METU Studies in Development, 42 (December), 2015, 435-456

The Lessons to be taken from the European Union's Great Depression: "The Welfare State Policies and the Clustering of the RDI Related Economic Sectors" are indispensable for the long-term economic success

Levent Kırval
Istanbul Technical University, Maritime Faculty,
Basic Sciences Department/Social Sciences Research Division, Istanbul,
e-mail: lkirval@itu.edu.tr

Abstract

This paper focuses on the economic future of the European Union (EU) and argues that the EU's economic problems and its recent economic slowdown are consequences of the highly deficient 'commonly defined macro level economic governance parameters' that bind all the member-states today. Instead of balancing the markets with the welfare state policies, the EU policy makers have gradually transformed the EU to a purely right-wing project, where the greatly uncoordinated single market is considered as a sufficient base for integration. Also, with regards to economic policymaking, the importance of industrial-sectoral clusters; particularly for improving RDI (Research & Development & Innovation) capacities; has been highly underestimated. As a result, the relatively unorganized status of the real sectors (both in the production of goods and services) has further decreased the EU's global competitiveness. In this context, following the underlining of 'politics' for successful economic governance, this paper offers a 'central planning-clustering based' supranational economic model for the EU, which still necessitates backing by strong 'welfare state policies'.

Key words: European Union, Neo-Liberalism, Economic Governance, Industrial-Sectoral Clustering and RDI, Welfare State Policies

JEL codes: E6, F02, H00

1. Introduction: European Union - An economic giant, yet a political dwarf!

The EU has deepened and widened in the second half of the 20th century. It gradually transformed from a group of independent 'nation-states' to a group of economically and politically integrated 'EU member-states'. The geographical enlargement waves of this model spread this 'sui-generis' structure to most of the European continent.

Theoretically, the more integration and planning would bring more auditing and screening, which would prevent the economic misconducts of the member-states. However, for decades, the EU could not develop sufficient common legislation about taxation and public spending and a 'coordinated and clustering based production and RDI policy'. Furthermore, at the national level, the member states have greatly followed highly divergent and greatly uncontrolled economic policies (particularly in the real sectors) (Lane, 2012). The lacking coordination and common economic governance, and the consequent costs of the misconducts and mismanagement in several member-states has gradually shaken the whole economic system of the EU.

In addition to the costs of the enlargement waves (particularly, the costs of the East European countries' integration to the model); the reunification of East and West Germany, the recurring economic crises in various member states, mismanagement-fraud and its insufficient auditing and monitoring, and particularly, the inefficiency of the EU to go beyond from being a simple single market and free trade zone to an economically integrated and well-coordinated union, and the rise of the economies in the Far East (such as China, South Korea, and Taiwan) that moved to the industrial production and RDI to those countries; have all negatively influenced the EU economy during the last decades. The EU policy makers' deceiving belief on the supposedly 'infallible' (though highly volatile and guidance/coordination necessitating) market forces has created further problems with regards to the strengthening of the model. As a result, during the last couple of years, the EU has started to experience a much bigger economic crisis, which can be considered as a 'Great Depression' for the European continent, and this has also increased the doubts about this 'sui-generis' model's future.

Furthermore, it has been recently revealed that, for quite a long time, the countries like Greece, Spain and Italy used extensively the 'creative accounting services'[1] of Goldman Sacks, JPMorgan Chase and other banks to hide their debt

[1] Creative accounting includes various deviations from accepted and expected fiscal reporting practices. They are characterized by excessive complication and the use of novel ways of

problems. The high private and public consumption, widespread corruption and continuous inflow of money at low interest rates further complicated the well-hidden debt problem of these countries. Instead of productive investments, the politicians have chosen to finance projects that strengthen their positions, and some even enriched themselves. (Alt, Lassen and Wehner, 2014) Although the EU has developed strict rules with regards to the controlling of the public debts of the member states with the Euro convergence criteria (which also includes monitoring of the inflation levels, interest rates and exchange rate stability of the member states), several research studies have found robust evidence that the introduction of such fiscal rules in the EU led some governments to "systematically use stock-flow adjustments to lower deficits" (Von Hagen and Wolff, 2006). The EUROSTAT definition of the 'stock-flow adjustment' is 'the difference between the change in government debt and the government deficit/surplus for a given period'. Although the stock-flow adjustments may also have legitimate explanations, the EU had to closely monitor them to ensure consistency across the reported data of the member states and to constantly follow the real debt levels of these countries, particularly to force them to comply with the Euro convergence criteria, and thus, for successful economic governance of the Eurozone. However, the recent financial crises in the EU have clearly shown that its monitoring and auditing institutions were not very effective in this endeavour and this experience once again proved the importance of comprehensive, high quality and transparent balance sheet data, which is consistent with financial transactions. Particularly, the lacking fiscal transparency in the EU member states have proved that, the existence of regulations at the supranational level and their national level implementation, is totally different issues. In the case of the EU, although the regulations were existent and detailed, its fragile economic governance model and supranational political institutions could not manage to implement and monitor them at the appropriate sub-levels in Europe (Seirferling, 2013)

As a result, the EU could not transform into a peace and wealth generation model as dreamed in 1950s, contrarily, it became a neo-liberal economic giant with varying levels of economic development between its regions. Furthermore, it remained as a political dwarf when compared with the political power of its member states (Majone, 1999: 21). Additionally, although the societies of the member-states have generally been supportive of the strengthening of the social and welfare policies (Brooks and Manza, 2006), the EU policy makers supported further market liberalisation with the aim of increasing EU's competitiveness in the global economy and have also been critical of the costs that are arising from

characterizing income, assets, or liabilities and the intent to influence readers (in this case the EU) towards the interpretations desired by the authors.

the social policies. As a result, the people's discontent about the model also started to increase.

Undoubtedly, the highly neo-liberal globalisation processes has also forced the EU and its member-states to follow such policies, which consequently limited the development of alternative economic governance forms both at national and supranational levels. In this context, following several others, Tsarhouas argues that Globalisation and Europeanisation have been very closely related and the highly neo-liberal globalisation processes have influenced the EU policy-making (Tsarouhas and Ladi, 2013: 482). Various empirical research findings also show that the Europeanisation has indeed greatly been an outcome of the Globalisation processes. For instance, Levi-Faur, when studying the liberalisation of telecoms and electricity regimes of EU and non-EU member states comes to the conclusion that Europeanisation matters in a less obvious and less critical way than Globalisation (Levi-Faur, 2004: 3-29).

However, there have been also various critical views with regards to the desirable degree of integration of the two phenomena. For instance, for increasing the EU's power and legitimacy, Wallace argued that Europeanisation should have acted as a 'filter' for globalisation (Wallace, 2000: 369-382) and Graziano stipulated that it could indeed have functioned as an 'anti- dote' to globalisation (Graziano, 2003: 173-94). In these accounts, the Europeanisation is considered as an alternative regional governance model that can strengthen co-operation on issues of political economy and alleviate the damaging effects of global capitalism. But quite contrarily, a Europeanisation influenced from a solely market oriented globalisation, has increased the inequalities between Europe's regions (structural funds and the regional policy only partly alleviating this situation) and as a result, the relatively less gaining member states and the segments of the societies, started to rightly question the project (Plümper and Schneider, 2007: 568-587). One can see this questioning in the results of the latest European Parliament elections that took place between 22 and 25 May 2014. In this eight election for the European Parliament, the extreme right, ultra-nationalist and Euro-sceptical parties have won a major victory. This outcome clearly showed the discontent of the people with regards to EU policies, which may lead to a broader legitimacy crisis for the EU institutions in the coming years.

Furthermore, a fully neo-liberal globalisation model is intrinsically limited with regards to democratisation, as it greatly jeopardizes the input dimension of legitimacy by creating economically (thus politically) unequal classes all around the world. In this context, Fritz Scharpf argues that the combination of the input and output dimensions of legitimacy is crucial for the healthy functioning of all the political structures. For Scharpf, legitimacy by inputs is the society's approval of the political structures due to participation in the decision-making mechanisms.

Legitimacy by outputs on the other hand is the society's approval of the political structures due to the services they provide (Scharpf, 1999). Following Scharpf, the EU has to balance the input and output dimensions of legitimacy, which necessitates an intellectual revolution and alternative paradigm other than neo-liberalism. Hence, instead of solely imitating the globalisation processes at the supranational level, the EU has to develop strong resistance mechanisms against a fully neo-liberal globalisation (Bauman, 1999). In this context, the EU has to foster better common economic governance in its region (with binding legislation, coordination and clustering, particularly for improving its RDI capacity). However, as a potential liberal-social synthesis form, it also needs to provide social services and welfare state policies to the individuals for counter balancing the socially disruptive effects of the highly volatile market forces.

2. Balancing of the economy and politics: EU's only hope for resurrection

Following the WWII, the European integration started in a very limited economical area, but in due course (as foreseen by the functional federalist founding fathers of the model, such as Jean Monnet, Robert Schumann, Ernst Haas, Leon Lindberg and Stuart Scheingold) the spill-over effects of the taken steps and the functions of the newly established common institutions (such as the European Coal and Steel Community) spread the integration to other important political and economic areas (Rosamond, 2000; Gehring, 1996). Gradually, a strong Single Market has been established. Particularly, the financial sector has been strongly coordinated by means of the Economic and Monetary Union (EMU). During its historical development, a transformation from inter-governmental nation-state relationship to multi-level governance (where local, national, supra-national levels jointly formulate common policies) also took place. Consequently, the EU turned into an economic giant (mostly as a result of the benefits arising from the Single Market) and it also managed to develop a 'sui generis' political structure.

While nationalist tendencies have been highly common in the International System, the EU has come to the forefront as an alternative and bold attempt that aimed to develop a genuine political framework, where different nation-states take common decisions in an interconnected model (Dedman, 1996). Undoubtedly, the EU project has played a key role in the resurrection of the European ideal of peace (which is deeply embedded in the European enlightenment tradition), following its devastation during the two World Wars. The 'deepening' (by the development of binding *'acquis-communautaire'* for the member states) and the 'widening' (by several enlargement waves in the past decades) of this model have increased the power of the EU in international relations (Dinan, 2004).

However, in time, the common 'economic governance' of the supranational model and particularly the provision of the welfare state policies to the individuals by its institutions and policies have remained greatly deficient. Contrarily, most of the EU policy makers started to consider the existent strong welfare state alternatives; such as Sweden, Denmark, Norway and Finland, and the economic models where the state intervention to the markets is greater, such as Germany, Holland, Belgium; as highly archaic (which are in need of a neo-liberal transformation). Furthermore, these national models have been regularly criticized due to supposedly decreasing the economic competitiveness of the EU at the international level. As a result, with regards to improving their social welfare, the citizens of these countries started to consider the EU's economic governance policies as a retreat, not a step forward (Esping-Andersen, 1990).

What's more, during the enlargement waves, the EU policy makers have equated democracy promotion mostly with political rights. However, the importance of the social and economic rights, the crucial bases of democratic governance, is greatly underestimated. To a great extent, the EU scrutinized the new member states and candidate countries mostly with regards to their successes in the political rights domain and their readiness to fulfil the Copenhagen Political Criteria, by means of a democratic and participatory model. However, their economic and social equality related problems (emanating mostly from their highly uneven income distribution, greatly uncontrolled public spending-mismanagement and underdeveloped infrastructure), have been greatly underestimated (Grabbe, 2002: 267-268). This wrong analysis about the new EU member states put a major burden on the EU economy in the following years of their accession.

Furthermore, the EU candidate countries are mostly considered as crucial new comers to the European Single Market and free trade area that enlarge its boundaries. Their inclusion to the model would increase the 'demand' in the Single Market and also bring in cheap labour. Though, their potential burden on the EU's economic system due to their fragile and uncoordinated economic systems were highly misjudged. As a result of all of these miscalculations, limited coordination and monitoring (greatly for the new comers, but also for the existing EU member-states, such as Italy and Greece), the EU has started to experience a major economic crisis during the last couple of years and the market forces' inability to deal with the macro-scale problems have been once again revealed. The economic crisis also proved once again the importance of the public power to function as a protector and organizer of the economic order.

Indeed, the historical experience of the European continent has shown that the markets necessitate state guidance and the democracy necessitates a social basis for successful operation (Dahl, 1992). The development of the social rights

dimension of the citizenship in Europe has been mostly a result of the collapse of the classical liberal market model in the early twentieth century. Karl Polanyi presented a very powerful discussion of the disastrous implications of the commodification of land and labour during those years, particularly in his well-known book; 'Great Transformation' (Polanyi, 2001). Similar criticisms of the purely market oriented economic governance models and the Marxist tradition have been crucial in the increasing of the social dimension of the nation-states and the strengthening of the Keynesian central planning in the European continent. Following the Second World War, this newly developing account of economic governance brought in a strong a coalition between the state and the market mechanisms. Gradually, the social rights have been part of democratic citizenship in the European liberal tradition. This developing 'welfare state compromise' created a common ground for balancing the markets with politics and the trade union movements during the 1970s have also been important in the development of such a social model in Western Europe.

By focusing on mostly the European continent, Esping-Andersen explains the main purpose of the welfare state and the social rights as "permitting people to make their living standards independent of pure market forces" Esping-Andersen, 1990:3). In this context, Esping-Andersen draws distinctions between three types of welfare states. First, the liberal welfare state mixes means-tested programs for the poor with programs for all who contribute to these with a social insurance foundation (e.g. USA). Second, the corporatist-statist welfare emphasises social insurance programs that benefit those who pay in – a much bigger number than in the liberal model (e.g. Germany, Netherlands, France, Italy). Third, the social democratic welfare state emphasises programs that are universalistic (independent of whether people do or do not pay in) and also grant benefits that are tied to a middle-class style of living (e.g. Sweden, Norway, Denmark, Belgium, Finland). This broad classification, mostly with examples from Europe, clearly shows the existence of a strong 'social rights tradition' in the European continent.

What's more, historically, most of the European socialists did not necessarily foresee a doomsday for capitalism like the Orthodox Marxists; contrarily they searched ways for creating a 'Third Way' option (or a social democratic alternative) (Przeworski, 1991). Especially, the Labour Party in England, the German Social Democrats and French Socialists, as well as the respective trade unions in those countries, has been supportive of such alternative models (McCarthy, 1972). The gradual inclusion of the Nordic countries to the EU, which historically followed more ambitious social policies, strengthened the social dimension of the European model. As a result, the strong trade unions and consumers' organisations started to balance the power of the companies and the

NGOs of the market forces (such as Employers' organisations), albeit greatly at the national level.

These briefly summarized experiences in the European continent have enriched the classical liberal economic paradigm, and proved that, a free market model, which is inclusive of strong welfare and social policies, can be the alternative of both the Liberal and Marxist determinisms. In fact, the European nation-states have remained as a main competitor of the EU with regards to attaining legitimacy, as they managed to answer the expectations of the people by means of such a broader interpretation of economic and political governance (even though they gradually became the '*member-states'* of the EU and partly fell into the regulatory net of Brussels) (Scharpf, 1999). Besides the peoples' national and cultural identities empowering the European nation-states as political actors in the international arena, its relatively more accessible democratic participation mechanisms and the historical 'welfare state compromise' (which provided social rights to the citizens of the model) further increased the power of the national structures against the Brussels centred supranational political model (Giddens, 2000).

As the EU could not transform itself from being a highly limited (and greatly uncoordinated) 'single market project' to such an all-inclusive 'political and economic governance project'; (Nicolaidis, 2013) which could bring in multiple identities of the European societies under the umbrella of 'political and social rights' and could develop a 'common economic governance model' as a 'supranational and transcendental unifier', the EU was not accepted as an upper-identity by most of the Europeans.

While the EU could have evolved towards a more left-wing integration model, which would also increase the solidarity in Europe, quite contrarily, it transformed to a predominantly right-wing project where few elite neo-liberal policy makers managed to dominate its decision making structures. As a result of such an attitude at the supranational level, the European peoples' belief on the model has gradually decreased and their adherence to traditional-historical national democracy and social policy models have resurfaced.

Furthermore, the deepening and the enlargement did not go side by side, which has been ironically called as multi-speed Europe. In reality, the new member states could not be integrated to the model properly and the emerging different attitudes between EU countries could not be coordinated in harmony. In such circumstances, the extreme-right political parties perfectly abused this situation by waking the nationalism(s). Undoubtedly, it is hard to maintain public support to the model as long as the EU policy makers continue to support solely the investors and important figures of the market economy with purely a neo-liberal mind-set and do not develop social policies at the supranational level. If the

same trend goes on, this may even lead to disintegration due to the decreasing support for the project at the regional and national levels (Korpi, 2003).

3. Saving the European Union: Can "welfare state compromise, common economic governance and industrial-sectoral clustering for RDI" be the answer?

Following the successful conclusion of the Single Market project with the Maastricht Treaty in 1992, and the subsequent improvement of the fiscal and monetary integration by means of the EMU and the introduction of the Euro as a common currency (which was greatly hailed during the late 1990s and the early 2000s), most of the analysts have considered these integration steps as a sufficient base for the development of an integrated economic model in Europe.

However, these steps were mostly taken for further development of the Single Market (Bergsten, 2012) and particularly the Euro was introduced for eliminating the costs of the currency exchange during the trade activities. Although several supranational policymaking steps have been taken in the fields of justice, internal affairs, monetary policy, and, foreign and security policy; the EU could not develop binding legislation in serious policy areas such as social policy and common economic governance. A fully integrated fiscal policy, including common economic policy making for the whole Eurozone, could never be developed (although the EMU partly targeted this). Furthermore, there has hardly been any common approach to the budget policy (apart from the 3 % budget deficit target), economic growth, industrial-sectoral clustering (particularly for increasing the RDI capacity of the Union) and the issues of poverty and social cohesion (Delors, 2012). All of these crucial economic planning and policy making activities have remained under the strict control of the national level institutions and the common economic governance of the model has remained greatly deficient with various pieces of soft legislation in these areas. As the EU could not evolve towards being a liberal-social synthesis form (see Giddens, 1994) and develop common economic governance (including welfare state policies), the electorate of the member-states also started to consider the European integration and single market policies as greatly a retreat, not a step forward (when compared with their national political and economic models) (Kvist, 2004).

One can also comprehend the reasons of the social discontent with the EU when he/she analyses the EU's *Acquis Communautaire*. The great majority of the EU's enacted legislation (approximately 60% of it) is about free trade and the Single Market (free movement of goods, services, capital and labour in the EU). Therefore, the analysis of the *Acquis Communautaire* shows that, with regards to creating binding legislation for broader economic and political governance, the EU could not really go beyond a free trade zone. Moreover, the lacking common

economic governance and industrial-sectoral clustering greatly decreased the economic competitiveness and the RDI development capacity of the EU economy.

In recent years, the stakeholders of all the major economies have come to the conclusion that the well-established and functioning industrial-sectoral clusters are critical for being successful in the global competition between regions and countries, particularly for increasing their RDI capacity. Therefore, the intra and inter-cluster competition have started to shape the economic outlook of the world today. This accelerating trend of clustering will determine the economic development levels of the countries and living standards of their citizens in the future, and several research studies have shown that it is highly efficient and productive.

As the global economy forces the countries' and the regions to gain competitive advantage in specific industries-sectors by concentrating their efforts on these specific areas, the countries can not escape from developing industrial-sectoral clustering policies for increasing their economic growth rates. A high number of important players in a cluster provide a framework for not only an intra-cluster competition but also increase intra-cluster cooperation that enable knowledge exchange and also lead to knowledge accumulation. When the governments' support the clustering activities with additional financial and administrative means (such as government subsidies, tax exemptions, decreasing of bureaucracy for the cluster members, etc.) the competitive advantage of the clusters further increases. Also, the development of well-planned national or regional research programmes (RDI policies) with the inclusion of the universities and research centres into these clusters additionally improves the production in these countries and regions.

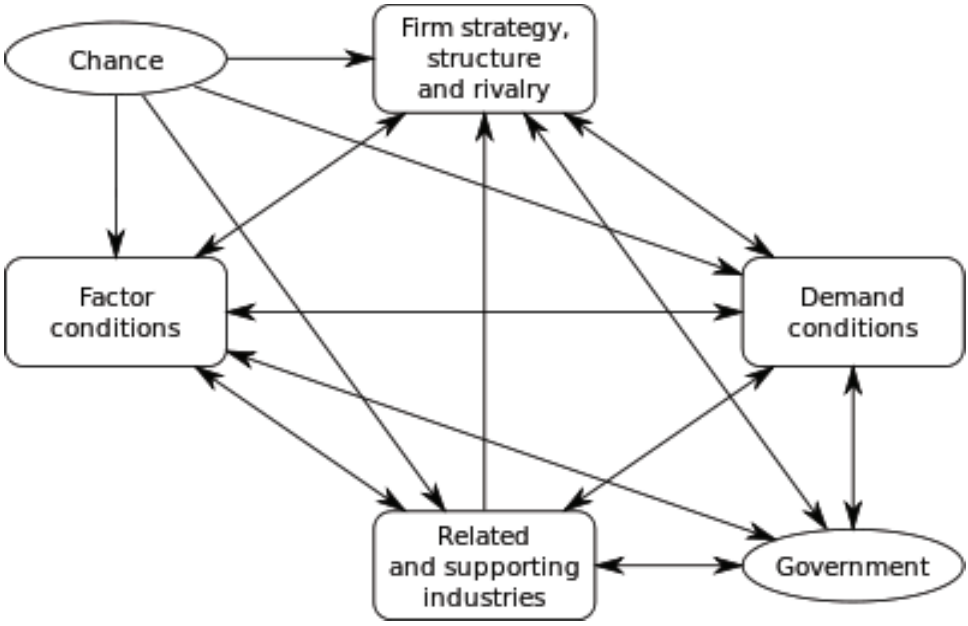
More than a decade ago, Professor Michael Porter of Harvard Business School introduced the sectoral-industrial cluster concept to the literature and defined an industrial-sectoral cluster as a geographically proximate group of interconnected companies and associated institutions operating in a particular field, linked by commonalities and complementarities (Porter, 1990; 1998). Porter argued that when the sectoral-industrial clustering is strong and well established in an economy:

- Firms or institutions cooperate with higher levels of efficiency,
- They work closely with customers and other companies, which inspires new ideas and provides intense pressure to innovate,
- The level of business formation tends to be higher and the firms rely more on external suppliers and partners,
- The risk of failure decreases as the entrepreneurs can also rely on local employment opportunities from other companies operating in the similar fields (Porter, 1998).

In his diamond model Porter explained the mechanism of competitive advantage and value creation of clusters with six interrelated determinants. These are factor conditions (including, human resources, physical resources, knowledge resources, capital resources and infrastructure); demand conditions (the existence of sophisticated home market buyers); firm strategy, structure and rivalry; related and supporting industries; the role of government and chance. When these six interrelated determinants are existent at optimum levels the global competitiveness of the cluster (and its firms) increases. In Porter's diamond model, the government has a key role with regards to coordinating the partners of the cluster.

Figure 1

Michael Porter's Diamond Model (Porter, 1990)



According to Porter, there are mainly two types of possible competitive advantage for all the firms today. These are cost advantage and differentiation advantage. When the firm is able to deliver the same benefits like its competitors but at a lower cost, this will bring it a cost advantage. On the other hand, if a firm is able to deliver benefits that exceed the competing firms' products then it will have a differentiation advantage. In this context, the clusters are beneficial for the improvement of both of these advantages as they provide a fertile ground for

knowledge exchange – accumulation and cooperation between the players of the targeted sector.

Similarly, endogenous growth theory, which mostly emerged in 1980s, hold that economic growth is mostly the result of endogenous rather than external forces. In this context, endogenous growth theory argues that the long-run growth of the economies is mostly related with the policy measures including taxation. This theory starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. Therefore, a higher rate of economic activity stimulated by several governmental policies may also increase the innovation potential of the active firms in that market. Furthermore, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R & D (Aghion and Howitt, 1998)

Besides several others, the works of Kenneth Arrow (Arrow, 1962) and Hirofumi Uzawa (Uzawa, 1965) mainly formed the bases of endogenous growth theory. Unlike the neo-classical model, which solely considered economic growth as an outcome of the increase in the capital and labour force (Solow, 1970), endogenous growth theory has shown that the investments in the human capital and development of relevant policies is critical for speeding up technological innovations, and thus boosting economic growth.

In the following years, the works of Paul Romer (Romer, 1986), Robert Lucas (Lucas, 1988), and Sergio Rebelo (Rebelo, 1991) has advanced the theory and shown that the economic growth is mostly an outcome of the indefinite investment in human capital, which has several spill over effects on economy and which gradually reduce the diminishing return to capital accumulation. Hence, for most of the countries, coordinated economic activities that create technological knowledge are the main catalysts of the economic growth (Romer, 1990).

That said, endogenous growth theory might also have limits in explaining the growth problematique particularly in poor countries. Poor countries do not spend too much money on R & D, but they can still increase the GDP per capita by adopting readily available technologies developed in other parts of the world. (Parente, 2001: 52) However, in richer countries where the living standards and wages are higher, the importance of creating a bigger added value by innovation is critical to increase the economic growth rates. Such economically strong countries necessitate a higher leap forward to increase their already more sustainable economic growth rates. Hence, adopting readily available technologies do not help the richer countries and therefore they are destined to invest in R & D and innovate, particularly to keep their place in the global competition. This is also the case for the EU and particularly the fierce competition with the Far-Eastern

economies and the USA further increases this requirement (Derin, 2003). Therefore, with a supranational perspective and by also following the endogenous growth theory, the EU needs to develop relevant common economic governance policies, invest more on the human capital and speed up clustering of its industries-sectors, particularly to increase its RDI capacity.

3.1. Industrial and sectoral clustering and the EU

In fact, the industrial-sectoral clustering and subsequent increase in the RDI capacity is not totally a new idea for Europe. Decades ago the theory of functionalism underlined the importance of common technocratic governance. The key figure of the functionalist theory was David Mitrany (1888-1975) and he believed in the importance of enhancement of transportation for the development of a global peace model. Like federalism, functionalism was a branch of the broad movement that sought to theorize the conditions for ending human conflict and which found intellectual space in the turbulent political climate of the 1940s in Europe (Rosamond, 2000: 32). David Mitrany pioneered modern integrative theory and its basic principle maintained that international economic and technical (by means of functional agencies) is the best means of softening antagonism in the international environment. His functionalism offered a largely technocratic vision of human governance (Rosamond, 2000: 34). The main rationale behind Mitrany's perspective was that "peace is more than the absence of violence", and functional agencies (most important one being the transportation sectors) are crucial for decreasing the economic and political conflicts between people and nation-states (as well as local and regional governance forms) (Mitrany, 1966).

The EU has developed and gained a supranational character by mostly following such a functionalist logic. Technical integration steps and policy making of the EU's founding fathers (such as Jean Monnet, a functional federalist) have led to 'spill-over' on various other social and economic areas and been catalysts of political integration.

However, the supranational level EU policy making for further innovation and common economic governance has been relatively limited during the last decades. One can clearly see this in the figure below, that shows the 100 most innovative companies in the world on a home country basis. Here, the innovation power of the companies is measured by the patent-related metrics and the USA and Japan originated companies are leading the world RDI league. Next, when all the EU member states are combined, they can only get the third place. Moreover, besides the USA and Japan, the countries such as South Korea and Taiwan, are also major competitors of the EU economy in terms of innovation and patenting.

Figure 2
2013 Top 100 Global Innovators (Thomson Reuters Report, 2013)

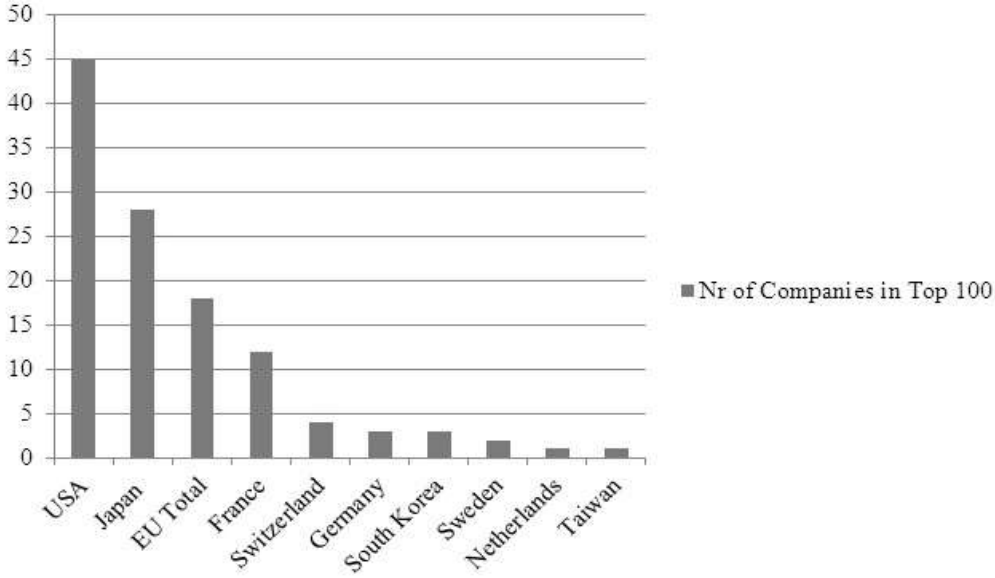


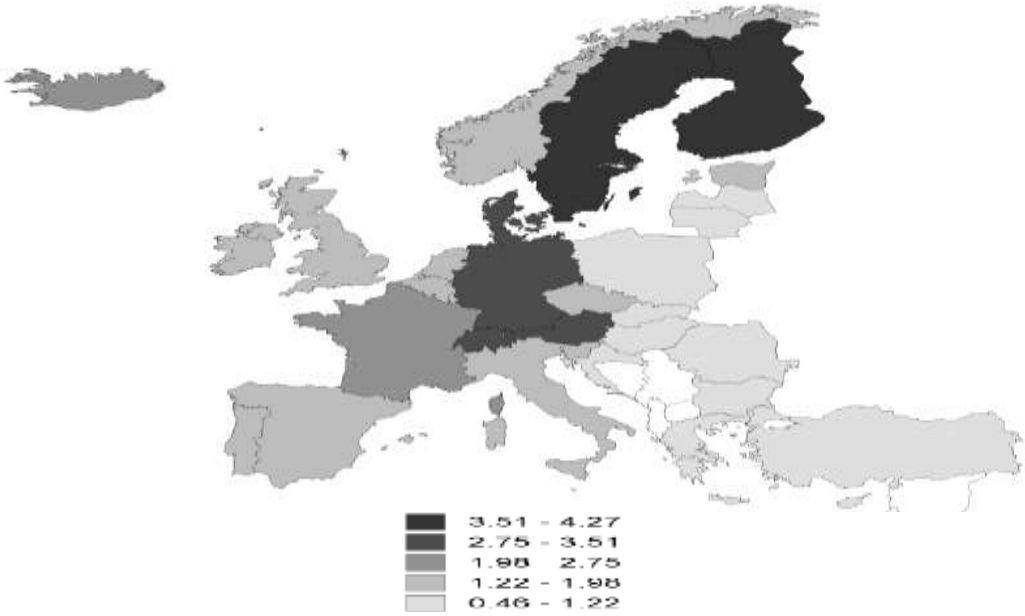
Table 1
Comparison of R&D Expenditure and High Technology Exports
(WB Report, 2013)

	European Union	East Asia and Pacific	World
Research and Development Expenditure (% GDP) (2011)	2.05 %	1.81 %	2.08 %
High Technology Exports (% Manufactured Exports) (2011)	16 %	26 %	17 %

Moreover, as table above also shows, there is also an asymmetry between EU's RDI expenditures and high technology exports. Although, the EU's RDI expenditures are well above the Far East and the Pacific regions', the percentage of its high technology exports is not proportional to its RDI expenditures. This is mostly due to misjudgements during the funding of the research projects (particularly in Framework Programmes or European Research Council funding

schemes) and the lack of connectivity between RDI efforts and the real industry. Deficient clustering policies (particularly for increasing the RDI capacity of the EU) and well-targeted research project funding is another important reason of this asymmetry. (European Commission Report, 2014).

Figure 3
RDI Investment in EU Member States - 2009
(GERD - Gross Domestic Expenditure on Research and Development as % of GDP) (European Commission Report, 2011)



Furthermore, the above figure shows that there are big differences between the RDI expenditures of EU member-states today. Only few EU member-states fund their national RDI programmes sufficiently to be competitive on the high value added sectors, such as Germany and France, as well as the Nordic countries of Sweden and Finland. (Interestingly enough, Norway is the leader of Europe with regards to RDI expenditures, but it is not a EU member.) However, the Mediterranean and East European countries have insufficient RDI expenditures and this level of research funding is not high enough to support EU's grand battle against its rivals in the global economy.

Undoubtedly, for being successful in this global competition, the EU should develop a homogenous RDI policy and the necessary budgetary means for all of Europe with a powerful cohesion and clustering policy. However, for quite a long time the EU policies have failed to transform Europe to a regional production and innovation hub, which can compete with the major actors of economic globalisation particularly with the growing economies in the Far East. Therefore, the Lisbon strategy set the EU an objective of devoting 3 % of its GDP to RDI activities by 2010. Yet, this target was never reached in the following years – and therefore the 3 % target was postponed to Europe' 2020 strategy (European Commission Report, 2014). The European Commission has also prepared the latest and very ambitious Euro Horizon 2020 programme (Framework Programme 8 for Research and Innovation, 2014-2020) with this RDI funding target.

Indeed more than a decade ago, the European Commission 2003 Report on Enterprise Clusters and Networks argued that there are several benefits of the industrial-sectoral clustering policies. In the report, some of the spill-over effects of clustering are given as: economic prosperity stemming from increased efficiency, provision of higher rate of employment for the citizens and the development of a fertile environment for innovation, facilitation of outsourcing leading to further specialisation-precision of the production processes and consequently the increasing of the net wealth of the people (European Commission Report, 2003). The report also stipulated that, if the clusters are archaically run (which, the Report also argued, partly seems to be the case for the EU), the clusters may also have some disadvantages in terms of development and competitiveness. When the clusters are locked in old technologies and cannot adapt it to new developments, and rely on few buyers or on the activity of one large or a limited number of players, work with lower profit margins with higher cost of production and market saturation, the cluster may become less productive (European Commission Report, 2003).

Additionally, the report gave details about the two main approaches for cluster organisation. If the cluster is a government induced organisation it is called a top-down type of cluster. On the contrary, if the leading firms and/or sector associations start the cluster, then it is called a bottom-up type of cluster. In general, the top-down and bottom-up initiated clusters focus on the same topics such as international promotion of the cluster, provision of education and training to cluster members, the enhancement of the personnel supplied to the labour market, and greatly focus on RDI. Top-down clusters have some advantages like efficiency emerging from central and strategic planning. Furthermore, as they get a share from the government budget, they are generally more successful in internal organisation and efficiency. But on the other hand bottom-up clusters have some other advantages, like better business practices and short-term benefits

of already existent cohesion (European Commission Report, 2003; 2008). The Report argued that the EU should support both of these approaches, bottom-up in the member states, and top-down at the supranational level.

Also, the Report analysed the national and sub-national (regional) level cluster building, which define the administrative and geographic scope of the clusters. National clusters focus more on establishing a strategic framework and have a higher concern for finding employment for the national labour market, the exchange of know-how, innovation, research and image building. Sub-national (regional) clusters on the other hand focus more on improving local development and operations; have a higher concentration on the success of local businesses and local exchange of know-how. The Report underlined the importance of both of these levels for increasing the competitiveness of the EU economy, but with a specific focus on the need for increasing the financial resources of the sub-national (regional) clusters, and a major concern for keeping the overall cohesion at the supranational level.

In 2008, the European Commission has again outlined its general policy on clusters by another communication entitled "Towards world-class clusters in the EU: Implementing the Broad-based Innovation Strategy" and has subsequently supported the enactment of legislation on these areas particularly through its initiatives such as the PRO-INNO Europe and Europe INNOVA.

The European Commission has also taken several other measures to improve the competitiveness and innovation in various others sectors (mostly by means of industrial-sectoral clustering). Furthermore, the EU's several financial instruments are redesigned to provide funding for cluster-type initiatives. Gradually, the European Regional Development Funds and the EU Framework Programs for Research and Technological Development are all directed towards these common targets.

However, the EU could develop successful policies in line with its reports and remained quite behind of the RDI leaders of the world during the last years. The implementation of the broadly defined policy goals remained greatly deficient and this has been one important reason of the recent slow-down of the EU economy, which was further complicated with the Enlargement fatigue, the new-member states burden on the EU's finances, the mismanagement / fraud in some of the member-states and their insufficient monitoring by the EU.

4. General conclusions: The end of Europe A la Carte?

The democratic societies have always been established by shared beliefs about a community and they work by the principles of solidarity, and the European continent has historically been successful in developing such models (Powell and Hewitt, 2002). Therefore, a highly coordinated Europe still seems to

be a pre-condition for the solution of the economic problems of the continent, a real civilianisation of the political life, the long-run success of the European integration project.

What is more, as Jurgen Habermas argues, for fostering a social and coordinated European project, the participation and approval of the model by the social movements and non-governmental organisations, e.g. the active members of a civil society, which extends across the borders of a nation, are extremely important (Habermas, 2000: 37). Yet, instead of approving the outcomes at the supranational level, the masses started to increase their voices against the strengthening of the fully neo-liberal account of the EU project during the last decades (Kaminada, Goudswaard and Olaf, 2010).

As a result of this societal denunciation (which increased further with the latest economic crises of the model), the EU policy makers started to finally take some steps to partly balance the highly volatile markets with supranational level politics. The newly created funds to save the EU economy and replacement of the liberal conservative leaders such as Nicolas Sarkozy and Silvio Berlusconi with more passionate political leaders about the EU, have also started to positively influence the current state of the EU economy. As a historic recurrence, the Franco-German alliance -with regards to saving the EU economy- (and though difficult, but very necessary, British support), seem particularly crucial for the success of the model in the coming years.

In a recent speech at the European Parliament on 5th of February, 2013, with regards to saving the EU project, French Premier Francois Hollande has recently argued *"no member state has the luxury of making a Europe a la carte choice from the common EU policies"*. Furthermore, in the same speech, Hollande also stated that, *"Europe is first and foremost a political will"*. With these words he supported German Premier Angela Merkel's strong stance on further coordination for the saving of the European integration project.

Similarly, this paper has underlined the importance of the re-emergence such a 'political will' in Europe (emanating mostly from continental Europe), which combines 'central planning, coordination and sectoral-industrial clustering' and centre-left progressive politics (that also encompasses welfare state policies). In this context, a fully integrated fiscal policy, including common economic policy making for the whole Eurozone, a common approach to the budget policy, economic growth, taxation, the issues of poverty and social cohesion is also suggested. This paper also stipulated that the transformation of the EU in this direction may also inspire the development of similar governance models around the world, which has been called by Graziano (2003) as 'Europeanisation of Globalisation' (unlike the prior Globalisation of Europeanisation).

With regards to solving the economic problems of the model, this paper has underlined the importance of functional federalism and endogenous growth theory. Additionally, it offered industrial-sectoral clustering and investment in human capital as a crucial tool, particularly for increasing the EU's RDI capacity to compete with the global RDI leaders (such as USA and Japan) and economic growth rates; and solving the asymmetry between EU's RDI expenditures and high technology exports by increasing the connectivity between RDI efforts and the real industry. Moreover, well-targeted research project funding schemes (such as Framework Programmes and the ERC funds) and cohesive RDI expenditures are also suggested

References

AGHION, P. and HOWITT, P. (1998), *Endogenous Growth Theory*, MIT Press Cambridge.

ALT, D., LASSEN, D. D. and WEHNER, J. (2014), "It Isn't Just about Greece: Domestic Politics, Transparency and Fiscal Gimmickry in Europe", *British Journal of Political Science,* Oct., Volume 44, Issue 4, 707-716.

ARROW, K. (1962), "The economic implications of learning by doing", *The Review of Economic Studies-Oxford Journals*, Volume 29, Issue 3, 155–173.

BAUMAN, Z. (1999), *In Search of Politics*, Polity Press, Cambridge.

BERGSTEN, C. F. (2012), "Why the Euro Will Survive?", *Foreign Affairs*, Sep/Oct, Vol. 91, Issue 5, 16-22.

BROOKS, C. and MANZA J. (2006), "Why Do Welfare States Persist?", *Journal of Politics*, Vol. 68, No. 4, 816-827.

DAHL, R. A. (1992), "Why Free Markets Are Not Enough?", *Journal of Democracy*, Vol. 3, No. 3, July, 82-89.

DEDMAN, M. J. (1996), *The Origins and the Development of the European Union 1945-1995: A History of European Integration*, Routledge, London.

DELORS, J. (2012), "Economic Governance in the European Union: Past, Present and Future", *Journal of Common Market Studies*, Volume 51, No. 2, 169-178. DERIN, P. (2003), *Endogenous Growth Testing in the European Union and Developing Countries: Taxation, Public Expenditure and Growth,* Unpublished MSc Thesis submitted to the Graduate School of Social Sciences of Middle East Technical University.

DINAN, D. (2004), *Europe Recast: A History of European Union*, Lynne Rienner Publishers, London.

ESPING-ANDERSEN, G. (1990), *The Three Worlds of Welfare Capitalism*, Polity Press, London.

EUROPEAN COMMISSION REPORT (2003), Final Report of the Expert Group on Enterprise Clusters and Networks, Brussels.

EUROPEAN COMMISSION REPORT (2008), The role of the Maritime Clusters in Enhancing the Strength and Development Level of the European Maritime Sectors, Brussels.

EUROPEAN COMMISSION REPORT (2011), Innovation Union Scoreboard, Brussels.

EUROPEAN COMMISSION REPORT (2014), R&D Expenditure of the EU member states. (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/R_%26_D_expenditure)

GEHRING, T. (1996), "Integrating Integration Theory", *Global Society*, Vol. 10., No. 3, 225-253.

GIDDENS, A. G. (1994), *Beyond Left and Right: The Future of Radical Politics*, Polity Press, Cambridge.

GIDDENS, A. G. (2000), *The Third Way and Its Critics*, Polity Press, Cambridge.

GRABBE, H. (2002), "European Union Conditionality and the Acquis Communautaire", *International Political Science Review*, Vol. 23, No. 3, 249-268.

GRAZIANO, P. (2003), "Europeanisation or Globalisation?", *Global Social Policy*, Vol. 3, No. 2, 173-194.

HABERMAS, J., (2000) "Beyond the Nation-State?" in *Democracy in the European Union: Integration Through Deliberation?,* Eds. Eriksen, E. O. and Fossum, J. E., Routledge, London, pp. 29-42.

KAMINADA, C. K., GOUDSWAARD, K. and OLAF, V. V. (2010), "Patterns of Welfare State Indicators in the EU: Is there Convergence", *Journal of Common Market Studies*, Vol. 48, Issue 3, 529-556.

KORPI, W. (2003), "Welfare State Regress in Western Europe: Politics, Institutions, Globalisation and Europeanisation", *Annual Review of Sociology*, Vol. 29, 589-609.

KVIST, J. (2004), "Does EU Enlargement Start a Race to the Bottom? Strategic Interaction among EU Member States in Social Policy", *Journal of European Social Policy*, Vol. 14, No. 3, 301-318.

LANE, P. R. (2012), "The European Sovereign Debt Crisis", *Journal of Economic Perspectives,* Vol. 26, No. 3, 49-68.

LEVI-FAUR, D. (2004), "On the 'Net Impact' of Europeanisation: The EU's Telecoms and Electricity Regimes Between the Global and the National", *Comparative Political Studies*, Vol. 37, No. 1, 3-29.

LUCAS, R. E. (1988), "On the Mechanics of Economic Development", *Journal of Monetary Economics,* Vol. 22, 3-42.

MAJONE, G. (1999), "The Regulatory State and Its Legitimacy Problems", *West European Politics*, Vol. 22, Issue 1, 1-24.

MCCARTHY, W. E. J (1972), *Trade Unions*, McCarthy, Penguin Books, London.

MITRANY, D. (1966), *A Working Peace System*, Chicago, Quadrangle Books.

NICOLAIDIS, K. (2013), "European Demoicracy and Its Crisis", *Journal of Common Market Studies*, Vol. 51, No 2, 351-369.

PARENTE, S. (2001), "Failure of Endogenous Growth", *Knowledge, Technology & Policy,* Vol. 13, No 4, 49-58.

PLÜMPER, T. and SCHNEIDER, C. J. (2007), "Discriminatory European Union Membership and the Redistribution of Enlargement Gains", *The Journal of Conflict Resolution,* Vol. 51, No. 4, 568-587.

POLANYI, K. (2001), *The Great Transformation*, Beacon Press, New York.

PORTER, M. E. (1990), *The Competitive Advantage of Nations*, The Free Press, New York.

PORTER, M. E. (1998), "Clusters and the New Economics of Competition", *Harvard Business Review*, Nov/Dec98, Vol. 76, Issue 6, 77-90.

POWELL, M. and HEWITT (2002), *Welfare State and Welfare Change*, Open University Press, Buckingham.

PRZEWORSKI, A. (1991), *Capitalism and Social Democracy*, Cambridge University Press, Cambridge.

REBELO, S. (1991), "Long-Run Policy Analysis and Long-Run Growth", *The Journal of Political Economy*, Vol. 99, No. 3, 500-521.

ROMER, P. M. (1986), "Increasing Returns and Long-Run Growth", *The Journal of Political Economy*, Vol. 94, Issue 5, 1002-1037.

ROMER, P. M. (1990), "Endogenous Technological Change", *Journal of Political Economy,* Vol. 98, 71-102.

ROSAMOND, B. (2000), *Theories of European Integration*, Palgrave, New York.

SCHARPF, F. (1999), *Governing in Europe: Effective and Democratic?*, Oxford University Press, New York.

SEIRFERLING, M. (2013), *Stock-Flow Adjustments, Government's Integrated Balance Sheet and Fiscal Transparency,* International Monetary Fund Working Paper, WP/13/63.

SOLOW, R. M. (1970), *Growth Theory: An Exposition*, Oxford University Press, New York.

THOMSON REUTERS REPORT (2013), *Top 100 Innovators of the World*, (http://top100innovators.com)

TSAROUHAS, D. and LADI, S. (2013), "Globalisation and/or Europeanisation? The Case of Flexicurity", *New Political Economy*, Vol. 18, No. 4, 480-502.

UZAWA, H. (1965), "Optimum Technical Change in An Aggregative Model of Economic Growth", *International Economic Review*, Vol. 6, No. 1., 18-31.

VON HAGEN, J and WOLFF, G. B. (2006), "What do Deficits tell us about Debt? Empirical Evidence on Creative Accounting with Fiscal Rules in the EU", *Journal of Banking and Finance*, Dec., Vol. 30, No. 12, 3257-3279.

WALLACE, H. (2000), "Europeanisation and Globalisation: Complementary or Contradictory Trends?", *New Political Economy*, Vol. 5, No. 3, 369-382.

WORLD BANK REPORT (2013), *Science and Technology*, (http://data.worldbank.org/topic/science-and-technology)

Özet

Avrupa Birliği'nin Büyük Buhranı'ndan alınacak dersler: "Sosyal Devlet Politikaları ve AR-GE/İnovasyon Bağlantılı İktisadi Sektörlerin Kümelenmesi" uzun vadeli iktisadi başarı için kaçınılmazdır

Bu makalede Avrupa Birliği'nin (AB) iktisadi geleceği analiz edilmekte, ve son dönemde AB'nin iktisadi sorunlarının ve yavaşlamasının, üye devletleri bağlayan 'ortak olarak tanımlanmış makro düzey ekonomik yönetişim parametreleri' eksikliğine bağlı olduğu, savunulmaktadır. Uzun yıllardır AB siyasa yapıcıları, AB'yi, sosyal devlet politikaları ile piyasaların dengelendiği bir model haline dönüştürme yerine, büyük ölçüde koordinasyonsuz bir tek pazarın bütünleşme için yeterli görüldüğü bir sağ liberal modele doğru dönüştürdüler. Ayrıca, iktisadi politikalar açısından da, endüstriyel-sektörel kümelenmenin önemi, özellikle Ar-Ge/İnovasyon kapasitesinin arttırılması bağlamında, oldukça hafife alındı. Sonuç olarak da, reel sektörün nispeten örgütsüz-plansız durumu (gerek mal ve gerek hizmet üretiminde) AB'nin küresel rekabet gücünü oldukça azaltmıştır. Bu bağlamda, bu makale, AB bünyesindeki başarılı bir ekonomik yönetişim modelinin gelişimi için 'siyaset' kurumunun öneminin altını çizmekte, ve güçlü 'sosyal devlet politikaları' ile desteklenmiş, 'merkezi planlama ve kümelenme tabanlı' bir uluslar-üstü ekonomik modeli, önermektedir.

Anahtar kelimeler: Avrupa Birliği, Neo-Liberalizm, İktisadi Yönetişim, Endüstriyel-Sektörel Kümelenme ve Ar-Ge/İnovasyon, Sosyal Devlet Politikaları.

JEL kodları: E6, F02, H00