The process of territorial expansion is an integral part of the European integration process. The European Union with 28

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Member States has much greater influence not only in Europe, but also in the global economy.

Under Article 2 of the Treaty on European Union, the primary 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 borders, by strengthening economic and social cohesion and by introducing Economic and Monetary Union..."* This objective is being pursued by the European Union through a wide range of instruments and measures that fall under the modern concept of governance. This article discusses the status of governance in all Member States and examines whether there has been a reduction in the disparity from the enlargement of the European Union in 2004.

1 Theory of governance

This chapter focuses primarily on the process of implementing and monitoring the EU's objectives, and the related division of decision-making power between transnational and national levels. First, using theoretical tools, we will try to explain the concept of governance in general, then to characterize governance in EU terms, 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. Theory of governance should cover the analysis of the hierarchy of governance, markets and networks as types of organisations, while considering empirical debates about changing form of social and political life. The theory of governance that we will work with is based on a diversity of views, actions and responses to unpredictable events.

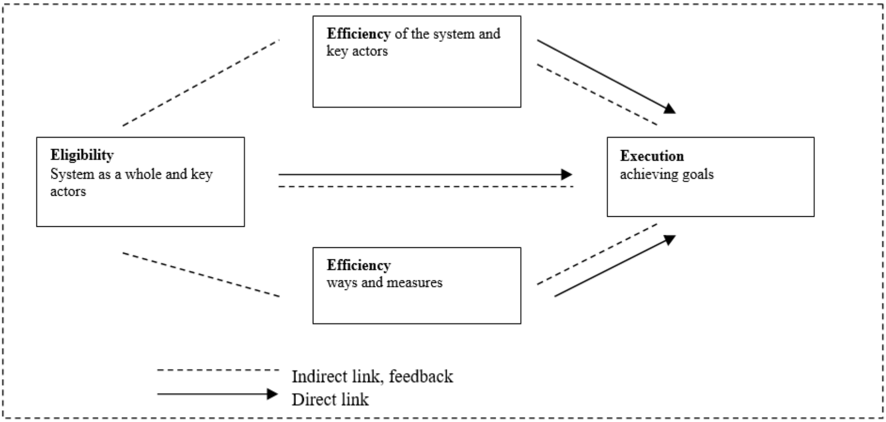
There are different definitions of governance and different views on it. Most definitions have a similar grip on government as the Word Humanity Action Trust (WHAT, 2000, pp. 7), which says that governance is *„a framework of social and economic systems, and a legal and political structure to control people* ". Although this definition is too general, we can use it. What is important is that governance involves more than organisations; it involves also relationships between entities (governments and societies). Guibernau (2001, pp. 29) understands governance as *„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 of responsibilities for social and economic issues.

Another definition (UNDP, 2005, pp. 3) follows the above-mentioned approaches and at the same time is more complex. Governance is 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 realize 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, pp. 13) by the view of its realization, distinguishing between:

- Eligibility: Set 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 (remedy things): the ability of authorities mandated by management and administrations to solve identified public problems in the near future.
- Effectiveness (do the right thing): 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, pp. 14

In Figure 1, it is possible 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 are 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 organisations, institutions and regimes, transnational corporations
Regional		Regional integrations and organisations
National	National	National governments and institutions
Local	Subnational	Local and regional authorities and organisations
Individual		Companies, civil society, individuals

Source: Hnát (2009, pp. 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 will fall 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, pp. 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 (identifying) their optimal response to changes in the global environment.

Governance theories emphasize procedures for studying governance. 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. We have 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 that are prescribed by the 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 no new concept; it has been part of social and political life since long time ago. However, since the 1970s, we can see changes in political organisation. 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 a number of complex rules that regulate their activities (Bevir, 2013, pp. 209-216).

Effective governance in the EU[2] 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 (Stanig and Kayser in Anheier, 2013, pp. 190-193):

- Independence of politicians on 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, we can find criteria that can bring us

[2] Unless otherwise stated, we will use the term "governance" for "EU economic governance" in the next section.

closer to governance. 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. We have used these criteria to quantify the governance indicators in the analytical part of this article.

1.1 Heterogeneity vs. Homogeneity

What does homogeneity and heterogeneity mean? As a heterogeneity / homogeneity, we will consider a state. The process in which heterogeneity will be reduced we will call *convergence* and vice versa, with the term *divergence* we will consider a process that leads to increased heterogeneity.

The European Union is heterogeneous in a number of 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 that unify Europe like idea of European integration. It is undisputed that the EU will remain heterogeneous in most areas, but the question is, what difference will one tolerate and to what extent; as well as what principles will be decisive for regulating this heterogeneity.

We will assume that for a good governance it is necessary to have as homogeneous group as possible. However, a certain degree of heterogeneity is inevitable. This can have both positive and negative consequences, according to 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 reach an agreement. Since the 1990s, there has been a continuous process of territorial expansion, thereby increasing economic and social heterogeneity of 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, Tang, 2003; 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 of advanced countries, as it was 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 the 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 (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 derived only 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 the democratic deficit is gradually decreasing with the development of integration. (Follesdal a Hix, 2006, pp. 533).

Over the past ten years, the European Union has undergone significant changes, increased its membership of thirteen members to almost double, which has led to the need to reform considerably the governance structures. However, are there any limits to the integration process in Europe? Moreover, 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 that was developed in the 1960s by James M. Buchanan. This theory investigates the possibilities of providing a so-called clubhouse, this property is accessible only to members of the club. 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 a Tschirhart, 1997, pp. 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 should the EU be.

In the light of the theory, we can identify goods provided by the EU, 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 it 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 the theory, it is up to individual members whether they decide to join the club and consume its goods.

The current EU 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: official, when a club is created by one of the founding treaties (e.g. the internal market or the Eurozone) and unofficial 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 communautaire. Clubs may be either of full membership, where all members are also members of the EU (e.g. customs union or single internal market), or there are clubs where only a part of EU members are members of a club (e.g. Eurozone). There are also completely free membership clubs that are 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).

From the point of view of the theory, 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 (e.g. the 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 into 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, notwithstanding the contributions to the EU budget that EU Member States are obliged to pass on. As an advantage, they gain free movement also for their goods on the market of other EU Member States.

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 in what policies and activities they want to take part. The concept is very close to the concept of 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 one club or stay apart.

Such a solution would also bring more complexity to European processes; greater demands on governing bodies, and probably greater differentiation of contemporary Europe in the political and international sense as well. 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 be improved and, overall, the intra-European political environment would likely improve.

The current institutional structure of the EU is not a very effective solution to the organisation, just like the multi-speed Europe model is only a half-way solution that is not too welcome as a solution to any problem. This is evidenced by the fact that all new Member States are also required to participate in 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 all 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. Consequently, why not to 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 that are 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 is able to compete economically with the main economic centres 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 us identify and measure it. Empirical studies by liberal economists highlight especially market aspects of governance, namely governance capabilities that reduce transaction costs and allow all markets to operate more efficiently. For the purposes of our work, we will address the socio-economic role of governance that promotes growth and capacities of governance to overcome the diversity of states, to increase labour productivity while preserving political stability in the context of rapid internationalisation and globalisation. For these reasons, we have used Worldwide Governance Indicators of the World Bank (WGI), which give us six dimensions of governance (World Bank, 2016):

- 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 views of a large number of businesses, citizens and professionals in all countries surveyed. They are based on 32 data sources produced by various research institutes, non-governmental organisations, international organisations and private companies that provide us with up-to-date information and opinions of 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, we use also other sources such as the Index of Economic Freedom (IES), which is based on the institutional quality of the country. There the role of the state in the economy is evaluated, especially with regard to domestic and foreign companies. The index is developed by the Heritage Foundation and takes into account 10 factors: business, trade policy, tax policy, government size, monetary policy, investment, banking and finance, property rights, corruption and labour 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), we will use the also the ranking of World Economic Forum. The ranking is based on the so-called Global Competitiveness Index (GCI), which consists of hundreds of indicators. To measure competitiveness, there are 12 categories (so-called pillars). They evaluate: institutional structure, infrastructure, 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, 2016):

- basic requirements of international competitiveness - institutions, infrastructure, macroeconomic stability, health and education,
- efficiency factors - human capital (higher education and training), efficiency of production markets, labour 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.

As can be seen, these last two indices also give us a sense of governance to some extent, because the inclusion of competitiveness explains different economic performance and, above all, sees improvement in competitiveness as a chance to recover from the crisis. However, the individual indicators are dependent on each other[3], 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, 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	0,673992	1	0,573062	0,550158	0,548037	0,786184	0,628087	0,613505
VM	0,850621	0,573062	1	0,64880	0,93641	0,904830	0,961521	0,942945
PS	0,4924	0,550158	0,64879	1	0,596601	0,620754	0,604687	0,549117
EV	0,829844	0,548037	0,93641	0,596601	1	0,841667	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: Own calculations based on World Bank, 2016; Heritage Foundation, 2016; WEF, 2016.

[3] E.g. if the efficiency of government‘s operations increases, then the quality of legislation will also improve, and it also has a positive impact on the decline in corruption.

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 our analysis are also taken as the main indicators of governance not only of the international organisations mentioned below but also for most of the empirical studies (e.g. Benczes, 2013a,b; Kaufmann a Kraay, 2002; Albassam, 2013), specialized institutions and centres 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 European countries and other institutions. Emphasis will be placed in the following analysis on 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[4]. To compare heterogeneity and to determine how it evolves over time, we will use the following statistical analyses - principal component analysis (PCA), cluster analysis and variation coefficient.

2.1 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 normalisation, 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

[4] 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 Svensson. 2016. The Quality of Government Standard Dataset, version Jan16. University of Gothenburg: The Quality of Government Institute.

combination of the original variables, and they capture the variability in the input data to the maximum extent (Rapidminer, 2015). 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.

2.2 Cluster analysis

Cluster analysis (hierarchical dendrogram)[5] is based on PCA analysis and complements it by generating so-called clusters. The analysis consists of a sequence of decompositions, 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, we use the so-called nearest neighbour method, 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 what states are in which group from the pair to the whole.

2.3 Variation coefficient

To compare the variability of multiple data with different units of measurement and values in files, we also use the variation coefficient. The variation coefficient is defined as the ratio between the standard deviation and the mean value. As an average value, we have not chosen a normal average but for better results a median (due to the existence of extreme values, considering that small states such as Malta, Cyprus, less developed like Bulgaria, Romania and, on the other hand, economically more developed such as Luxembourg).

The data was mainly based on a database of the European Commission, Eurostat and Euromonitor International, which collect data from international organisations and national statistical offices.

[5] RapidMiner, Matplotlib and SciPy were used to create a dendrogram.

2.4 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. almost accurate display of variables in individual years. The indicators show that the best placement from the EU15 obtained the Scandinavian countries, together with the Netherlands and Luxembourg, both in 2016 and in 2004. 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. In Greece and Portugal, there is also weak ability of the government to support the private sector. Southern states have also fallen in the ranks of economic freedom. However, it has to 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. At the last place in the quality of governance across the EU28 is Greece.

Table 3: Changes in governance indicators

	PCA 2004/2005	Ranking 2004	PCA 2015/2016	Ranking 2016	Change
Denmark	3,91	2	3,68	3	-1
Sweden	3,58	3	3,75	2	+1
Finland	4,39	1	3,99	1	0
Germany	1,71	9	2,47	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	1,61	10	0
Ireland	2,04	8	2,09	9	-1
Luxembourg	3,02	5	3,20	5	0
Spain	0,13	14	-1,24	19	-5
Estonia	0,22	13	0,56	11	+2
Czech Republic	-1,30	19	-0,46	14	+5
Cyprus	-0,58	16	-0,65	15	+1
Slovenia	-0,86	17	-1,57	21	-4
Portugal	0,45	11	-0,83	17	-6
Lithuania	-1,33	20	-0,69	16	+4

	PCA 2004/2005	Ranking 2004	PCA 2015/2016	Ranking 2016	Change
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	-1,02	18	+7
Latvia	-2,11	24	-1,47	20	+4
Croatia	-3,86	26	-3,34	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: Own calculation, World Bank, 2016; WEF, 2016; Heritage Foundation, 2016.

Of the new Member States (NMS) and, in particular, of the Eurozone countries, our attention is paid to Estonia, which ranked in top 10 in the quality of governance across the EU28. Most of the 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 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 is Romania, followed by Bulgaria. Somewhat better are the states Croatia and Slovenia.[6]

According to the Global Competitiveness Index (GCI), know-how, innovation, business environment and infrastructure are the dominant factors for EU15 countries, mainly due to 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 labour market remains lagging behind, with low flexibility in salaries and high costs for job creation (although Germany helped to keep employment in times of crisis). The Czech Republic and Estonia have been one of the most competitive countries in

[6] However, we should mention that in 2004 Bulgaria, Romania and Croatia were not yet members of the EU.

Central and Eastern Europe. Like previous years, the main strengths of education and highly efficient and well-developed production markets, the financial market and the labour market, as well as strong will and commitment to further progress in technical readiness remain (WEF, 2016).

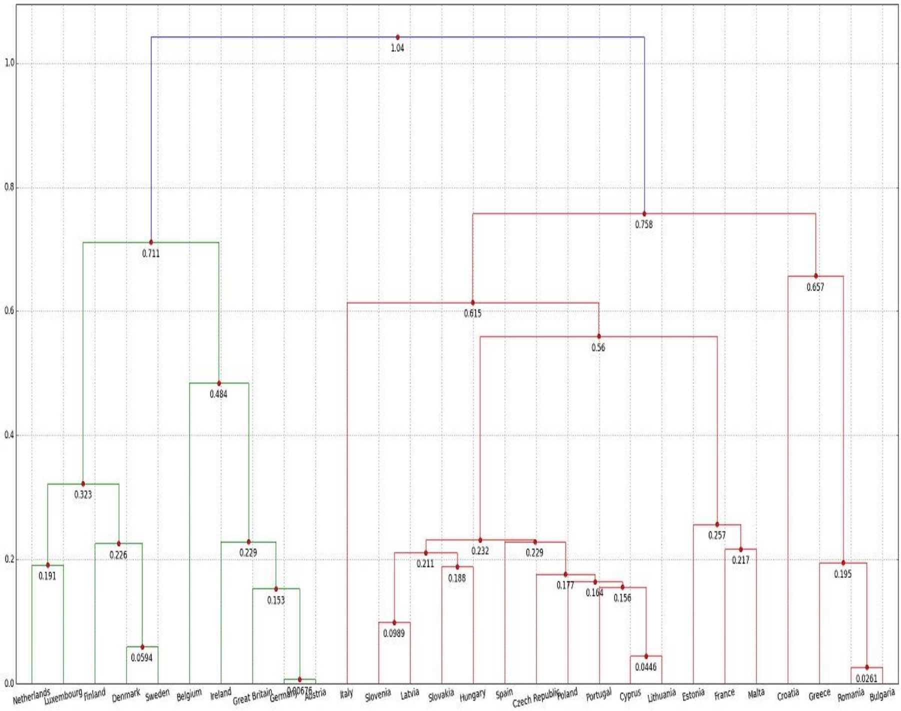
The Economic Freedom Index (IES) is best for Estonia, Ireland and Denmark for 2015/2016. The Czech Republic is also worth mentioning; although on the 11th place, it has made a 5-shift move, similarly to Romania, which jumped 7 straight upwards. Cyprus experienced the biggest slump. The least liberal is Greece at the last place. Overall, the European economy is fairly resilient to global economic uncertainty. In the NMS, there has been a significant improvement in the area of labour freedom, but the management of government spending offsets a higher level of corruption (compared to other Member States). For small open economies, there has been a deterioration in trade and investment flows in recent years (Heritage Foundation, 2016).

In WGI indicators, southern states are the most problematic ones. The worst in terms of political stability and violence and terrorism is 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 the worst in here as well. Nevertheless, Italy, Greece and Bulgaria are also fighting with a 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 2016, when the 10 original states are in one group and the new Member States together with the countries of southern Europe are in the second cluster with a relatively significant difference.

Figure 2: Quality governance dendrogram

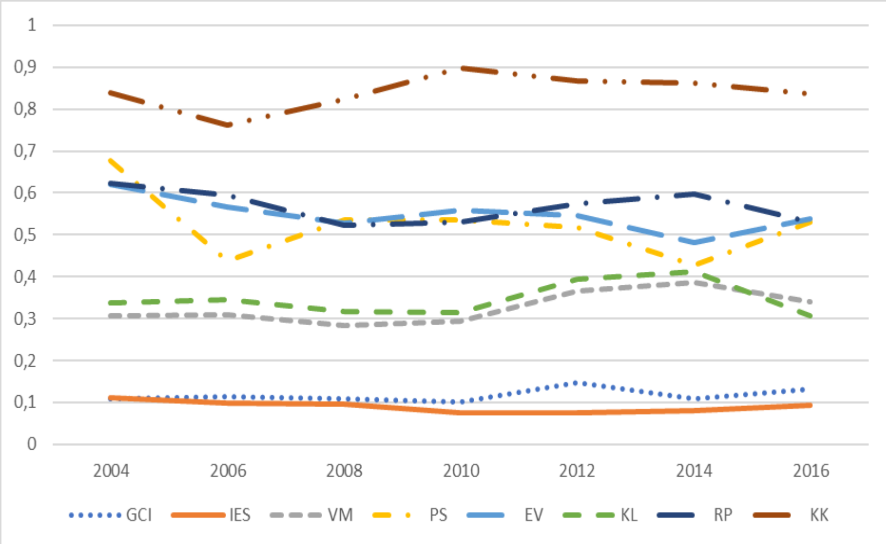


Source: Own calculation

Variation coefficient

Looking at the evolution of the variation coefficient of the indicators of governance over the examined years in Figure 3, we can see that most of the states were close to the government in 2012 and the biggest differences were recorded in 2004, i.e. after the eastern enlargement. Alarming is the fact that the latest developments showed that governments are more remote in the area of governance. The level of convergence between states was high in 2014 in the area of corruption control, political stability and government efficiency.

Figure 3: Variation coefficient of each indicator of governance 2004-2016



Source: Own calculation, World Bank, 2016; WEF, 2016; Heritage Foundation, 2016.

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 from the level of the economy but also from the socio-economic development and their interests. With every enlargement of the EU, the heterogeneity is increasing, which is reflected, among other things, in the difficulty of managing economic affairs, the decision-making process and the consequences affect not only EU policies but also individual members, which is reflected in the overall EU governance.

In the analytical part, we applied the theoretical approaches to governance and heterogeneity, which helped us to 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 of independent states that developed and are developing a transnational policy and a decision-making centre. 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 us 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. On the basis of the achieved results, we can state 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 in the area of legislation and the role of law there is an increase in heterogeneity.

However, we are also aware of the limits in our research. We conducted the analysis over a relatively short period of time, over a period of 10 years, which is certainly not enough time for evaluating the integration process in Europe, and we cannot infer the generally valid conclusions of its applicability to other regional integration clusters. For the calculation of the governance indicators, we also used data that was not only based on real macroeconomic data (hard data), but also included a subjective and weighted component from international institutions, including opinions and perceptions of citizens that may reflect their current moods than actual status.

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