

State of the Union: Findings of the European Catch-Up Index

The economic and financial crisis of Europe, as serious it is, is not the ultimate or even the defining threat to the European project – it is only one of its faces, a new report by the Open Society Institute (OSI) – Sofia says.

In reality, the cracks within Europe are much more diverse and run deeper than the economic crisis suggests. Europe is very much divided by different levels of democracy and good governance, quality of life and economic performance.

The economic and financial crisis of Europe, as serious as it is, is not the ultimate or even the defining threat to the European project.

The findings of the report, based on the Catch-Up Index of the European Policies Initiative of OSI – Sofia (www.eupi.eu), provide new perspectives for analyzing the continent beyond the politically defined groups and illuminate the divergent and convergent processes. The index findings redefine the current notions about the state of the EU, Europe and the economic crisis:

- Europe is divided and the fault lines run deep across the board – economy, democracy, governance and quality of life – separating the European countries into six distinct clusters of states with similar characteristics.
- The North–South division has gradually replaced the East–West rift, signaling that the post-Cold War legacy has been superseded by new factors. There is a new reality in Europe, but at the same time there are older historic-cultural patterns – that may be traced back as far as the age of empires – that are visible on the new map of the continent drawn from the Catch-Up Index findings.
- The placement of a European country in a cluster – a group of countries based on similarities – may be more fundamentally important than their membership in “political groups” such as the Eurozone.
- The debt crisis should not be perceived in economic and financial terms only as there is a clear interplay between the debt level and the performance of a country in the index, especially the governance indicators. The debt ceiling of 60% of GDP, stated in the Maastricht criteria, cannot be a universal measure and the safe debt level ceilings seem to be country specific, defined by the particular debt to governance ratio of a country.
- Europe should pursue outcome-oriented convergence policies that deal with the divergence between countries and not impose centralized “one size fits all” policies, which might bring about further fragmentation.

About The Catch-Up Index

The Catch-Up Index measures the performance of 35 countries – the EU member states and the candidate and potential candidate countries across four categories: Economy, Quality of Life, Democracy and Governance. There are scores for each category and an Overall Score, composed of the scores for the four categories.

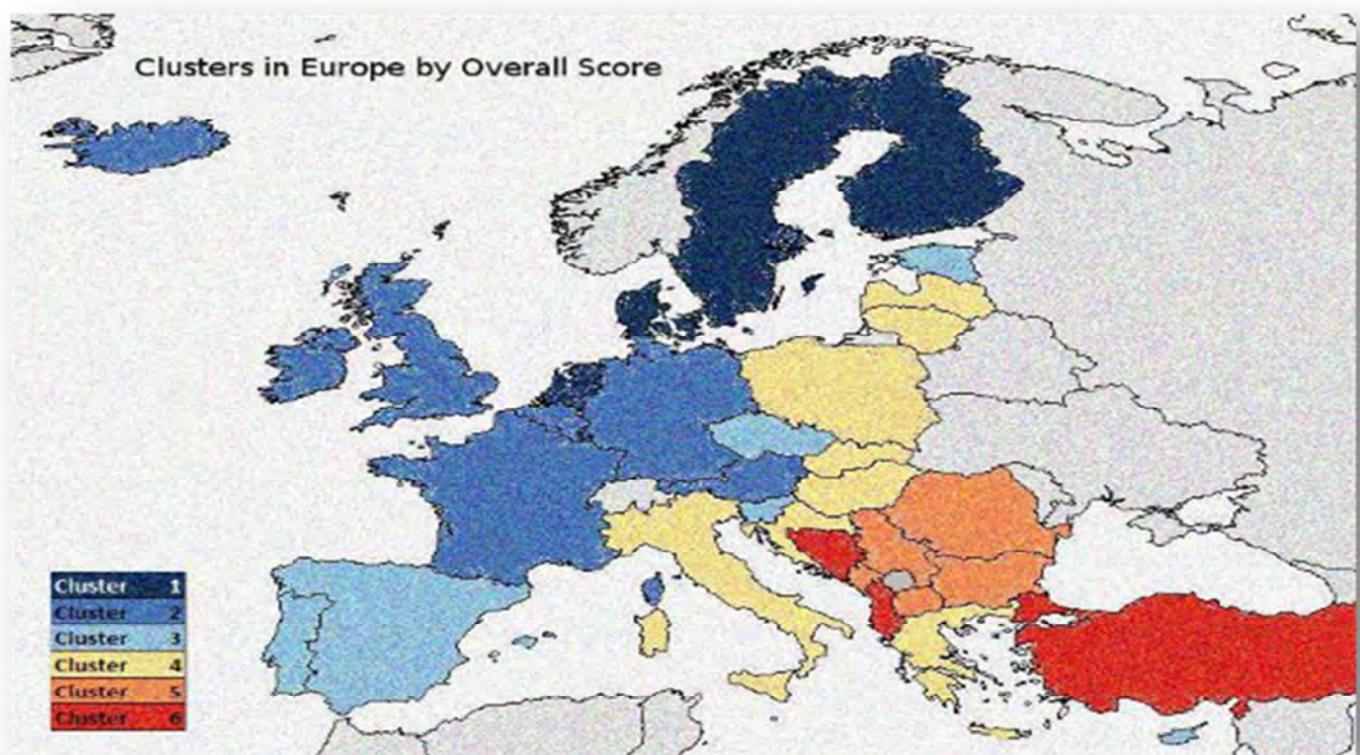
Each category is measured by 47 indicators and sub-indicators. The various data for the indicators is converted into scores, weighted on the basis of the index methodology. The standardized scores make possible different rankings, comparisons, benchmarking, monitoring of performance for countries and groups of countries across categories and indicators. The metrics are based on rescaling the raw data on a scale from 0 to 100 (lowest to highest), giving the scores of a country, and positions from 1 to 35 (highest to lowest), indicating the ranking of a country.

The fault lines across the groups of countries in Europe

The critical problem for Europe is the overlap of many division lines, creating fault zones that separate the European countries into six distinct clusters – i.e. six groups of countries. The countries within the clusters are characterized by similarity with each other and dissimilarity with the others.

The division lines in Europe run deeper and are more complex than the economic crisis suggests.

The division of Europe into clusters formed on the basis of their characteristics can tell an alternative narrative of Europe, and the story becomes even more telling if the clusters are drawn on the map. This shows that most of these clusters within the EU have distinctive geographic patterns. Countries belonging to a given cluster are neighbors in particular parts of Europe, thus making the distinctiveness of clusters and divergence literally visible. The geographic proximity facilitates immensely the creation of more closely-knit groups that might foster closer political and economic ties should the Brussels-based institutions continue to lose their gravity as the center of the European project to national capitals.



The six clusters of Europe

The Catch-Up Index uses clustering analysis to group together the countries that share the closest characteristics, based on their Overall Scores across the Economy, Democracy, Quality of Life and Governance index categories. The analysis outlined six clusters - groups of countries – in Europe. The clusters are ordered into a hierarchy based on the ranking of the countries according to their scores, from high to low – so the first cluster is constituted by the best performing countries and the last, sixth cluster is constituted by the worst performing countries and the remaining clusters are in-between.

The North–South divide is the new reality that signals the advent of the post post-Cold War era

These patterns show that while the rifts between “old” and “new” members are still there, the North–South divide is becoming more visible, while the East–West divide is gradually waning. However, Europe is still in a process of this transformation. Looking at the clusters map the division line is a diagonal axis splitting Europe into broad North-West and South-East halves with Vienna as the central pole of this hypothetical line.

Europe is living in a post post-Cold War era, where the North–South divide is gradually replacing the East–West divide and paradigm.

The advent of the North–South divide changes the perceptual paradigm of Europe that has prevailed for the last 20 years. Apparently, Europe is already beyond the Cold War legacy and the East–West paradigm no longer provides a satisfactory explanation of the processes on the continent.

The clusters of countries that emerge from the index data display historical-cultural patterns of division. But these patterns pre-date the Cold War era, and may be, therefore, more deeply entrenched and resilient. This may be no mere coincidence. In fact, these historical-cultural patterns may explain why the same body of legislation, normative expectations and policies yield such different outcomes in different parts of Europe. In policy terms, a “one-size-fits-all” approach may not work for every country in Europe because of their historical-cultural idiosyncrasies.

The new division lines in Europe seem to expose older historical-cultural patterns that still define Europe.

The catching up of the EU10: the better performers have moved on

The catch-up process of the EU10 – the member states from Central and Eastern Europe – showcases the dynamism of convergence and divergence in Europe and clearly demonstrate the new realities on the continent. There are countries that are closer or even exceed the achievements of some older member states – they are clearly converging. But many of the EU10 countries are underperforming and are still not at what is referred to as “European level of development” – in terms of economy, democracy, quality of life and governance – and in some cases, countries are lagging behind even candidate countries.

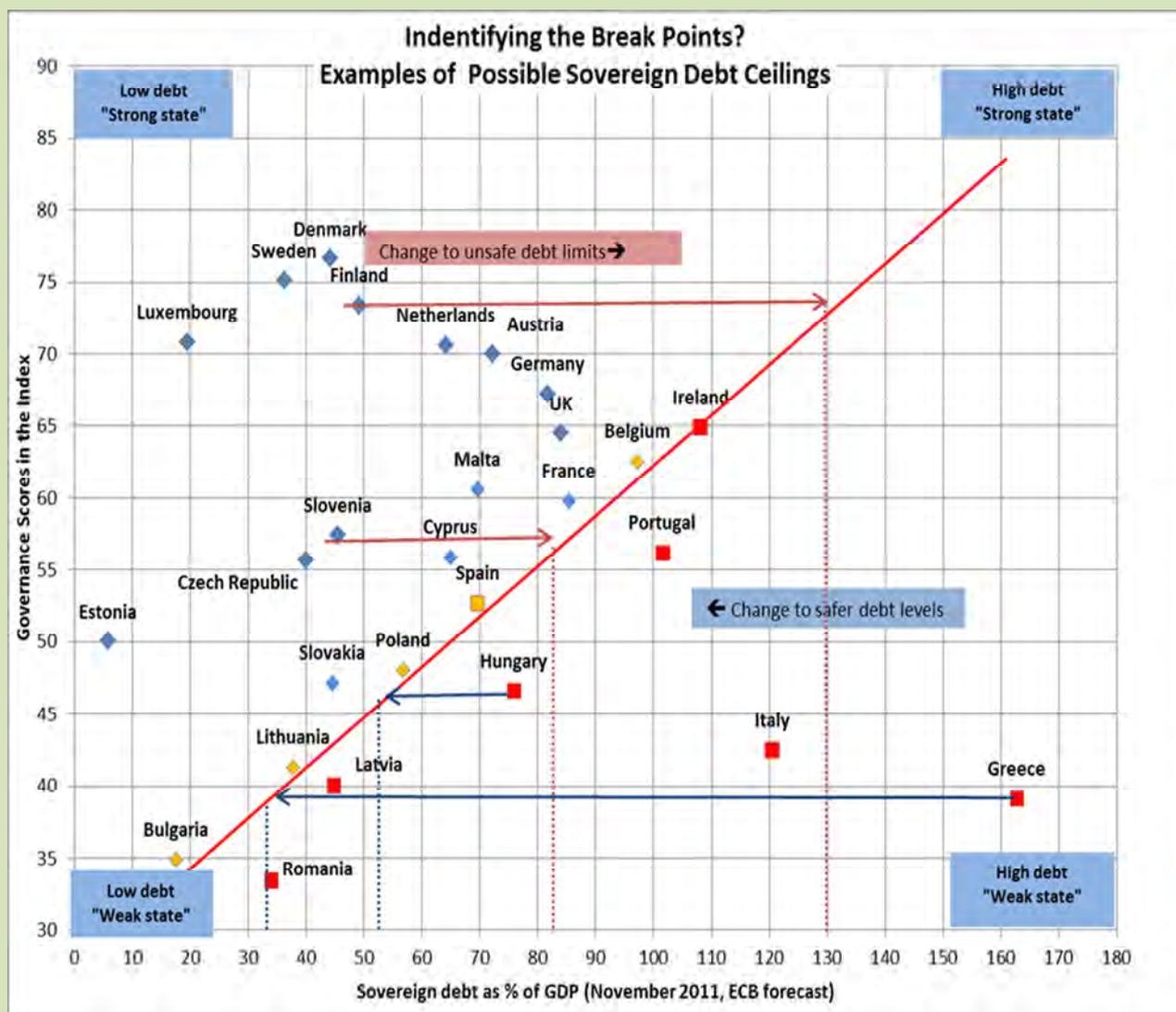
The group of “new” member states is gradually fragmenting. The index registers the fact that some of the EU10 have already acceded to clusters of a higher order in the company of older and more advanced member states. The laggards are on par or even falling behind candidates and potential candidates as level of development.

A simple ranking by scores as well as the clustering and the mapping shows the new European order – no more distinct new–old members’ divide and no more explicit East–West divide. And while the economic crisis has hit the previous wave of catching-up countries the hardest – Greece, Portugal, Spain, Ireland – and put a big question mark on the “catching-up” concept altogether, the findings about the EU10 point to the possibility that the catching-up process may be successful after all, under the right set of policies and circumstances.

On the current debt crisis: The index clusters help explain the prospects and pace of recovery

The crisis in Europe is not only a debt crisis and there are multiple forces at work here – so the responses cannot include only economic and financial measures. The findings of the index show that the exposure of a European country to the crisis seems to depend on both its debt level and its governance performance – and also on its performance across the rest of the index indicators – as there is a specific interplay between the different factors.

The estimates show that the debt ceiling of 60% of GDP, stated by the Maastricht criteria, cannot be a universal measure and the safe debt level ceilings seem to be country specific, defined by the particular debt to governance ratio of a country. Reconsidering the Maastricht and other related criteria should be done on a country-specific basis – or tailored for each set of countries with similar characteristics.



The distinctions based on the index findings illustrate the variety of combinations between the dichotomies of “high debt” and “low debt” on the one hand and “weak states” and “strong states” on the other hand. Thus, countries with poorer governance performance are closer to the danger zone even when they have low debt levels.

The placement of a country in a specific cluster in the index may indicate the prospects and the pace of its recovery from the crisis, or conversely, the chances of it plunging into a crisis. As there is a strong correlation between the different indicators of the index for EU member states – i.e. in governance, democracy, economy or quality of life – the performance across the board should be taken into account regarding the likelihood of a country’s ability to improve or deteriorate.

The threat of fragmentation or waning of the EU

The stress of divergence in Europe, caused by the structural imbalances across the economies, democracies, systems of governance among the European countries, is building and endangering the unity of Europe. The most critical challenge emerges from the confluence of too many differences in fault zones, raising the question of whether the European project should continue to carry the burden of these differences?

The confluence of too many differences in the fault zones is building up. The EU in its current form may not be fit to accommodate the burden of divergence.

Political will and instruments that helped create and move forward the EU might no longer be able to resist or manage the fractures of deep divergence in its current shape. This doesn't suggest the EU is finished, but that the traction of common institutions and policies will continue to diminish.

The divergence registered by the clusters suggests there is a risk of groups of similar countries converging closer in order to isolate themselves from those different from them, thus ultimately weakening the gravitational pull of the European project. It is probable that the more developed clusters will jumpstart the process by trying to insulate themselves from the contagion and external shocks coming from the other more problematic countries.

The advanced and more homogenous groups of countries may opt to "secede" from the rest.

The Report on the European Catch-Up Index

"State of the Union: A Big Bang Theory of Europe" is a report presenting and analyzing the findings of the European Catch-Up Index. The report contains the results of the clustering analysis, a detailed examination of the catching up of the EU10 – the member states from Central and Eastern Europe, and looks into the correlations between the different indicators to provide alternative policy recommendations. The report outlines the scenarios for Europe and prescribes the optimal strategy for Europe to overcome its fundamental problems. Finally, it takes on the topical issue of the economic crisis, testing the assumption about the interplay between the sovereign debt levels in Europe and the index indicators – namely between the debt and governance.

The report "State of the Union: A Big Bang Theory of Europe" is available for free download at www.TheCatchUpIndex.eu and www.eupi.eu. The report can also be requested by writing to eupi@osi.bg.

"Political clubs" versus "natural communities" in the EU

The problem of many EU states is not simply whether they belong to certain clubs, but rather in which groups they currently belong. The "political clubs" of current integration patterns and homogenous, "natural communities" found in the clusters in the EU do not necessarily overlap. Multi-speed Europe has an alternative narrative, which is not based on membership of a particular political club only, such as Schengen or the Eurozone, but on other realities, such as level of development and adherence to norms. It soon becomes clear when a country has joined a political club to which it does not belong because it cannot keep pace with the norms and achievements of its peers. Conversely, some countries outside of the political clubs may meet the terms of membership far more closely than the current members. Moreover, when certain countries in a politically defined club do not match the achievements of the others, their problems bring a risk of contagion for the rest of the group.

There is a tension resulting from mismatched membership between "political clubs" versus "natural communities"

Recommendation: Integration through outcome-oriented convergence

Imposition of “one size fits all” integration policies might bring about greater divergence in real life. The wrong kind of centralization of Europe might fragment it, instead of solving the problem.

reinventing themselves and, in turn, Europe. Differences in levels of democracy, governance, economic performance and quality of life are challenging Europe, and historical-cultural characteristics may be strong underlying factors. But the differences identified and the factors behind them are the diagnosis needed for targeted approaches to reviving the ailing European project.

The assumption that integration will automatically bring about convergence in Europe did not materialize in reality and divergence may be Europe’s biggest challenge now. But the reverse approach may help rescue the European project – i.e. achieving greater convergence between countries may hold the key to integration.

The divergences that currently define Europe are not set in stone, and there is no determinist spell preventing countries from ever

Stress testing of any future policies should be done by assessing if they are to bring about real convergence and are outcome oriented

What the index can do for Europe?

“Observing, describing and analyzing the catching-up processes are the initial necessary steps to acknowledge the problem and look for solutions. These would map the similarities and dissimilarities that characterize the fault lines in Europe, find out hidden fractures, look for and explain the patterns and trends of convergence and divergence in Europe.”

Any future policy-making in Europe should include preliminary stress testing to check the member states and policy proposals against the “convergence principle”. If a proposed policy or action is likely to bring about greater “outcome-oriented” convergence, it should be adopted, as opposed to simple policy convergence where the agreement on a common policy does not suffice to achieve the desired results, as the EU shows much too often. Thus, “outcome-oriented convergence” means that the end results should bring countries closer – for example, along the lines of the fundamental categories of the index – even if they are achieved by diverse means that take into account the differences between member states.

www.TheCatchUpIndex.eu

A special online platform was created at www.TheCatchUpIndex.eu, where users can view and work interactively with the data of the index, make comparisons across countries and indicators and visualize the outcomes in different ways.

There are basically three modes of usage. There is the Catch-Up Index standard format, which is generated on the basis of EuPI's own model. Alternatively, users can produce their own custom catch-up index by selecting categories and indicators and changing their weights. The third usage mode allows for country by country comparison across selected indicators or benchmarks.

The Catch-Up Index Ranking by Overall Score

Rank	Group	Country	Economy Score	Quality of Life Score	Democracy Score	Governance Score	Overall Score
1	EU15+2	Luxembourg	75	71	69	71	71
2	EU15+2	Denmark	68	66	74	77	71
3	EU15+2	Sweden	67	68	75	75	71
4	EU15+2	Netherlands	69	70	72	71	70
5	EU15+2	Finland	65	70	71	73	70
6	CC	Iceland	58	69	67	66	65
7	EU15+2	Austria	62	65	62	70	65
8	EU15+2	Ireland	61	66	66	65	64
9	EU15+2	Germany	62	64	64	67	64
10	EU15+2	UK	62	64	59	65	62
11	EU15+2	Belgium	56	65	62	63	61
12	EU15+2	France	57	65	57	60	60
13	EU10	Slovenia	55	57	54	57	56
14	EU15+2	Cyprus	56	58	52	56	55
15	EU15+2	Spain	54	57	55	53	55
16	EU15+2	Malta	50	50	56	61	54
17	EU10	Czech Republic	49	53	57	56	53
18	EU10	Estonia	52	49	57	50	52
19	EU15+2	Portugal	48	48	53	56	51
20	EU15+2	Italy	46	58	47	42	48
21	EU10	Slovakia	46	45	49	47	47
22	EU10	Poland	42	45	51	48	47
23	EU10	Hungary	41	47	51	47	47
24	EU10	Lithuania	46	41	51	41	45
25	EU15+2	Greece	39	56	44	39	44
26	CC	Croatia	42	44	40	39	41
27	EU10	Latvia	44	36	44	40	41
28	EU10	Bulgaria	38	30	34	35	34
29	EU10	Romania	38	27	32	33	32
30	CC	Montenegro	33	31	29	25	30
31	PCC	Serbia	34	32	26	18	28
32	CC	Macedonia	33	25	26	25	27
33	CC	Turkey	36	22	14	25	24
34	PCC	Albania	27	22	15	20	21
35	PCC	BiH	27	18	20	16	21

About EuPI

The European Policy Initiative (EuPI) of OSI-Sofia aims to stimulate and assist new European Union Member States from Central and Eastern Europe to develop capacity for constructive co-authorship of common European policies at both government and civil society level. As a new priority area of the European Policies and Civic Participation Program of the Open Society Institute – Sofia, EuPI will contribute to improving the ability of new member states to effectively impact common European policies through good quality research, policy recommendations, networking and advocacy. The initiative operates in the ten new member states from CEE through a network of experts and policy institutes.

Web-site <http://www.eupi.eu>

Web-site: <http://www.TheCatchUpIndex.eu>

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Reports:

“The Unfinished Business of the Fifth Enlargement Countries” analyzes the problems faced by the ten new member states after their accession to the EU in eleven policy areas including political development, the economy, the healthcare system and education.

A series of reports **"The EU New Member States as Agenda Setters in the Enlarged European Union"** look at the positions of the new Central and Eastern European EU Member States on a selected number of issues on the EU agenda in seven policy areas: economic issues, minority integration, energy and climate, common agriculture policy, foreign and security policy, justice and home affairs and institutional issues.

The publication **"Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World"** (Summary report and nine Country Reports) is developed within the project “Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World”.

Recent policy briefs:

Sinking or Surviving in EU's Shifting Sands? The Refusal to Enlarge Schengen is a Function and a Symptom of EU's Changing Nature – EuPI Policy Brief No 36

The Euro is Losing the Trust of Bulgarian Citizens - EuPI Policy Brief No 35

EuPI News Monitor - available weekly at www.eupi.eu