

Hoping For Balance and Convergence

Highlights

- ★ As a trading nation, the Netherlands has in particular valued the EU's economic dimension. This also includes the EU's geopolitical influence as it requires a major trading bloc to sway international negotiations. Moreover, it has always strived to balance powers in Europe and feels that the EU is a good vehicle through which to do so.
- ★ The Dutch do not want a super state by stealth. They oppose the idea of a political union with the Commission as the government under the political authority of the European Parliament. Relatedly, a fiscal union with major transfers between Member States is not popular in the Netherlands. A stronger EU in Dutch eyes implies stronger member states rather than "more Europe".
- ★ The Netherlands will remain leery of further integration as long as national reforms are not implemented. In the case of the Eurozone, the country would welcome the implementation of economic convergence scrutinised over time, contrary to what has been done in the past.

Building Bridges project

This paper is part of the Building Bridges Paper Series. The series looks at how the Member States perceive the EU and what they expect from it. It is composed of 28 contributions, one from each Member State. The publications aim to be both analytical and educational in order to be available to a wider public. All the contributions and the full volume *The European Union in The Fog* are available here.



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About Building Bridges

Called "Building Bridges Between National Perspectives on the European Union", the project aims to stimulate the public debate around national experts on the relationship between their Member State and the EU and on the future of the Union. This project confronts their visions with others' from different member states, but also those of people from different horizons via workshops in Warsaw, Madrid, Paris and Brussels, which took place in 2015 gathering experts and local citizens.

The project is coordinated by the French Institute of International Relations (Ifri) with three major partners: the Polish Institute of International Affairs (PISM), Real Instituto Elcano and EUROPEUM—European Institute for European Policy. The project has also benefited from the support of institutes in each Member State.

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What does your country hope to gain from its membership to the European Union?

For the Netherlands, the history of European integration has been, first of all, dominated by economic motives. The Netherlands is an open trading economy that benefits from liberalised markets. The European benefits can be seen in the trade surplus of the Netherlands with both the older and newer European countries. Enlargement has been a major economic success for the Netherlands. To support global trade flows, the Netherlands also attaches great importance to the geopolitical influence of the EU. International standard-setting requires a major trading block. For example, aviation safety standards and medical standards, among others, are determined by and large by the EU together with Japan and the US. Moreover, environmental policies and refugee policies require the power of the EU, for example in relation to Turkey (refugees) or China (environmental standards).¹

Secondly, the Dutch also joined the EU for political reasons. From the 16th century onwards, the Netherlands has been concerned with “balance” on the European continent, in various ways. Given its size and geographical location, the Netherlands defended the status quo and neutrality for itself. A small trading nation needs balance of power. Overpowering nations abuse their powers and, hence, thwart trade relations indirectly (through mercantilist policies) or directly (through war). To preserve the balance, the Netherlands has always made sacrifices in terms of its national interests.² After World War II, the Netherlands saw France and Germany agreeing on trade deals. Moreover, it feared Belgium was ahead in opening trade relations with its neighbours. In reaction, steps were made to initiate broader European liberalisation in which the Netherlands was

included.³ Similarly, the Netherlands pushed for the creation of Schengen (1985) when it saw that France and Germany had agreed on bilateral free movement of people at Saarbrücken (1984). Conversely, it may be argued that a strong European defence cooperation has been kept at bay partly due to the Dutch fear of French-German domination on the European continent.

The pursuit of balance was also underlined by the former Minister of Foreign Affairs, Frans Timmermans, in 2013 in his letter to *The Financial Times*, in which he emphasised that the European Parliament (EP) should not become too influential in the agenda setting of the Commission. Instead he pleaded for an agenda setting process in which the European Council is closely involved. When the Council seemed too strong (for example in the 1980s), the Netherlands supported the Commission and the EP. However, now that the EU institutions seem to be on the winning side, The Netherlands is in favour of a stronger Council. When the first steps towards European integration were taken, it was the Netherlands that blocked a permanent presidency of the Council because it feared that the chair would be dominated by France and Germany. Balance of power and the resulting pragmatism is thus part of the Dutch political DNA.

The Netherlands also defends the balance between the roles of Member States and the European institutions. The EU is regarded as complementary to national governments. Subsidiarity is therefore one of the core principles of integration that the Netherlands has been pushing for over the past 25 years. Slogans used have included: “National what can be done national; EU what has to be done at EU level”, “a focused EU”, and “better regulation”.⁴

Finally, the Netherlands is convinced that it cannot detach itself from Germany. Even though the euro was originally regarded as a dangerous project, it made - in the Dutch perspective - no sense to stay out of the euro given that the Guilder was directly linked to the German Mark. The Netherlands joined the EU with a view to the internal market but the euro-project was partly forced upon the Netherlands as a result of French-German negotiations.

Do you think that the European Union appears to be a clear project in your country? If not, what are the main reasons?

42% of the population is in favour of the EU while the remainder is divided between smaller shares of undecided or EU-critical opinions.⁵ Instead of being surprised by the EU-criticism, this scepticism can be regarded as a normalisation of European integration in Dutch politics.⁶ National politics is not undisputed

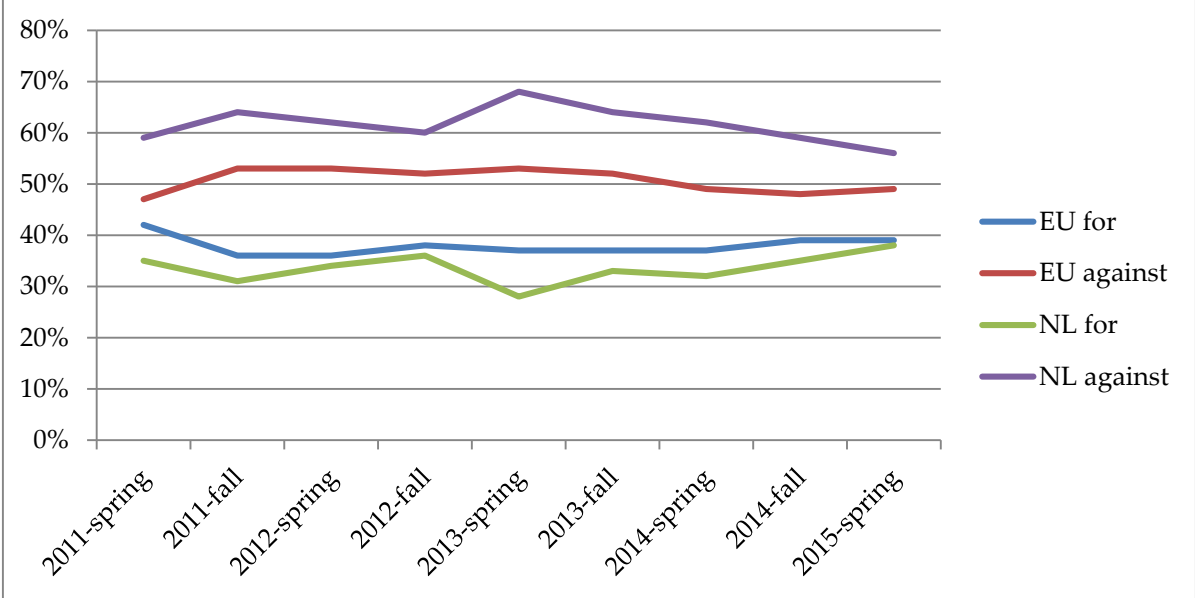


Figure 1 Support for enlargement. Source: Eurobarometer, Q 42.

The search for open markets and the preference for European power balances have typified Dutch EU interests. The Netherlands aims to balance between the European countries, between the Member States and the EU institutions, and between the EU and NATO. For the Dutch, trade functions best with balance on the continent. In its search for balance, the Dutch have regarded their leeway within the EU as limited given the overriding importance of Germany in economic and political policies. As a small country, the preference for political status quo has dictated the need to forego its immediate interests and to join the euro.

either. The Dutch were lukewarm Europeans in the 1950s and have remained so. The euro and other policies (such as free movement of people) have always been part of critical popular discussions. Similarly, European Central Bank (ECB) President Mario Draghi's quantitative easing is publicly criticised by the President of the Dutch central bank as well as by leading commentators in the media.

Discussions about the "finalité" of the integration project existed at the start in the 1950s but ebbed away when it became clear that the internal market was the core. The euro-project rekindled those discussions up to the point that the Dutch vetoed the Constitutional Treaty in 2005. Different reasons explain this

veto, but part of the debates concerned the symbols of European state formation such as the European flag and the European hymn. However, the Netherlands supported the emergency measures to save Greece and EU banks and initiated new measures to deepen European integration. Clearly, successive governments did not want a European failure or persistent uncertainties thwarting economic stability.

In a similar vein, the Dutch public is critical of enlargement (figure 1) and is against European integration by stealth. The referendum on 6 April 2016 on the Deep and Comprehensive Free Trade Area (DCFTA) with Ukraine was called for by 450,000 signatures that had been gathered within six weeks. These signatures are a sign of the fear of enlargement by stealth. The DCFTA text is largely about economic measures as a basis for deeper economic integration. Yet, especially the first 15 of the 325 pages of the DCFTA agreement contain political references to enlargement. This association agreement with Ukraine provoked tough criticism on opaque integration forced on the public.

As the referendum on the DCFTA with Ukraine, or the veto against the Constitutional Treaty in 2005 underline, it is often easier to talk about what the Dutch do not want. It does not want a super state, enlargement, economic instabilities, or political dominance by France and Germany. Moreover, it does not want a political union with the Commission serving as government, under the political authority of the European Parliament, nor a fiscal union with major transfers. The influence of Dutch Finance Minister and President of the Eurogroup Jeroen Dijsselbloem as one of the five presidents was used to downplay political ambitions in the

Five Presidents Report on the future of the Eurozone.

Which degree of integration seems adequate to the position and ambitions of your country both politically and economically?

As Commission President Jean-Claude Juncker stated in his first State of the Union, the EU is in a bad shape and the EU has to regain the trust of the public. The implications of his words are actually not clear. Juncker has been emphasising different paths that the EU should follow. First of all, Juncker seems to suggest that trust in the EU is the main problem, which is questionable (see below). Secondly, he has been underlining the need for reform at the national level and for tangible results. Juncker's remarks seem important but they border on inconsistency. His predecessor José Manuel Barroso presented a blueprint in 2012 for a "Genuine EMU" that included a fiscal union with a substantial fiscal capacity controlled by the European parliament. The Five Presidents Report from 2015 was more abstract about longer-term integration objectives.

The vagueness of Juncker's course is a cause for concern as it might reflect a hidden agenda towards deeper integration. Most political parties are split over European integration. The right of centre Liberal Party (VVD) has a major eurosceptic wing alongside a more open-market wing. The Labour Party (PvdA) has been losing voters to the more left-wing Socialist Party (SP) which is quite eurosceptic. What the parties have in common is that they, by and large, fear ever more federalisation. Even the traditionally pro-European left of centre liberal party (D66) is, now that it is growing in the polls, positioning itself more as a realist (instead of uncritical pro-EU) party.

This places the Dutch take on the EU slightly in opposition to Juncker's ambitions to solve problems, because Juncker's search for output legitimacy might imply greater federalisation generally. Creating growth would be dangerous in the Dutch public debate if that were to involve European integration by stealth. Similarly, it is highly likely that the Dutch public will be sceptical of further ECB activism, of the European Commission stimulating investments, of youth employment plans or of discussions on higher EU budgets and related EU taxes ("own resources"). Following the logic of "no representation without taxation & no taxation without representation", moves towards a fiscal union will inevitably imply building a European government, likely to be resisted in the Netherlands.

Yet, the degree of aspired integration may not be the right question. The *type* of integration is much more important. Any level of integration appears to be potentially acceptable, as long as it is built on strong Member States.⁷ The Netherlands is willing to work towards a stronger EU coast guard policy, a strong European union, a stronger EMU, a stronger Schengen, etc. However, this should not be equated with "more Europe". A stronger EU is identified as essential but that requires stronger Member States. Currently, "more EU" is seen as a result of failing Member States. Interviews with Dutch officials show that reinforcement of banking supervision, of EMU and of Schengen are the result of the lack of implementation and respect for EU rules at the Member State level. An EU with strong Member States can make do with a limited "Union", as underlined by the interest in keeping the EU budget restricted to 1% of the European GDP. This also means that the EU institutions should remain modest in size and ambitions – the EP should not be too

powerful and the Commission should not become a government with a fiscal capacity. The EU should be defined in terms of its added value - not as an entity in itself independent of Member States. The EU should be a layer to improve the functioning of the Member States, rather than being an end in itself.

This also means that political and economic union are unacceptable as long as Member States do not function as responsible Member States. The internal market has suffered from problems in the implementation of EU legislation; the Eurozone has bounced against failing banking supervision and a lack of economic reforms; and the Schengen zone is under threat because of a lack of respect for its rules.

According to you, how could we strengthen the idea of belonging to a common European public sphere among your national citizens?

In many EU Member States, the "European public sphere" may depend on specific policies or on specific symbols. For example, some countries expect EU policies to be aimed at creating employment so that, in Juncker's words, people regain trust in the EU. The common European sense in the Netherlands is probably related to the trust people have in the ability of Member States to manage their own affairs. For the Dutch, some policies and preferences are clear. Yet, more important is probably the general trust in the quality of the national institutions.

As regards EU policies, there are of course some specific policy preferences on the Dutch EU agenda. The Dutch presidency note and related official "state of the EU" papers have emphasised over the past few years: a focused deregulated market, a smaller European

Commission, growth and jobs, which includes liberalisation of services and international trade agreements, and to “reconnect” with the public. In addition, the Netherlands has always been in favour of a common environmental policy to ensure a level playing field, sustainability and international leverage in this area. A specific policy priority these days is the social agenda with a view to “reconnecting” with the public by providing stability and welfare: labour mobility should be “fair” which implies that mobility from Eastern Europe should not undercut Dutch social entitlements (“same pay for same work” agenda).⁸

Yet, the Dutch seem to have difficulties with an EU based on weak Member States that fail to reform and that, therefore, expect the EU to deliver prosperity where their weak national administrations and national institutions fail.

Member States can be governed/controlled on the basis of rules (see the Maastricht criteria of low inflation and ceilings to budget deficits). Draghi seems to have put this debate about rules (i.e. a strong role for Member States within the constraints of the rules) versus institutions (i.e. European “governmentalisation”) to an end. He declared in 2015 that the EU institutions have been the solution to the euro crisis and that the root cause of the economic crises were weak Member States. Similarly, interviews with EU civil servants show that Member States are more broadly identified as the core of the EU’s predicament; and that federalisation is the solution.⁹ Hence Juncker’s “the EU has to regain trust” through lowering interest rates and by offering jobs and growth.

This preference for federalisation by means of relying more and more on EU institutions as

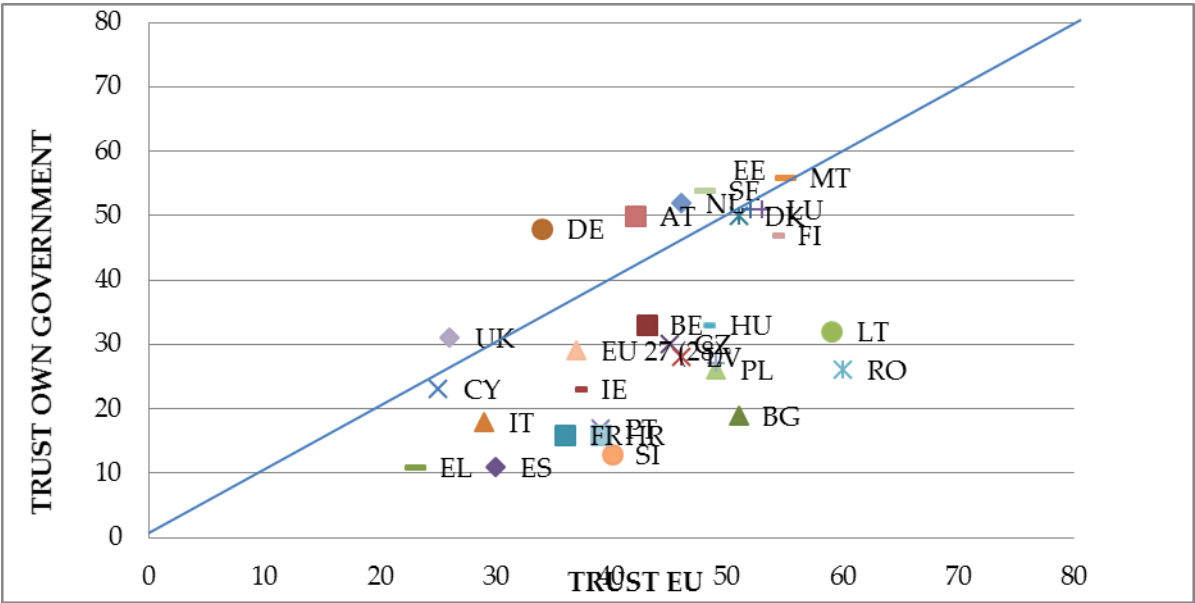


Figure 2 Trust in EU and own government (2014). Source: Eurobarometer.

The euro crisis has put the question of the appropriate governance model to achieve convergence back on the agenda. The debate on economic governance has always been about the question of whether the EU institutions should centralise/federalise, or whether the

the way forward is dangerous for two reasons. First, complex systems theory simply leads to the conclusion that centralisation is impossible without stable sub-systems.¹⁰ This seems to be particularly relevant for the EU: 28 Member States with such differences in dynamics,

innovation capacities, climatic conditions, histories, preferences, and so forth, cannot be governed from “Brussels”. This implies that Draghi could be a risk-factor in the history of European integration and he is openly criticised in the Netherlands by the president of the Dutch central bank among others. Of course, he has also emphasised the importance of national reforms, but his view on the European finalité seems to be wobbly at best. Draghi personifies the pragmatic will to “do good” in the Mandarin tradition, while lacking a convincing finalité-model to win public or political support in the Netherlands.

The second aspect concerns the diagnosis. Figure 2 shows that the core problem is not lack of trust in the EU but in the Member States.

In 2014, a minority of Eurozone - or EU - countries had a higher trust in themselves than in the EU. The analysis over time shows that particularly in Germany, trust in the EU is falling whereas trust in itself remains high. Low and decreasing trust in the EU level has different causes, including poor economic performance. However, the presence of weak national institutions in one country also erodes trust in the EU in other countries.¹¹ Hence, it is too simple to only link low trust in the EU mainly to a lack of European integration or, as underlined by many economists,¹² to a lack of centralisation. Lack of trust in the EU demands, first of all, stronger Member States instead of a stronger EU.

The impact of weak governments is clear when linking economic competitiveness to institutional criteria. There are strong correlations between competitiveness and the rule of law, government effectiveness, control of corruption and regulatory quality.¹³ Overall, in terms of competitiveness, the Eurozone is descending on the world competitiveness

ranking. On the whole, the Eurozone dropped 28 places on the global competitiveness ranking between 2006 and 2015. While convergence failed, the EU also lost out in terms of global competitiveness. This trend is bad enough for the internal markets - competitive European markets produce more jobs - but it also presents a direct threat to the Eurozone as a lack of convergence leads to pressures to deepen European integration, to further centralisation and, as a result, to increase support from European (or at least: Dutch) citizens.

The figures also show some similar patterns. Western European countries tend to be in the upper regions, and East and Southern European countries in the middle and lower regions. Time series show that East European countries are catching up but that convergence remains an issue with the South. This is not the place to discuss the connection between these variables related to the rule of law and the quality of law, but, suffice to say, national institutions do matter.¹⁴ In fact, the rule of law, government effectiveness, control of corruption and regulatory quality are significant factors in explaining both the lack of convergence and the decrease in national and European trust. This opens areas for new discussion on the functioning of European policies and networks connected to national competitiveness and, hence, to economic convergence. For that reason, Foreign Minister Koenders focused on good governance, administrative renewal and reform in his first EU lecture.¹⁵

Which policies would you deem essential to conduct at the EU level in order to better legitimise the European project?

European integration and Member States were, for a long time, seen as operating in a win-win situation. A stronger EU implied strong Member States.¹⁶ The euro crisis as well as other

crises, such as the banking crisis and the refugee crisis, could now be game changers. In addition, Mario Monti's report on the EU's own resources could lead to European taxes.¹⁷ These trends may well imply a new relation between Member States and the EU institutions: one of a win-lose relationship. A higher EU budget will involve lower national budgets in the same sense as European banking supervision has implied a loss of Member States' authority in banking supervision.

An alternative trajectory may well be to upgrade national institutions, thus checking the trend towards centralisation. The first step for this is the recognition of the importance of the win-win relationship between Member States and European integration. This leaves room for the ambitions towards deeper integration, but not at the expense of Member States and national governments. An erosion of national institutions seems to be a dangerous development, at least in the Dutch context.

The second step would involve bringing the debates back to economic convergence. At the start of the euro debates, between 1969 (the Werner report on Economic and Monetary Union) and the early 1990s, the question was raised as to whether economies should converge first (the economists school) or whether convergence would follow monetary integration due to differences in interest rates (monetarists school). The economists were

basically side-lined by the deadline of 1999. Much to the regret of the Netherlands, convergence was no longer a requirement but was hoped to be the result of monetary integration. It was the lack of convergence - i.e. the lack of national reforms - that resulted in the euro crisis and that triggered the impossible debates about an economic and political union.

This leads to the fundamental debate about how to ensure economic convergence. As discussed, this firstly requires deep institutional reforms at the national level. Here the EU has a major challenge: creating Eurozone rules has failed so far, and relying on Draghi's preference for "governmentalisation" of EU institutions is probably also not a solution. The earlier Lisbon Process to reform national policies and institutions on the basis of naming and shaming similarly failed. The only option, similar to the way in which other crises (e.g. food crises, building EU aviation safety mechanisms) have been solved, will probably be through European network building, and thus establishing mechanisms for independent scrutiny and control.¹⁸ This has worked quite well in the past. The Dutch hope, therefore, is to go back to European integration as a win-win situation in which Member States and the EU are reinforced at the same time. The first requirement is to demand and manage economic and institutional convergence at the national level.

Endnotes

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