The Greatest of the Small? The Netherlands, the New Hanseatic League and the Frugal Four

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ABSTRACT
How has the Netherlands sought to influence the redesign of Economic and Monetary Union (EMU) since the financial crisis? Based on the case studies of the ‘New Hanseatic League’ and the ‘Frugal Four’ this study finds, firstly, that the Netherlands chooses strategies of foot-dragging when initiatives are brought up to deepen integration when the Dutch prefer the status quo. Secondly, its strategy is more bargaining-based but at times also persuasion-based; the bargaining occurs in part because the Netherlands builds occasional alliances with like-minded member states to counterbalance the asymmetry of power between it and Germany. Finally, the Netherlands oscillates between trying to influence Germany directly and bypassing it by reaching out to like-minded member states on various dossiers and tempting them to declare their positions in advance.

Keywords budget reform; economic and financial crisis; economic and monetary union; Frugal Four; New Hanseatic League; the Netherlands

Introduction
How has the Netherlands sought to influence the redesign of Economic and Monetary Union (EMU) since the financial crisis? This paper addresses this question by examining the stance of the Netherlands towards EMU. It asks these follow-up questions about the Dutch strategy: (1) to what extent does the strategy of the Netherlands depend on the distance between its preferences and the status quo? (2) Is the Netherlands’ strategy bargaining-based or persuasion-based and can this strategy be traced back to an asymmetry of power between the Netherlands and Germany? (3) Does the Netherlands choose strategies to influence Germany directly or those that bypass it (see Schoeller and Gerda 2021).

Based on newspaper analysis and original interviews conducted by the author with key actors, the paper studies the Dutch use of the ‘New Hanseatic League’ and more recently the ‘Frugal Four’ alliance to secure its interests in the EU. Loosely inspired by a commercial alliance of the Middle Ages, the New Hanseatic League was established in February 2018 by the governments of Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands
and Sweden to co-ordinate positions and to influence the course of European integration. This League has been characterised as being particularly ‘trade friendly’ and ‘fiscally conservative’ (Khan 2018c). Led by the Netherlands, but with tacit support of Germany, the League has focused most of its efforts on pushing EMU in the direction it wishes, i.e. seeking to steer clear of too much central capacity-building and Franco-German domination (see also Schoeller 2020). By the end of 2018, the League had had a few successes, which drew more attention to its existence. In late 2017 and early 2018, a smaller group of countries sought co-ordination on issues related to EU budget matters. In spring 2020 in response to the Corona crisis rescue fund, these four member states, were dubbed ‘the Frugal Four’ (Austria, Denmark, Sweden and The Netherlands) when they initially opposed grants to EU member states to tackle the corona crisis. These four countries (on occasion supported also by Finland) have been sceptical of deepening European integration in the area of budgetary support, or developments that could be considered a transfer union.

Small and large states face different challenges when confronted with economic hardship and with economic interdependence (Keohane 1969; Katzenstein 1985; Jones 2008; Keating and Baldersheim 2015). The global financial crisis and the Euro Area financial crisis affected European Union (EU) member states and other European states outside the EU differently (De Grauwe 2013). Starting in autumn 2009 through to summer 2015 a sovereign debt crisis plagued Europe, coming to a crunch first in May 2010 with a bailout of Greece, and subsequently a bailout of Ireland in November 2010 and Portugal in May 2011, with the final major crisis meeting on the matter taking place in summer 2015. Shortly after the outbreak of the sovereign debt crisis, it emerged that the EU faced a two-fold challenge: first, Greece needed more support and, second, the EU economic and monetary architecture needed to be revised. Following numerous rounds of negotiations, EU heads of state and/or government devised permanent intergovernmental support, made public in July 2011, namely the European Stability Mechanism (ESM) (set up as an intergovernmental treaty) (Gocaj and Meunier 2013). Other initiatives were taken to complete EMU, such as progress towards creating a banking union, but also the creation of the so-called fiscal compact and other changes to the EU fiscal rules.

The sovereign debt crisis led to considerable soul-searching about the impact of the crisis on individual states. Increasingly questions were raised about whether the EU and the institutional architecture of the euro area were able to deal with these kinds of challenges and if not, what kinds of changes would be necessary to solve the problems. In this way, the sovereign debt crisis raised questions about the future of the euro area, whether the EU governance structure is adequate to weather the storm, and to what extent individual countries can be blamed for the woes of the crisis (see also Jones 2013).
In response to these challenges the EU developed a number of initiatives which ranged from the four Presidents’ Report (Van Rompuy 2012) to the Five Presidents’ Report (Juncker 2015), and culminated in the so-called Reflection Paper on the Deepening of Economic and Monetary Union (European Commission 2017). All three of these documents included, among other things, progress on creating a Banking Union and making steps towards the Capital Markets Union (Howarth and Quaglia 2016), as well as other ambitious goals towards deepening fiscal and political integration.

This paper concentrates in particular on the latter development. It examines how to understand the stance of small states, in particular, that of The Netherlands, towards EMU. This case is of interest as it is a medium-sized country that has been among the original six member states, a euro area member, and one that has moved from being very much pro-EU to being more reserved about European integration (Vollaard, van der Harst, and Voerman 2015).

Building on the framework of this Special Issue, this paper examines the three different propositions. The first proposition is that a small state’s choice of strategy depends on the distance between its preferences and the status quo, ranging from ‘foot-dragging’ (if preferences coincide with the status quo) via ‘fence-sitting’ and ‘co-shaping’ through to ‘pace-setting’ (by those who suffer highest costs from the status quo).

The second proposition is that a small state’s choice between bargaining-based and persuasion-based strategies depends on the asymmetry of power between the small state and the hegemon (here: Germany): the larger this asymmetry, the more likely the smaller state will rely on persuasion-based (rather than bargaining-based) strategies.

The third proposition is that a small state’s choice between strategies to influence the hegemon directly and those to bypass it depends on the institutional fabric of the relationship with the hegemon: If this institutional fabric is strong (i.e. a dense regularised intergovernmentalism, many symbolic acts and practices, extensive parapublic underpinnings), small states will opt for bilateral strategies directed at the hegemon rather than taking action in multilateral settings.

It also examines the specific issues that small states, such as the Netherlands, are confronted with when redesigning Europe’s economic and monetary governance in the wake of the euro area crisis and more recently the Covid-19 crisis. Although much attention has been placed on Germany’s influence over EMU in recent decades (Paterson 2011; Schoeller 2017; Schild 2019, 2020), this study examines how the Netherlands has dealt with the redesign of EMU. In particular, it seeks to understand its specific role and the strategies it has chosen to attain its goals. It has moved from more euro-enthusiastic to more euro-sceptic.
In recent years the Netherlands sought to oppose deeper economic integration, in particular regarding budgetary expansion. A number of small states, led by the Netherlands, sought to influence the future of EMU by co-ordinating their stance. Newspapers conjured up an image and coined it the New Hanseatic League – a catchy term that was soon adopted by the Dutch Ministry of Foreign Affairs. In 2020 a smaller alliance of member states, opposing a budget expansion, was dubbed by newspapers ‘the Frugal Four’. These four member states that express reservations about handing out large sums of money to member states that were most in need of financial support, had some overlapping membership, again with the Netherlands in a leading position. This paper examines these two alliances as part of understanding the Dutch stance towards EMU in the aftermath of the global financial crisis and in the most recent Covid-19 crisis.

To address these questions the remainder of this paper is structured as follows. Section two discusses EMU in light of the recent economic challenges and crises. Section three gives a brief overview of the research method chosen. Section four provides the Dutch policy towards redesigning EMU with a particular focus on the way they have used the New Hanseatic League and the Frugal Four to achieve their goals. Section five offers a brief analysis in light of the framework of this collection of papers. The final section then draws some general conclusions.

EMU Since the Start of the Financial Crisis

When the economic crisis hit, one of the difficulties for the EU was to sort out what role the EU should play. The EU institutions were unable to respond quickly and forcefully. What happened instead was that national member state governments declared national solutions to their problems. It became clear that the EU had to do more than only work with the very small EU budget. It has responded to the sovereign debt crisis by creating a European Financial Stability Facility (EFSF) and a European Stability Mechanism (ESM), to provide member states with funds, should they have difficulties raising capital in financial markets at affordable rates.

With the election of Emmanuel Macron and the re-election of Angela Merkel in 2017, it was thought that the deepening of EMU would progress further. In fact, the emerging Brexit, even if disruptive during the process, was anticipated as possibly on the whole generating centripetal effects, putting the EU in a position that it might be able to deepen economic and monetary integration, even if there are some member states (notably Hungary and Poland) that are at least as sceptical of deepening as the United Kingdom (UK) has typically been (Hodson 2016, 2017).

All these activities and political developments give the EU the air of being en route to deeper economic integration. The suggestions are focused on
providing funding for countries in need, whilst finding ways to keep tabs on deficits and debts and deepening integration. The Dutch government under Prime Minister Mark Rutte (with two coalition partners) was concerned that there would be a creeping increase in EU budgetary expenses (either in the short run for crisis purposes or in the long run). The Dutch government was furthermore keen to maintain its rebate. The coalition partners had agreed to ensure that during their time in power (2017–2021) there would be no further steps towards a so-called 'transfer union' (Confidence in the Future 2017).

Researching the Netherlands and EMU Post-Financial Crisis

Since the crisis, a range of major and minor economic and political reforms have been envisaged with the goal of member states reducing the risk of countries’ overborrowing or generating other forms of macroeconomic imbalances. Plans that deal with revisions in the euro area focus in part on economic macroeconomic factors such as competitiveness, current account imbalances, and the risk of overborrowing due to the availability of cheap credit (markets valued too low the risk of default).

On the institutional side, the structure of EMU was deemed to need change for a number of reasons. These included the asymmetrical nature of EMU (Verdun 1996, 2000) in which the euro has been operating with a centralised monetary authority but with decentralised economic policies (tax, fiscal policy, and a very small centralised budget) (see also De Grauwe and Senegas 2004).

The methodology to examine the Dutch stance towards EMU in the post-crisis period used in this paper is to examine primary and secondary sources. The author also interviewed eight leading experts in on the topic who have closely followed Dutch politics towards the EU with particular reference to EMU issues. The interviews were based on a semi-structured questionnaire. They lasted about an hour each and all but one were held in spring/summer of 2020. Six of the eight interviewees accepted that their name would be mentioned in this study (see appendix), but none of them wanted any specific statement attributed to them. Therefore, the author has chosen to use the more generic ‘interview with the author conducted for this study’ to indicate material that is taken from these interviews. The interviews were conducted to double check information that could be gathered to some extent from newspapers and commentaries but that left scope for interpretation as regards motivations and rationales. Interviews were conducted both with officials from government as well as experts outside government (think tanks and a journalist) to triangulate the information.
The Redesign of EMU, the New Hanseatic League and the Frugal Four

The four and five presidents’ reports, the ESM as well as the 2017 Commission Report on the Deepening of EMU have made small EU member states realise that the euro area crisis is providing a trigger for possible deepening of European integration in particular in the area of economic and monetary integration Juncker 2015. Although there is no single ‘small state’ in the EU, many of these member states are facing domestic backlashes that have reduced their window of opportunity to jump on the bandwagon of deeper integration (see Verdun 2013; Sadeh, Rubinson, and Raskin 2021).

In response to this prospect, a number of EU member states developed the New Hanseatic League. Le Monde suggested that the Financial Times has coined the term (Le Monde 2018), whereas the FT journalist writes in July 2018 that the alliance diplomats like to call themselves ‘Hansa’ (Khan 2018c). Led by the Netherlands, this group of eight northern member states that have held positive stances on trade and fiscal prudent policies, and have concentrated their energies on shaping Europe’s EMU (Cats 2018; Khan 2018a, 2018b, 2018c, 2018e; The Economist 2018).

According to some, the New Hanseatic League was a response to the prospect of the UK leaving the EU (Brunsden and Acton 2017; Korteweg 2018; Kuusik and Kristi 2018; Tokarski and Funk 2019, interviews with the author for this study) as well as building on existing cooperation among the Baltics and the Nordics. A national diplomat referred to the upcoming departure of the UK in the following way: ‘small and medium-sized countries are realising that they need to make their voices heard’ (cited in Brunsden and Acton 2017). With the falling away of this traditionally liberal, pro-trade, light-touch integration-oriented large member state, some smaller like-minded member states, particularly the Dutch, felt the need to co-ordinate their efforts. These countries often prior to the UK leaving had support from that country in the Council.

The countries that formed the New Hanseatic League felt the need to have a stronger voice so as to be able to push against the centralising inclinations of France and Germany especially with Macron and Merkel possibly moving the EU towards deepening (interviews with the author, conducted for this study) – think of the ‘Meseberg Declaration’ which mentioned developing a euro area budget (Bundesregierung 2018). They were also more excited by the proposals for a ‘Capital Markets Union’ as the Hansa countries feel that such a development would reduce the need for the Franco-German vision of deeper economic and monetary integration (Khan 2018b). The Hansa pushed back on that idea, and they have been able to have some results as shown by the attempts to increase the powers of the ESM to ensure that member states are working towards debt sustainability.
These proposed changes to the ESM treaty received a considerable amount of support from Germany (interviews with the author, conducted for this study). Furthermore, the Hansa countries have been particularly firm on the situation surrounding the Italian budget (Giugliano; Cats). The Hansa finance ministers issued position papers in early March 2018 spelling out its vision of EMU. According to a European official, who is a member of the Hansa speaking about 2018, ‘Our meetings are irregularly regular, usually every two months on the sidelines and after the Eurogroup …’ (Amaro). Officials and experts interviewed for this study confirmed that high-level German bureaucrats at the level of ministerial representation were often present at Hansa meetings especially in the early days (Interviews for this study). They would participate for some time but by the time a political decision would have to be taken, they would no longer want to be associated with the resulting stance of the Hansa. For instance, the Germans, but also the French, were supportive of the Hansa vision of EMU on 18 July on the Capital Market Union (interviews with the author, conducted for this study).

Has the Hansa been effective? Let us examine this question by considering seven sources of influence for states in EU decision-making process: (1) political weight, (2) political practice, (3) economic weight, (4) social and economic practice, (5) persuasive ideas, (6) compelling demands, and (7) credibility and consistency (Wallace; Maes and Verdun).

In terms of political weight, since the UK has left the EU, France and Germany carry, relatively speaking, a larger weight. By contrast, the eight countries that make up the Hansa (even the ten, if one address Czech Republic and Slovakia that joined one of their initiatives in November 2018), collectively only make up a small percentage of the EU votes. The New Hanseatic League would ideally need a large member state to have the political weight. This insight has been echoed by various independent advisory councils and think tanks in the Netherlands (Middelaar and Sie Dhian Ho; Sie Dhian Ho; de Boer; Korteweg; Schout). Most decisions in the Council are still made by consensus, but it is still important to know what the vote ‘could be’ if it were held (Golub). Nevertheless, many of the EMU institutional reform dossiers require unanimity (i.e. backstop of the Single Resolution Fund, the creation of the European Semester, or the idea to create a Euro Area budget). Furthermore, any time a large budgetary allocation is involved, such as the 750 billion euro Rescue Fund proposed by the European Commission in summer 2020, unanimity is required. In those cases, the voting component is strictly speaking irrelevant. Blocking decision making as a single country is politically very difficult and can cost political capital. Therefore, in the context
of unanimity it is important to have support from others in particular statements that are known. An interviewee pointed out that statements are important because smaller member states will not always speak out meetings. The persuasion component is then more important as having a larger group together and a chance to profile a position can have value (interviews with the author, conducted for this study).

The Hansa seeks to gain influence in terms of political practice. The Nordic countries have strong traditions of cooperation. These countries are also considered internationally as ones that have outstanding political practice on a number of democratic criteria. Bringing Ireland and the Netherlands into the mix, means that these two countries are jumping on a bandwagon of ‘the Nordics’, that have a longer tradition of collaboration in this setting (interview with the author conducted for this study).

The economic weight of these countries is modest. Collectively they represent only 15% of the total EU GDP. In terms of their social and economic practice, again they represent the ‘North’, albeit not only those in the North who have in the euro area crisis been among those to articulate the need for balanced budgets and rigorous policies to deal with the crisis (as Finland and the Netherlands have done). The group also includes Ireland and the Baltics, member states that, taken together, represent a more diverse set of social and economic practice.

The instrument Hansa has sought to capitalise on are persuasive ideas. The above-mentioned documents are examples. The document on the ESM suggests that a larger role would need to be given to scrutinise national budgets, more generally a view that member states should be more self-responsible. They also wished to push back on any Franco-German desire to deepen EMU. They provided these ideas in combination with compelling demands (arguments based on clearly articulated reasoning). The demands they have concentrated on are listed in Table 1.

Regarding credibility and consistency the New Hanseatic League had as a method to hold monthly meetings at the senior diplomat level, something that was started off in what has been reported in the media as ‘a meeting in a Brussels steakhouse in 2017 after an EU finance ministers meeting’ (Brunsden and Acton 2017). Their most important output early on was to issue position papers and in this way seek to influence the policy-process. When French Minister Bruno le Maire got upset with the Dutch Finance Minister Wopke Hoekstra in November 2018 about the interference by the New Hanseatic League, Dutch FM took it as a sign of the League starting to gain some credibility (Amaro 2018; Joosten 2018; Khan 2018d). However, the two ministries have felt differently about the profiling of the New Hanseatic League. The Dutch Ministry of Finance has been happier with the label than the Dutch Ministry of Foreign Affairs (Dutch government 2018; interviews with the author conducted for this study).
| Table 1. Hanseatic League views on EMU. |
|----------------------------------------|
| **Six Shared views and values in the discussion on the architecture of the EMU** | **What it means in practical terms:** |
| 1. Inclusion of non-Euro Member States in EMU policy-making | After Brexit, all EU members except Denmark will have a legal obligation to join the common currency at some point; Sweden and Denmark are also indirectly concerned by the rules of the Banking Union; without the UK, they are also influential advocates of reduced public spending and individual responsibility that can support the cause of the Netherlands and Ireland. A Dutch advisory council report emphasises that the Danes and Swedes should start to signal a stronger interest in EMU for the Hanse group to have more authority on the issue. |
| 2. Enforcement of Budget Rules by ensuring that national fiscal authorities comply with the earlier made common rules | Budget Rules are often portrayed as a straightforward set of numerical targets that every country can easily comply with and that make sense within each national context. In practice, there exist many different exceptions to the rules; the process of scrutinising them is long-winded and politicised because it combines different imperatives and some countries are complying more easily than others. Scrutiny occurs not only regarding competitiveness and fiscal debt sustainability, but also social priorities and energy policy; and the economic ideas that underpinned EMU are slowly losing support both inside the EU and in the international community. |
| 3. Focus on European Initiatives that enjoy public support | A strong emphasis on the subsidiarity principle, with priority to areas with the greatest convergence of views between Member States. These include the completion of the Banking Union, and the transformation of the ESM into a European Monetary Fund; completing of the single market and pursuing an ambitious free trade agenda (that until recently had permissive consensus but became politicised in recent years. Another element is that considered here is to be cautious with greater risk-sharing and deepening of EMU if not supported by a wider public. |
| 4. Completion of the Banking Union with a focus on risk reduction | Use the June 2016 Council Roadmap to Complete the Banking Union. Add more precision as regards to the specific steps that have to be taken: include adequate buffers for bail-in, flexibility to address macro prudential and systemic risks at the national level, sound provisioning policy for non-performing loans, regulatory treatment of sovereign exposures, ongoing work on improving the efficiency of national insolvency procedures, transparency to markets as well as minimising the use of state-aid. Also: a common backstop for the SRF and continue technical discussions on EDIS and the development of a Capital Markets Union. Another element is that by framing it this way a focus could be on reducing the risks of national banking systems rather than focusing on sharing the risks at the EU level. |

(Continued)
The Dutch initiated this coalition to some extent in response to the shifts in the EU’s power balance in the face of Brexit (Brunsden and Acton 2017; interviews with the author conducted for this study; Korteweg 2018). The collaboration among the member states that were identified as the ‘New Hanseatic League’ dates back, however, to before the onset of Brexit. These countries had similar preferences on matters to do with EMU reform. However, the Brexit gave these member states a bit of a push to focus a bit more on getting across a clear message. Furthermore, as the largest of the small countries, the Dutch assume a relatively more important role (Charlemagne 2018; Khan 2018a). Still, it should be remembered that another nickname for the New Hanseatic League – ‘The Netherlands and the seven dwarves’ (Korteweg 2018) – also contains a kernel of truth. Taken together the countries make up for only 15% of the EU’s economic output, hardly enough to provide a counterweight to a revived Franco-German tandem.

To understand the influence wielded by the League, one should consider that its preferences are more widely shared than just among its membership. Both formally and informally, the League has cooperated with other member states to further its goals. During the row about the Italian budget in 2018, Czechia and Slovakia also signed up to its proposed reform of the ESM (Brunsden and Khan 2018; Government Offices of Sweden 2018b). The Franco-German couple, which had drafted its own plan for Eurozone reform in the Meseberg declaration has been divided over the Dutch-led initiative. While Germany has expressed its sympathies behind the scenes, the French have reacted to the formation of the new coalition with more opposition (Khan 2018b). The New Hanseatic League, it seems, is giving voice to many points that German politicians agree with but eschew out of diplomatic courtesy towards France (Vilpišauskas 2021; Schoeller and Gerda 2021).

### Table 1. Continued.

| Six Shared views and values in the discussion on the architecture of the EMU | What it means in practical terms: |
|---|---|
| 5. Strengthen the ESM and have it possibly be developed into a European Monetary Fund (EMF). | An EMF should have greater responsibility for the development and monitoring of financial assistance programmes. Decision making should remain firmly in the hands of Member States. Another element is that creditor states would have more control over reform programmes and austerity measures in debtor states. |
| 6. Use the EU budget to foster sustainable growth and be better aligned with the implementation of structural reforms. | Structural reforms are seen as key but the responsibility and ownership of Member States for such reforms is considered crucial. Another element is that possibly any further budget need would be integrated into the EU budget rather than a separate EMU budget. |

Source: Adapted from Government of the Netherlands (2018a) and Government Offices of Sweden (2018a).
What can be made of the New Hanseatic League? The answer is, as so often a qualified ‘it depends’. Cooperation among member states in the EU is nothing new. The Franco-German tandem, the Benelux, Visegrad 4, or the Nordic countries are examples of relatively stable coalitions in EU policy-making (Kuusik and Kristi 2018; Mattelaer 2018). The New Hanseatic League may not fully qualify as a subregional cooperation as the focus of this grouping depends much more on the different dossiers and its track record and duration still too scattered. In the years 2019 and 2020, the New Hanseatic League has been much more silent. The vocal role of the Netherlands as leader of a small group of like-minded member states has very prominently been reoriented to the Frugal Four in spring and summer or 2020. So far it seems that the New Hanseatic League is united by little beyond their economic policy preferences (on migration, the Swedes and the Dutch hold strongly different views from the Baltics) and the cooperation with other countries suggests that it is still working on an ad-hoc basis (Korteweg 2018). Yet it could be that the ‘disciplinarian’ camp will generally be strengthened through the coalition, as it lends vocal ideological support for the positions that German conservatives have been reluctant to express. The Southern countries, starting with France, supported also by the European Commission, may still be downplaying the financial heft of the coalition. It could prove a crucial player in preventing more risk-sharing in the EU before risk-reduction has taken place.

In the run-up to the 2019 European Parliament (EP) elections and its aftermath there has been less mention of the Hanseatic League. There has been some speculation as to why that might be the case, and experts differ in opinion about it (interviews with the author conducted for this study). Some persons interviewed for this study speculated that Mark Rutte and Emmanuel Macron agreed to let the Hanseatic League rest for some time, as both leaders of these two countries (each member of the same party grouping in the EP) did not want to be seen to be in a standoff situation, which the Hanseatic League was seemingly doing according to some. Others interviewees have mentioned that the usefulness of a smaller group within the EU has not been large, for a number of reasons: the group is too small to be effective, there are too many differences among the group members, and finally, the Nordics were already working together and the role of the Netherlands was not immediately obvious to them. The Nordics were wondering why the Netherlands would join this group but then put itself forward as a ‘leader’ (interviews with the author conducted for this study).

Although not strictly speaking about EMU, in response to the Covid-19 crisis, a group of three of the Hanseatic League countries (Denmark, Sweden and the Netherlands) plus Austria stood up against a Franco-German initiative to raise funds to pay for the Covid-19 crisis (Government of the
Federal Republic of Germany 2020). Dubbed the Frugal Four, the prime ministers of these four countries, among other things, pointed to a reduction in funds due to the UK leaving and thus were opposed to increasing the EU budget to finance the costs of economic transfers without clear rules stipulated for paying back or some reforms (Kurz 2020; see also Government of the Netherlands 2020). In this case, the Frugal Four responded to the Franco-German initiative by having a plan of its own (Lofven 2020; Khan 2020). The plans were ad hoc. At the same time, it built on the cooperation that had taken place since 2018, in particular on matters of the EU budget and the Multiannual Financial Framework. The four could quickly whip up a plan. According to insiders, the Dutch government was not informed by the German or French counterparts that a plan was being drafted although interviewees indicated that it is possible that Dutch Prime Minister Rutte would have received quick notification just before. The Dutch knew that something like this was in the works (interviews with the author, conducted for this study). By contrast, the Netherlands and its three partners made sure to have a plan that was concrete and would enable them to be in a stronger position when bargaining would start (interviews with the author, conducted for this study).

An official working for the Dutch Ministry of Finance, interviewed for this study, pointed out that the group of member states identified as ‘Frugal Four’ has already been working together on these budgetary issues for quite some time. He argues that the Frugal Four consists of a subgroup of member states that are like-minded on matters pertaining to the EU Budget (latter also includes Germany, France, Finland, Ireland and previously the UK). The interview partner pointed out that the co-ordination among the four became more prominent in the run-up to the European Commission proposal for the upcoming Multiannual Financial Framework (MFF) in late 2017 early 2018, and has remained close ever since. The interview partner pointed out that although the focus first was on the MFF, the Recovery Fund essentially was seen as a temporary top-up of the MFF. Therefore, this group of member states was a natural like-minded group of member states for this Covid-19 recovery fund dossier as well (interviews with the author, conducted for this study). In the end the Special European Council meeting that took place 17–21 July 2020 came up with a deal that took longer in part because of demands by the Frugal Four (Quinn 2020) and in the end indeed reflected to some of their demands (European Council 2020; Fleming, Khan, and Brunsden 2020).

**Analysis**

Let us now turn to the three different propositions at the heart of this Special Issue. The first proposition is that a small state’s choice of strategies depends
on the distance between its preferences and the status quo, ranging from ‘foot-dragging’ (if preferences coincide with status quo) via ‘fence-sitting’ and ‘co-shaping’ through to ‘pace-setting’ (by those who suffer highest costs from the status quo). Indeed, the preferences of the Dutch were relatively speaking close to the status quo. They opted for foot-dragging when plans came up to deepen economic and political integration. They were not interested in making leaps of faith. Stalling (foot-dragging) was the choice for the Netherlands. To provide more ammunition for their views the Dutch were building or joining ad hoc groups: member states with like-minded perspectives. The ones discussed in this paper are the New Hanseatic League or the Frugal Four. These groups often had the tacit support of Germany, as it was often like-minded in a number of dossiers early on. The Germans would often not participate in being part of such a grouping in the very end, but officials were sometimes present in the early stages. The group would also reach out to Germany to work out the details of agreements for which there had been some general points but not the details.

The second proposition is that a small state’s choice between bargaining-based and persuasion-based strategies depends on the asymmetry of power between the small state and the hegemon (here: Germany): The larger this asymmetry, the more likely the smaller state will rely on persuasion-based (rather than bargaining-based) strategies. With regard to this proposition, the Netherlands was in a situation of asymmetry but less so than most other small member states acting on their own. The Netherlands has a relatively good rapport with Germany and therefore often can discuss their views with Germany and obtain some support. In order to strengthen its position, the Netherlands invests in finding like-minded member states, both through bilateral relationships but most notably recently by seeking alliances (groups) of like-minded member states on particular issues (New Hanseatic League; Frugal Four). However, although there was this structural asymmetry the strategy by the Netherlands has been to some extent to focus on bargaining-based strategies.

The third proposition is that a small state’s choice between strategies to influence the hegemon directly and those to bypass it depends on the institutional fabric of the relation to the hegemon: If this institutional fabric is strong (i.e. a dense regularised intergovernmentalism, many symbolic acts and practices, extensive parapublic underpinnings), small states will opt for bilateral strategies directed at the hegemon rather than taking action in multilateral settings. In the years 2019 and 2020 the Netherlands has used the Hanseatic League less than in 2018. In addition to this block the Dutch have increased their efforts to maintain and further develop their bilateral relations. Numerous ministers from the Dutch government have been embarking on bilateral missions in recent months, in order to strengthen bilateral relationships as well. The institutional fabric of the relationship between the
Netherlands and Germany is relatively dense but perhaps less so than that of France with Germany. The Dutch therefore relies also on bilateral relationships in addition to these occasional like-minded member state alliances. The Dutch maintain these bilateral relationships not only vis-à-vis Germany but also with France, Spain and Italy, and others.

**Conclusion**

The Dutch sought to influence the redesign of EMU by being prudent and withdrawn. Hence, they engaged in foot-dragging to maintain the status quo. This was evident when the Netherlands emphasised a preference for national adjustment rather than European-level risk-sharing. In this paper we sought to understand Dutch behaviours towards EMU by examining a number of follow-up questions closely connected to the core research questions of the Special Issue, namely (1) whether the Dutch choice of strategies depends on the distance between its preferences and the status quo; (2) whether its strategy is more bargaining-based or persuasion-based; (3) whether the Netherlands chooses strategies to influence Germany directly or those to bypass it. Our case studies of the New Hanseatic League and the ‘Frugal Four’ suggest that the Dutch have been trying to increase their power through coalition-building. It is unclear if this strategy has worked. The gradual petering off of the New Hanseatic League seems to suggest that this initiative did not have enough lasting impact. Yet the Frugal Four have some features that remind us of the Hanseatic League. The Frugal Four are more careful in leaving the door open for bargaining. At the same time, they are aware of the benefits associated with putting a concrete proposal on the table. The decision about the final package is often influenced by proposals that are lying on the table. In the Special European Council meeting of 17–21 July 2020, the Frugal Four (with the Dutch as leader) seemed to have been considered a serious bargaining partner.

The paper examined the New Hanseatic League and considered how this new alliance might enable small member states, led by the largest of them, the Netherlands, to push a reform agenda in the area of EMU. The conclusions suggest that the League would need to build bridges to other member states. Yet the strategies chosen ensure that as small member states the League makes increased use of pooling their political and economic weight to capitalise on their political, social and economic practices and try to influence the agenda by submitting persuasive ideas and compelling demands. They try to do so credibly and consistently through co-ordination. In a world in which the UK has left the EU and in which non-euro member states may be less influential, this strategy might assist the small member states in being more influential in pushing through their vision of what the future of EMU may look like.
Drawing on recent experiences with the Covid-19 Rescue Fund, we find that the same behaviour of the Netherlands (as part, and indeed leading member state, of the ‘Frugal Four’) is used for negotiation purposes – even if the New Hanseatic League label has been silently dropped. The Frugal Four co-ordinated positions and bargained hard and were able to achieve some of its demands.

Based on the case studies of the ‘New Hanseatic League’ and the ‘Frugal Four’ this study finds that the Netherlands chooses strategies of foot-dragging when initiatives are brought up to deepen integration when the Dutch prefer the status quo. Its strategy is more bargaining-based but at times also persuasion-based; the bargaining occurs in part because the Netherlands builds occasional alliances with like-minded member states to counterbalance the asymmetry of power between it and Germany. Finally, the Netherlands oscillates between trying to influence Germany directly or bypass it by reaching out to like-minded member states on various dossiers and tempt them to declare their position in advance.

Notes

1. German officials were present at the first meetings of the New Hanseatic League meetings (interviews with the author conducted for this study).
2. Treaty Establishing the European Stability Mechanism (ESM) between Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, The Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland, Brussels 11 July 2011. The ESM was to enter into force in 2013. The European Council of 8–9 December 2011 put that forward by a year. Temporary intergovernmental support was already existent before (Greek Loan Facility and European Financial Stability Facility or ‘EFSF’).
3. Ireland secured consumer-banking deposits, which was first dismissed by the German Chancellor Merkel as too national a solution (there was talk of finding an EU solution). But within a short time, Germany did the same (Engineer, Schure, and Gillis 2013).
4. Government of the Netherlands (2018b).
5. Government Offices of Sweden (2018b).
6. One interviewee indicated that the Germans were one of the first to indicate that if the ESM Treaty were opened up to accommodate the backstop for the Single Resolution Fund (SRF) for instance, that they would also have some other demands (interviews with the author, conducted for this study).
7. Government Offices of Sweden (2018a).
8. Czech Republic and Slovakia joined the initiative of the New Hanseatic League to propose that the European Stability Mechanism or ‘ESM’ (which is the Euro Area fund for bail-outs) be more involved in the scrutiny of national budgets. The Czech Republic is, however, currently not, and has not recently been, inclined to join the euro area.
9. An interviewee pointed out that support from Germany would be the most obvious. Germany does not want to be part of the New Hanseatic League. But still members of the NHL strive for support for their ideas as it is the more obvious choice. In the view of one interviewee, although France and
Germany determine parts of the agenda together, the details still need to be determined. The New Hanseatic League countries then seek to convince Germany in that stage (interviews with the author, conducted for this study).

10. The Baltics, newer member states, are also familiar with co-ordinating their views. They have been very keen to join the euro, staying central to European integration (see Vilpišauskas 2021).

11. On some issues such as ‘Enforcement of Budget Rules by ensuring that national fiscal authorities comply with the earlier made common rules’ (Table 1) a broader like-minded group includes also Austria, the Czech Republic and Slovakia.

12. An interviewee for this study indicated that the group would have likely come together again but with the Covid-19 crisis things were on hold on this EMU dossier.

13. Note that the discussion of the EU response to the COVID crisis is mostly EU-wide rather than related to EMU. Initially, the response was channelled through the Eurogroup (an informal setting) but still with 27 member states present. Effectively it was an informal Ecofin-council. Most initiatives were EU-wide, such as the Temporary Support to mitigate Unemployment Risks in an Emergence (SURE) or the Coronavirus crisis response through the European Investment Bank. Only the European Stability Mechanism is EMU.

14. Finland could have joined but had domestic political issues. In news media it mentioned separately being against the proposed package https://www.reuters.com/article/eu-budget-recovery-finland/update-1-finland-rejects-proposed-eu-recovery-package-in-current-form-idUSL8N2DH4PX.

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Appendix

Expert interviews conducted by the author:

Pieter Omtzigt, Member of Parliament for CDA, Dutch Second Chamber, 13 February 2019.
Adriaan Schout, Senior Research Fellow, Clingendael, 10 June 2020.
Mehreen Khan, Financial Times, 16 June 2020.
Bastiaan van Apeldoorn, Senator for SP, Dutch first chamber, 17 June 2020.
Tom de Bruijn, Previously Dutch Permanent Representation (Brussels), 18 June 2020.
UK Government Official, 29 June 2020.
Rem Korteweg, Senior Research Fellow, Clingendael, 1 July 2020.
Official of the Dutch Ministry of Finance, 13 July 2020.