Hard to Follow: Small States and the Franco-German Relationship

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Abstract

Franco-German leadership may be necessary for European integration, but it is insufficient. Other countries also have to follow. Sometimes they refuse. Examples include the Dutch rejection of the 1962 Fouchet Plan and the efforts by the new Hanseatic League to block implementation of the 2018 Meseberg Declaration. The opposition of Austria, Denmark, the Netherlands, and Sweden to the Franco-German recovery programme during the Covid-19 pandemic may be a third. Importantly, these are not moments of intergovernmental bargaining, with posturing leading to give-and-take that results in a negotiated compromise; they are moments where small states simply reject the plans the French and Germans put forward. This choice is puzzling. The smaller countries are more dependent upon the rest of Europe than the rest of Europe is on them. Not only do they have an important stake in the success of the European project, but this dependence makes them vulnerable to the threat of exclusion. Hence, France and Germany should be able to exercise the kind of go-it-alone power that will drag the smaller countries along (Gruber 2000). This paper explores two explanations for small state intransigence, one centred on political instability and the other on the politics of shared beliefs.

Keywords: Franco-German relations, small states, European Union, multiannual financial framework, Hanseatic League, COVID-19

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Hard to Follow: Small States and the Franco-German Relationship

On 22 November 2018, French Finance Minister Bruno Le Maire opened a window on the fundamental difference between large and small countries in the European context at a dinner with his Dutch counterpart Wopke Hoekstra in Paris. His ostensible goal was to push back against the 'Hanseatic League' of smaller states, which had come together under Dutch leadership to oppose a number of French and German proposals made the previous June in a joint declaration at Meseberg to redistribute risk across Europe's economic and monetary union. Le Maire framed his argument as a critique of 'closed clubs'. The member states of the European Union, he explained, should work together flexibly if they are to avoid creating lasting divisions that will undermine the European project (Khan 2018).

The obvious retort from the Dutch perspective was to question whether the Franco-German partnership is not also a sort of club. Le Maire established a categorical distinction in his response. The Franco-German partnership 'is totally different,' Le Maire argued. 'This is not a club. This is what is at the core of the European ambition: peace between France and Germany.' By implication, whatever brings the French and Germans together is good for Europe; the role of the smaller countries is not to band together in opposition, but rather to follow Franco-German leadership (Khan 2018).

The centrality of the Franco-German partnership in Europe is well established (McCarthy 1993, 2001). So is the impact of the Franco-German couple on the construction of Europe (Willis 1968). Time and again, the French and Germans have joined forces to promote efforts to move European integration ahead in the face of opposition; time and again, other European countries agreed to follow along rather than be left out. Lloyd Gruber (2000) ascribes this pattern to the notion of 'go it alone' power. That notion is more subtle than the name implies, and the European project is more complicated than a Franco-German condominium as a result.

France and Germany not only have the power to create new institutional arrangements without the participation of other countries, but – in doing so – the French and German governments change the status quo in ways that make it less attractive for other countries to be left behind. The French and Germans also create institutional arrangements that limit their own discretion, and that give other countries greater voice. This is necessary not only to make the new project more attractive for participants that might be initially reluctant, but also to ensure that it remains binding on future French and German governments. From a small state perspective, European institutions effectively 'tame' French and German power (Katzenstein 1997).

Gruber's (2000) argument goes a long way in explaining how Franco-German leadership can pull the smaller countries of Europe in its wake, no matter how unenthusiastically the governments of those countries might greet Franco-German proposals. Unfortunately for Le Maire — and for France and Germany more generally — from time to time, the governments of smaller countries still find it hard to follow. When that happens, and the smaller countries 'drag their feet', the European project runs into trouble. France and Germany can agree on an agenda to drive the process of European integration, and they can go a long way in articulating a new status quo, but they cannot succeed in their ambitions if the smaller states refuse to go along. The most famous example is the Dutch government's rejection of the Fouchet plan in the early 1960s (Silj 1967). The new Hanseatic League that Le Maire was pushing back against is a second. The opposition of the 'frugal four' to the Franco-German recovery plan (expanded upon by the European Commission) during the Covid-19 pandemic may be a third.

The explanation for this periodic opposition to Franco-German leadership rests on two different causal mechanisms – one grounded in the weakness of coalition governments in small countries; the other grounded in the propensity of small-country political elites to share strong beliefs. Weak governments may not be able to make the concessions necessary to follow Franco-German leadership, no matter how attractive doing so might be in comparison with being left behind; principled governments may not be willing. These mechanisms emerge from the political economy of small states, but they are not exclusive to small-state politics. Should larger countries go through periods of increasing political volatility or polarisation, they are also likely to find it hard to follow.

The paper has four sections. The first explains why it is useful to focus on small countries in building this argument. The second explores the limitations of the small country model. The third uses those limitations to draw parallels between the Fouchet Plan in the 1960s and the more contemporary debates about the Meseberg Declaration and the Franco-German pandemic recovery plan. The fourth concludes with implications for the future of Europe, even in the presence of active Franco-German leadership.

Size Is Not All That Matters

The popular presumption behind the argument for Franco-German leadership is based on relative size and influence. France and Germany were great powers at the end of the 19th Century, they piloted Europe into two world wars at the start of the 20th Century, and their reconciliation marks the crowning political achievement of the post-WWII period (McCarthy 2001). By contrast, compared to France and Germany, most European countries are small.

The challenge with using 'small' to describe countries for analysis is that the conventional meaning of the term is so intuitive while the academic uses are not. Few people can think of the word small without focusing on relative size. In analytical terms, however, size is not what manners – particularly in environments where political and economic relations across countries are deeply interdependent (Keohane and Nye 1973). Hence, for most of the scholarly literature, small countries are interesting because they are collaborative (Cameron 1978), consensual (Katzenstein 1985), homogenous (Alesina and Spolaore 2005), and tightly interconnected at the societal level (Orston 2018).

Of course, such countries may display these characteristics because of their relative size. Having a small population, economy, or landmass is no guarantee, however, that a country will possess the attributes that much of the literature finds analytically interesting or important (Jones 2008). Small states are diverse from one another, even when they are homogenous inside (Katzenstein 1997). By the same token, cities and regions can also be 'small' in terms of population, output, or geography, without making them worthy of study on a par with countries that have roughly the same dimensions. Statehood makes a difference: Small states can become 'member states'; non states cannot (Bickerton 2012).

This analytical bracketing of small states is particularly relevant where international regimes provide some structure for economic and political relations, which is precisely where students of the politics of interdependence would assume that small countries are somehow also weak (Gruber 2000). David

Cameron (1978) was one of the first political economists to bracket small states as a case type. Cameron's puzzle was to explain how some small countries could expose themselves to world market forces unilaterally, and without reciprocation from abroad. What he found is that openness is correlated with the generosity of the welfare state in a self-reinforcing way. Governments that created mechanisms to compensate firms or workers during periods of macroeconomic adjustment could afford to open their economies more fully to world markets, and governments that opened their economies to world markets could generate the additional resources necessary to finance a more generous welfare state. What Cameron failed to clarify in his argument was why some governments were more able to generate compensatory mechanisms than others.

Peter Katzenstein (1985) filled the gap in Cameron's argument by focusing on the emergence of institutionalised consensus. While he admitted that not all small states are consensual, Katzenstein suggested that the institutionalisation of consensus was nevertheless a logical response to vulnerability. More important, Katzenstein insisted, this consensus went far beyond the welfare state. It extended across the political parties and into the functional organisations for labor and industry. In this way, policymakers were not only able to compensate the losers in macroeconomic adjustment, but they were also able to manipulate relative prices and to direct industrial policy.

Alberto Alesina and Enrico Spolaore (2005) took the insights from Cameron and Katzenstein and built them into a more generalisable model. Within that model, Alesina and Spolaore argued that countries that are relatively small tend to have populations that are relatively homogenous. This is not a one-to-one correlation or mapping; it is, however, more likely that smaller countries will have homogenous populations than their larger neighbors. In turn, this relative homogeneity makes it easier for small state governments to build the kind of redistributive institutions that make it possible to compensate the losers in processes of macroeconomic adjustment.

Of course, such advantages come at a cost. Larger more diverse countries are better able to foster a complex division of labor domestically, for example. Nevertheless, that advantage of larger countries can be achieved when the governments of smaller countries open their economies to the international trade in goods and services. The only challenge is for smaller countries to find where they fit in an international context by establishing some specialisation within a more diverse global economy. In this way, Alesina and Spolaore (2005) are able to build into their model both the positive reinforcement between compensation and openness established by Cameron and the flexible specialisation and macroeconomic adjustment strategies identified by Katzenstein.

Collectively, these insights explain both how and why some countries that are relatively small in the conventional sense are able to organise themselves to cooperate with larger countries in an integrated world market. Specifically, these countries forge a broad domestic consensus on the need to participate in a wider and more complex cross-border division of labor; they build institutions to insulate society from the costs of adjustment to external shocks; and they create strategies for specialisation and for flexible adaptation within the context of world markets. In turn, this combination of attributes – compensation, consensus, specialisation, flexible adaptation, homogeneity – makes it easier for these countries to adapt to new situations and so to participate in the wider, multilateral arrangements that larger countries invest in creating.

Put another way, the 'small' countries that share these analytical characteristics tend to do much better within regimes that help to manage interdependence than they would trying to go it alone. As Peter

Katzenstein (1997: 304) explains: 'for smaller states, the natural means of coping with internationalisation and restraining German power is through regional integration, at the cost of changing core policies, institutions, and collective identities.' If such regimes depend upon hegemonic leadership (Keohane and Nye 1973), and Katzenstein (1997) makes it clear that Europe would be much less attractive to smaller states if Germany did not participate, these countries are well-endowed and strongly incentivised to follow.

What Could Go Wrong?

Macroeconomic adjustment is never easy and making a virtue of a necessity is a difficult business. In this sense, and whatever the analytical merits of focusing attention on countries that are collaborative, consensual, homogeneous, and interconnected, it remains true that small countries do tend to be 'small' in terms of power and resources. In turn, this relative size has an impact on how effectively they are able to participate in intergovernmental bargaining. Hence, as Diana Panke (2010) explains, it is also important to look at how well small states are able to set priorities for engagement, how skilled small state politicians are at identifying and pursuing their objectives, and how much practice small state diplomats have in manipulating the rules of the game. Being a good follower is a learned attribute that relies on skills development both at home and abroad.

Recognising this aspect is important insofar as the record of small state participation in the European project is one of repeated conflict, reassessment, and reengagement. Neither the Belgians nor the Dutch, for example, were obvious 'Europeans'. Both countries resisted participation in the European Coal and Steel Community; both worked to undermine the European Defense Community; and both threw their support behind the European Economic Community as the least bad alternative (Milward 1992; Griffiths and Milward 1986). Gruber's (2000) argument about the go-alone power of France and Germany is crucial to understand this developmental process. Even those small states that initially opted out of the European project – like Denmark, Austria, Finland, and Sweden – eventually found themselves draw into its wake.

What could go wrong? If the model for small states that emerges from the political economy literature is correct, then there are two obvious things that could get a small state government into trouble. One is for the country to lose one or more of those attributes that is necessary for fostering success. The compensation mechanisms could break down, the consensus could collapse, cooperation could devolve into conflict, or divisions could emerge that make the society somehow less homogenous (Jones 2008). The other possibility is that the beneficial attributes of being small (in analytical terms) remain in place and yet the political leadership of the country somehow heads off in a direction that is incompatible with the prevailing pattern of complex interdependence (Ornston 2018).

These problems in the small state model complicate their ability to follow Franco-German leadership in different ways. A breakdown in those mechanisms for compensation or consensus building can reveal deep divisions within the societies of smaller countries that make it impossible for their governments to make concessions abroad. This is the reason that Katzenstein (1985) chose not to include countries like Greece in his classic study of *Small States in World Markets*, for example. The editors of this collection highlight different 'strategies' for small countries to assert influence. The result in this case, however, is not so much a 'strategy' as an inability to act strategically in dealing with Franco-German proposals because of the potential that any concession to Franco-German leadership would unleash powerful domestic conflict.

A possible breakdown is easy to imagine. The characteristic attributes of small countries are fragile. Compensation mechanisms – like welfare state institutions everywhere – need constant maintenance in order to remain adaptive to changing demographics and lifestyles. Some welfare state models are more resilient than others, some are more equitable, and some rely more heavily on the market to underpin them, but all are in constant need of reform. Moreover, the politics of that reform tends to be conflictive and, when it is not conflictive, it tends to be slow moving. There are exceptions to these tendencies. The Dutch polder model is often held up as an illustration of timely, consensual adaptation; the Danish 'flexicurity' arrangement attracts attention as a paradigm for market-complementing self-adjustment. The mistake, however, is to assume that whatever success these countries have in the present implies that their policies and politics today are similar to what they had in the past. If they have achieved a new formula, that is only after going through a period of intense domestic conflict and as a result of a very different political and economic accommodation (Hopkin and Blyth 2019).

Perhaps the easiest way to demonstrate this difference is to look at the evolution of political competition. Most of Europe's 'small' states started the postwar period with a small number of dominant parties that commanded consistent support from specific electoral constituencies. Those parties not only intermediated the interests of the voters, but also interacted closely with organised interest groups like employers' associations and trade unions. This is the model that Katzenstein (1985) celebrated. Over time, however, new political parties entered the political arena, electoral volatility increased, party identification declined, and the connection between formerly hegemonic parties and organised interest groups loosened. Whether this evolution was due to industrial development, modernisation, or globalisation is hard to untangle. What is clear, however, is that this pattern of developments has had an impact on the orientation of welfare state development, pushing the focus from labor market institutions to health care, for example (Green-Pedersen and Jensen 2019). As a result, even countries with well-articulated compensation mechanisms like Denmark are unable to 'mitigate economic uncertainty' to the same extent (Rathgeb 2019).

The attitudes of people living within small countries are liable to change as well. Electoral volatility is only part of the story, albeit an important one. As political parties compete for support using welfare state reform as an instrument, they are likely to prioritise different parts of the welfare state for protection depending upon the core constituency it serves – shielding pensions on the right, and labor 'new social risks' on the left, for example (Abou-Chadi and Immmergut 2019). Another is the sense of solidarity across members of society. Immigration has had an important impact on popular attitudes toward the welfare state. The direction of change depends depending upon the circumstances, including the structure of party-political competition (Burgoon and Rooduijn 2020). In some cases, voters turn away from redistributive politics; in others they seek to limit the scope of redistribution to those who are most 'deserving' (Naumann and Stoetzer 2018, Attewell 2020).

More fundamentally, perhaps, societies tend to become more polarised, parliaments more fragmented, and government institutions less representative even if political parties become more responsive to a more fluid electorate (Ferland 2018, Dassonneville 2018). Of course, such tendencies are hardly limited to small states. You can find evidence as easily in Austria as in Germany, for example (Helbling and Jungkunz 2020). Nevertheless, such tendencies are important to the ability of small state politicians to form coalition governments. They are also important for those governments to make compromises at the European level insofar as they weaken the bonds between voters and political parties while at the same time constraining the possibilities for coalition formation.

The Netherlands is a good illustration of this dynamic. During the early postwar period, a very small number of political parties dominated Dutch politics, with the hegemonic Christian Democrats at the center. Fast forward to the early 21st Century, and the Christian Democrats play a relatively marginal role while the political center is all but empty. This configuration is not unique to the Netherlands. A similar pattern exists in Belgium and across Scandinavia. This configuration is, however, unstable (Pellikaan et al. 2018). Not only does it complicate the process of government formation, but it also makes it challenging to hold any coalition together (van Holsteyn 2018). In turn, that fragility makes it hard for any Dutch government to compromise on issues where views are strongly held within either the parliament or the electorate.

This notion of strongly held views is the other area where being 'small' in analytical terms is important. The reason is that small, tightly knit societies are likely also to be highly conformist insofar as they show strong adherence to social norms (Booth 2018, Ornston 2018). Here the issue is not that the governments might be unable to make concessions to Franco-German leadership, but that they would be unwilling. This hews more closely to the notion of 'strategy' as set out by the editors of this collection, but it is a strategy that looks from the outside as bordering on unreasonableness. The leaders of small countries find themselves so tightly surrounded by voices expressing the same viewpoint that they may not see any reason to make concessions because they believe they hold the moral high ground or the strongest arguments, or both.

Consider three illustrations from three different finance ministers representing three different Dutch political parties: the liberal Gerrit Zalm openly attacked the Franco-German decision to hold the excessive deficits procedure in abeyance in November 2003 (van der Velden 2005: 112-115); the social democrat Jeroen Dijsselbloem (2018: 233-238) explained his opposition to cross border transfers by suggesting in a March 2017 interview that southern Europeans had wasted their money on women and drink; and the christian democrat Wopke Hoekstra suggested that there should be an investigation into why the southern European countries were so unprepared to respond to the COVID-19 crisis. Each of these interventions backfired and yet none of the speakers seems to regret the position they took – only that their choice of words may have caused offense to non-Dutch listeners. Conformism is about the strength of adherence to social norms, in that sense, rather than about the content of those norms.

The danger comes in the form of what Darius Ornston refers to as 'overshooting', which is the tendency of small, tightly knit political communities to embrace an idea once it becomes popular, to quell or silence any opposition, and then to push that idea to an extreme. Very quickly, support for an idea because synonymous with participation in the community. As one of Ornston's (2018: 20) interview subjects explained in the context of Finnish monetary policy: 'There is room for debate in certain areas but other areas debate is not acceptable or if you debate you run the risk of becoming excluded.' This tendency is easiest to illustrate in terms of investment decisions, like the Swedish drive to promote heavy industry after the Second World War, the Finnish reliance on telecommunications, or the Icelandic fascination with banking. Nevertheless, it applies a range of different policies or institutions.

Of course, there is a tension between this area for concern and the idea that small states might lose their ability to foster compensation, consensus, cooperation, homogeneity, and linkages. The two problems that might emerge in the small state model could at least partly cancel each other out in that respect. As Ornston (2018: 201) put it: 'greater fragmentation and polarisation could erode reform capacity, but also mute the exaggerated policy reforms and sharp shifts in corporate sentiment that caused so much volatility in the past.' By the same token, however, the two tendencies could also reinforce one another in the sense political actors find themselves without the ability to change strongly held views or widely shared norms once these become entrenched given the relative fragility or instability of the political environment – and no matter how much external pressure might come to bear. Such a combination is more likely to foster 'foot-dragging' than 'fence-sitting' or 'pace-setting'. The small country government can resist any proposal, but they cannot be indifferent, and neither are they likely to be persuasive to any larger state not experiencing the same combination of social forces.

Three (plus) Illustrations

The illustrations focus on the Netherlands. This may seem unfair given that the Dutch see themselves as a middle-sized country, rather than a small one (Rood 2010). Focusing on the Netherlands is useful, however, because the country demonstrates the characteristic features of small states in the terms highlighted in the political economy literature. It has elaborate and well-funded mechanisms to compensate those who lose out from integration with world markets, it has a long reputation for consensual politics, strong institutions to foster cooperation, and it had a unique formula – called consociational democracy – for relying on tight linkages among elites to make an otherwise deeply divided country behave like a homogenous one (Lijphart 1969).

The Dutch also have an idiosyncratic approach to European institutions and to Franco-German leadership. Although they were initially skeptical about supranational arrangements, for example, the Dutch quickly came over to the view that organisations like the European Commission are very useful in preventing Europe from evolving into a Franco-German condominium (Rood 2010: 121-123). In most accounts, this transformation took place sometime during the late 1950s and early 1960s – shortly after Charles De Gaulle emerged as President of the French Fifth Republic.

Overshooting: Luns versus De Gaulle

De Gaulle proposed to expand the scope of the European project from economics to politics by organising coordinating meetings among the foreign affairs ministers of the original six participants in the European Economic Community – France, Germany, Italy, Belgium, Luxembourg and the Netherlands. Many of these countries were reluctant to participate in this new arrangement, but only the Dutch were steadfast in opposition. This opposition lasted more than two years. At important points, the Dutch Foreign Minister, Joseph Luns, came under immense pressure to go along with the French project. That pressure increased dramatically once the German Chancellor, Konrad Adenauer, threw his support behind the venture. Nevertheless, Luns held out – even as he recognised the weakness of his position and the real possibility that the rest of Europe may move forward and leave the Dutch behind (Vanke 2001: 102).

A large part of this opposition was principled. De Gaulle's vision of Europe contradicted a number of core Dutch foreign policy objectives, including maintaining close relations across the Atlantic (Harryvan

2007: 141). Nevertheless, principle alone is not enough to explain the strength of Dutch obstructionism – particularly given that Luns was well-known for being pragmatic, rather than ideological. For Jeffrey Vanke (2001), the answer lies in consensus. Luns' policy not only drew support from across the cabinet, but it was also very popular within the Dutch electorate. Mathieu Segers (2010) disagrees, pointing out that the cabinet was not united and that other ministers were more inclined to make concessions. Hence, while it is true that Luns' position was popular with the Dutch public, Segers argues that it was only De Gaulle's self-destructive interference in the negotiations that saved the Dutch from inevitably backing down. Anthony Teasdale (2016) falls somewhere in the middle, underscoring the fact that Luns had sole constitutional authority to conduct foreign policy while at the same time making it clear that it was De Gaulle who made the choice to change his strategy toward Europe having decided after more than two years of opposition that facing down the Dutch was no longer worth the effort.

This episode illustrates what Ornston (2018) describes as 'overshooting'. The point is not that the Dutch government did something 'wrong' or 'inappropriate'. Rather it is that they persevered well beyond expectations. The results of Dutch actions went beyond expectations as well. The Dutch position changed the course of European integration by reinforcing the central role of the European Commission and by provoking a conflict with France that resulted in the 'Luxembourg Compromise' (Harryvan 2007). Moreover, the illustration works even if we concede that the Dutch cabinet was divided. What matters is the strength of the broader consensus on the importance of pushing back against the threat of Franco-German condominium and the reluctance of elites to break with the constitutional authority of the foreign minister. Put another way, no one in the Dutch cabinet pushed back against Luns, as hard as Luns was willing to push back against De Gaulle.

Interlude: Moments of Failure

This is not to suggest that the Dutch have always succeeded in getting their way at the European level. Indeed, it is useful to illustrate moments where the Dutch took strong positions only to be knocked down. These illustrations do not 'count' for the argument about why small state governments might find it hard to follow; on the contrary, they confirm expectations that small country opposition can be overrun – particularly when the goal is something closer to 'pace setting' than to 'foot dragging'. One of those moments came toward the end of the Maastricht Treaty negotiations, when the Dutch assumed the rotating presidency. The Dutch state secretary for European affairs, Piet Dankert, introduced a new draft treaty for negotiation that strengthened the European Commission by avoiding a three-pillar organisation. That draft was quickly rejected (Jones 1993: 127-128).

Another example came in the early 2000s, during the debate about how to enforce the excessive deficits procedure within the stability and growth pact. The French and German governments did not want to involve sanctions; as mentioned, Dutch finance minister Gerrit Zalm disagreed (van der Velden 2005: 97-118). Zalm not only pushed to ensure that the regulations were enforced but also joined with the European Commission in filing a legal complaint with the European Court of Justice when that did not happen. He ultimately won in court, but his actions had little impact on the course of events.

These illustrations of failure are useful as a reminder that the Netherlands is a small country in the conventional sense. They are also a good reminder that Dutch politicians are willing to brave isolation in defense of principle, even if they know the chances of success are slim. Dankert sought to protect the role of the European Commission as a bulwark against Franco-German condominium; Zalm sought to underscore that even France and Germany should follow the rules. When he did so, Zalm recognised that his efforts were likely to prove futile: ‘The danger is that the larger member states will not like us because we have too big a mouth, and the smaller ones because they see you cannot achieve anything with a big mouth’ (van der Velden 2005: 115). The Dutch can slow things down, but they cannot set the pace for European integration.

Mixed Motives: The Meseberg Declaration and the New Hanseatic League

A second illustration of Dutch influence against the odds centers around the creation of a fiscal instrument within the euro area – which was the focal point in the conversation between Bruno Le Maire and Wopke Hoekstra at the start of this essay. This is another case of ‘foot dragging’. The debate emerged as part of a broad speech about the relaunching of the European project by French President Emmanuel Macron in September 2017. Among a host of other proposals, Macron (2017) argued that Europe needs a common budget both to foster greater macroeconomic policy coordination and to stabilise macroeconomic performance in the face of adverse shocks. For this to work, however, Europe would also need some kind of political control over the budgetary instrument. Hence Macron also proposed the creation of a new position that would be equivalent to a finance minister for Europe. The placement of these goals in a disjointed list of initiatives should not detract from the significance of this specific combination of features. On the contrary, the development of a European budget large enough to stabilise macroeconomic performance and a political authority able to exercise discretion over how that budget should be used is a long-standing French ambition (Jabko 2015).

The Dutch government was formed only after this proposal was announced, following an unusually long period of coalition talks (van Holsten 2018). Macron’s ambitions were well known when the new Dutch government drafted its coalition agreement. The decision to include strong statements about European fiscal policy in the agreement is significant, even if the relevant sections come toward the end of the document. The four constituent parties committed to promoting national responsibility in fiscal matters, including ensuring that any financial risks within national banking systems are reduced before responsibility for those risks is shared from one country to the next. More important, the agreement makes it clear that the new Dutch government does not support the idea of fiscal transfers or of the creation of a macroeconomic stabilisation mechanism at the European level (VVD et al. 2017: 50). Such views were not out of line with other countries. The German coalition partners had issued a ‘non paper’ just the day before making it clear that the creation of a European Finance Minister would require a substantial change in the European treaties. Nevertheless, it was important that the Dutch government underscored its opposition to Macron’s plan in its own founding document.

By January 2018, the German coalition partners suggested they might be more supportive of having a fiscal instrument at the European level that could be large enough to play a role in stabilising macroeconomic performance. By June of that year, the German government was ready to join with Macron in issuing a declaration at Meseberg, Germany, to call for the creation of: ‘a Eurozone budget within the framework of the European Union to promote competitiveness, convergence and stabilisation in the euro area, starting in 2021’ (Meseberg 2018). Such a proposal was far beyond what the Dutch cabinet was willing to accept. Indeed, already in March 2018 the Dutch government organised a group of smaller member states to emphasise that ‘a stronger EMU require first and foremost decision actions at the national level' and ' building up fiscal buffers in national budgets,' that the EU should 'focus on initiatives that have public support within in Member States', and that 'stronger performance on national structural and fiscal policies …. should have priority over far-reaching proposals' (Denmark et al. 2018).

The French and German governments pushed the agenda they outlined in the Meseberg declaration throughout the year and in anticipation of the December 2018 European Council summit where they hoped to find agreement on concrete proposals. Over the same period, the group of small states organised by the Dutch government would resurface time and again to oppose any measures that could result in fiscal transfers across national boundaries or that could evolve into a macroeconomically significant European fiscal authority. This opposition proved crucial, and it explains why Le Maire was so eager to push back against Hoekstra. Although the French and Germans made a final effort to persuade their colleagues to adopt a Eurozone budget 'to promote competitiveness, convergence and stabilisation in the Euro area' (France and Germany 2018), the European Council could agree only on the creation of a 'budgetary instrument for convergence and competitiveness', without the macroeconomic stabilisation function and with access to only limited resources.

The Dutch had an influence on this conversation that went well beyond the relative size of the Netherlands (Dekker et al. 2019). The success of Dutch opposition to this Franco-German initiative lies in a wide range of factors, including important divisions within Germany itself. The same was true of Dutch opposition to French ambitions to reorganise Europe in the early 1960s. But the resilience of the Dutch government in the face of strong Franco-German pressure can be explained at least partly as a result of principled commitment (or what Ornston [2018] might call 'overshooting') to the notion of national responsibility in fiscal matters. It is likely also a function of the fragility of the Dutch coalition government in the face of a rising tide of skepticism toward Europe in Dutch public opinion and within the Dutch political system. This is an example of where the two different mechanisms run together, and it is difficult to determine which is more important. Throughout 2018 and 2019, the four parties that make up the Dutch coalition government polled well below what they would require to hold onto their one-seat majority even as a new 'Forum for Democracy' emerged as the largest political party in the May 2019 elections to the Dutch Senate. The Dutch prime minister, Mark Rutte, had made a promise that no more money would flow to Greece shortly before the third Greek bailout in 2015, and he suffered politically when he wound up supporting that bailout. As a result, both he and his coalition partners were wary of repeating the experience. Once having started to drag their feet, they found it easier to dig in their heels than to make concessions to Franco-German leadership.

Another Mix: The European Recovery Fund and the Frugal Four

The onset of the COVID-19 pandemic meant that the issue of macroeconomic stabilisation at the European level could not be put to rest. Almost immediately, the Italian government began to call for the mutualisation of sovereign borrowing instruments in order to hold down the cost of its access to credit. This idea was quickly picked up by other countries in southern Europe and at least partly championed by the French government. In response, the Dutch government organised a new group of allies to push back against the idea of debt mutualisation and against any issue of grants in lieu of national borrowing. Hoekstra's call for an investigation into why governments were not better prepared to respond to the crisis with their own fiscal buffers, as mentioned earlier, was simply a return to the theme of national responsibility (von der Burchard and Schaart 2020).

Hoekstra's comments drew massive criticism from other parts of Europe that dramatically increased the pressure on the Dutch government to make concessions in the interests of solidarity. Nevertheless, the Dutch held firm. When the French and German governments issued a proposal to add €500 billion to the European Union's seven-year multiannual financial framework to be used as grants to support those countries and sectors worst-stricken by the pandemic (France and Germany 2020), the Dutch government and its allies insisted that any European facility should focus on loans and that any loans should be made conditional on efforts to prepare better for the next crisis. The European Commission proposal that followed leaned more toward the Franco-German perspective, placing a new loan facility on top of €500 billion in additional spending (European Commission 2020). Undeterred, the Dutch government wrote an explanatory note to the Dutch parliament insisting that its position on the issue remained unchanged (Netherlands 2020). The Dutch prime minister also signed a joint opinion piece for the *Financial Times* resisting any addition to European fiscal authority and any transfers across national borders (Lofven 2020).

The strength of the Dutch government's position is again a mixture of popular support and political fragility. The Dutch prime minister's liberal party benefited from the government's performance during the crisis with a huge growth in popularity. Where in February, the government's polling put the coalition almost twenty seats short of a majority in the Dutch Second Chamber, the rise in support for the prime minister's party suggested the coalition could retain its narrow majority if the country faced snap elections. Moreover, separate polling showed an overwhelming majority of the Dutch population from all parts of the political spectrum supported the government's position on European fiscal policy and rejected the proposals made by the European Commission and by the French and Germans (Kane 2020). These factors all point to what Ornston (2018) calls overshooting – again, not in the sense that there is anything wrong with the Dutch position, but in the sense that the consensus around that position goes beyond expectations and any opposition is muted.

The volatility in Dutch political preferences is nevertheless worth underscoring (von der Burchard and Schaart 2020). At least part of the rapid rise in support for the prime minister's party came from polling respondents who would otherwise have supported parties more skeptical of European integration. Part also came from the collapse of a political movement focused on issues important for the elderly. Their support for the prime minister is more fluid than fixed. The Dutch political system still has no center (Pellikaan et al. 2018). This does not prevent the Dutch government from making concessions at the European level, but it does raise the potential cost in terms of domestic political support. The higher that cost in terms of political instability, the more likely the Dutch coalition is to continue to drag their feet rather than make concessions to France and Germany.

Hard to Follow

The open question is where the Dutch government and its allies will find a compromise in the negotiations over a European recovery fund. However, the location of that compromise is less important than the fact that the Dutch have joined with other small European countries to push back against French and German ambitions on an issue of major importance for the European project. And this is not the first time that the smaller countries of Europe have played such a prominent role in resisting Franco-German leadership. The French and the Germans may still believe that their reconciliation lies at the core of the European integration process, but that belief no longer translates easily into a claim to play a guiding role.

This difficulty in asserting Franco-German leadership is not necessarily negative. Indeed, it is possible that the principled stands taken by the Dutch, among others, have proven critical in preventing Europe's political leaders from overextending their joint project in ways that would later prove unsustainable (Vanke 2001, Teasdale 2016). The reason for seeking to understand why the smaller countries seem to exert more influence than their relative size would suggest is to anticipate how widespread this kind of behavior is likely to extend across other member states. In turn that helps in setting expectations about the likelihood for conflict to arise when governments of different countries take principled stands that are mutually exclusive.

Using insights from the literature on the political economy of small states, it is possible to argue that at least part of the strength of small state resistance comes from a mixture of domestic political fragility and strong ideational commitments in the form of shared norms and ideas. Certainly, there is evidence that is the case in the history of Dutch policies toward European integration. These factors do not alone explain Dutch influence, but they do suggest important elements to look for in other countries. This conclusion is no place for an extended speculation about the tense standoff between the Dutch and Italian governments during the COVID-19 pandemic.

Suffice it to say that both governments – the Dutch and the Italian – may be experiencing very similar influences as they push for very different European fiscal arrangements. If so, the advantage is likely to fall to the Dutch who are dragging their feet against Italian efforts to set the pace. The conflict between them may be hard to reconcile in any lasting manner no matter what kind of compromise is reached. The implications for German power and for the future of Europe are uncomfortable. The French and German government can still try to lead in this context, but governments in other countries are finding it harder to follow.

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