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Free Riders, Allies or Veto Players?

Preferences and Strategies of Smaller Creditor States in the Euro Area

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'If Lilliputians can tie up Gulliver, or make him do their fighting for them, they must be studied as carefully as the giant' (Keohane, 1969, p. 310)

Introduction and Research Questions

This EIF Working Paper presents the main findings of the research project 'Free Riders, Allies or Veto Players? The Role of Small Creditor States in the Euro Area'. The two-year project (2018-20) is funded by the Austrian Central Bank[1] and directed by Gerda Falkner, Head of the Centre for European Integration Research (EIF) at the University of Vienna (Department of Political Science). The project investigates how smaller creditor states in the eurozone – such as Austria, the Netherlands or Finland – pursue their preferences[2] in the shadow of German 'hegemony' (see Bulmer, 2014; Schild, 2020b; Webber, 2019). Are they just free riders or do they pursue their own agenda in the Economic and Monetary Union (EMU)? What strategies do they use to realize their preferences, and what determines their respective choice? In searching for answers, the project also scrutinizes whether smaller states in the north of the eurozone do really form a coherent camp of creditor states, as is usually portrayed in the academic literature and the media.

By answering the above questions, the project sheds light on the role of those eurozone states that often remain understudied due to their size. Building on original elite interviews with European Union (EU) and member state officials, the project also offers the first academic study of the recent emergence of the 'New Hanseatic League'. As a result, the project findings allow us to reflect on the implications for future EMU governance and reform. On the one hand, we can assess the room for manoeuvre that smaller creditor states have when acting in the shadow of German hegemony or a Franco-German compromise. On the other hand, we can evaluate the extent to which future EMU reform will depend on the role of smaller creditor states. This question is particularly relevant in the light of the present negotiations on Corona crisis management in EMU: Are

[1] Funding by the Oesterreichische Nationalbank (Austrian Central Bank, Anniversary Fund, project number: 17643) is gratefully acknowledged.

[2] Preferences are understood as an actor's evaluative rank order of possible interaction outcomes (Frieden, 1999, p. 42).

smaller creditor states likely to free ride on Germany's negotiation efforts, act as faithful allies, or even block further capacity-building in EMU?

Empirical Relevance

Exposing the institutional 'design failures' of EMU (see De Grauwe & Ji, 2015; Hall, 2012; Jabko, 2015), the eurozone crisis has brought about two phenomena that characterize current eurozone politics. *First*, there is a deep cleavage dividing the eurozone into a camp of 'debtor states' belonging to the south of the eurozone, and a camp of mostly northern 'creditor states' (Lehner & Wasserfallen, 2019). Creditor states can be defined by their sound fiscal position (Armingeon & Cranmer, 2018), current account surplus (Frieden & Walter, 2017) or even cultural-religious traits (Hien, 2019, 2020). What remains the same is the resulting core group of states, namely Germany, the Netherlands, Austria, Finland and the Baltics, and their interest in national adjustment (austerity) rather than capacity-building at the European level (solidarity). *Second*, Germany has moved centre stage in the European Union (Paterson, 2011). Based on its economic strength, the largest creditor state in EMU has reached an unprecedented position of power. While this has led to a mushrooming literature on Germany's new role as a potential hegemon in the eurozone (Bulmer, 2014; Schild, 2020b; Webber, 2019), there is hardly any research on how smaller creditor states, such as Austria, Estonia or Finland, pursue their preferences in the shadow of Germany.[3]

Sceptics may argue that it is not necessary to study the role of smaller creditor states in EMU, given that these states share Germany's preferences anyway.[4] Moreover, even if their preferences diverge from those of Germany on single issues, one could expect smaller creditor states to free-ride on Germany's leadership (Schoeller, 2018a, 2019) as this would still be the least costly strategy. However, already a quick look at eurozone crisis management reveals a different picture: neither do smaller creditor states necessarily share preferences with Germany, nor do they always free-ride. When it came

[3] For the few exceptions, see below 'State of the Art and Gap in the Literature'.

[4] As Janning has pointed out, this corresponds to the view of the German Chancellor Merkel, who has not pursued a distinct alliance strategy toward the smaller creditor states because she has expected them to be on her side (2012, p. 139).

to the first bailout of Greece, for instance, Slovakia was the only eurozone member that decided not to participate, and the Netherlands firmly insisted on the involvement of the International Monetary Fund (IMF), although the German Treasury under Schäuble rejected the idea in the beginning. When the German Finance Minister tabled the original Dutch proposal of a 'super-commissioner' supervising national budgets, the Finnish government opposed the idea because of the concomitant loss of sovereignty. Another example is Luxembourg, which despite sharing the typical features of a creditor state promoted the idea of Eurobonds.[5] More recently, eight northern EU countries, calling themselves the 'New Hanseatic League' (New Hansa), have repeatedly announced their common position on the governance and reform of EMU, thereby circumventing Germany and its hegemonic position in the eurozone.

These particular dynamics in the eurozone are in line with more general developments at the global, European, and national level. On a global scale, the retreat of the United States as a reliable partner for Europe causes concerns among smaller states. Fiscally conservative states such as the Netherlands fear that Germany could make concessions to France in EMU in order to achieve further integration in other policy areas such as defence. The Baltics, by contrast, push for more integration to hedge against geopolitical risks emanating from Russia. At the European level, 'Brexit' gives small liberal states reason to mobilize, too, as they have lost a powerful ally. At the national level, finally, the rise of populist radical right parties creates a 'constraining dissensus' (Hooghe & Marks, 2008) with regard to further integration and thus makes it more difficult for smaller states to follow a Franco-German compromise. These macro-level developments increase the need for smaller creditor states to amplify their voice and pursue their preferences independently from Germany and the United Kingdom.

Hence, investigating the preferences and room for manoeuvre of small creditor states will allow us to draw implications for future EMU governance and reform. Do single proposals simply stand and fall with German preferences, or are there realistic alternative outcomes that originate from smaller creditor states? Moreover, when analysing eurozone decision-

[5] For a quantitative assessment of member states' opposition to Germany in some instances of eurozone crisis management, see Armingeon and Cranmer (2018, p. 10). While their figures display member states' ultimate positions, they cannot reflect the interaction that preceded the adoption of their final stance.

making and its outcomes, political scientists have mostly looked at Germany and France (Degner & Leuffen, 2019; Schild, 2013, 2020a; Schoeller, 2018c), assuming that the respective preferences of creditor and debtor states are represented by these two countries (e.g. Schimmelfennig, 2015). The present research reassesses these assumptions by focusing explicitly on the particular preferences and strategies of smaller creditor states. This includes not least the recent emergence of the New Hansa, which has not yet been examined from an academic perspective.

State of the Art and Gap in the Literature

There is a distinct strand of literature dealing with the role of small states in international relations (IR) (see Archer et al., 2014; Chong & Maass, 2010; Cooper & Shaw, 2009; Ingebritsen et al., 2006). The origins of this literature date back to the 1960s, when mostly US-American scholars discovered that alliances with the United States increased the influence of small states on American foreign policy (see Keohane, 1969, 1971). Paradoxically, small states were thus found to exercise substantial influence over great powers through alliances and multilateral institutions (Lindell & Persson, 1986). Partly based on this work, a second strand of literature has focused on the particular role of small states in international political economy (see Bishop, 2012; Bohle & Jacoby, 2017; Verdun, 2013). The arguably most seminal work in this strand of literature is Katzenstein's (1985; see also 2003) study of small states in world markets. In his work, Katzenstein examined how small European states reacted to the challenges of globalization and liberalization. His book also marks the bridge to a second strand of literature, which deals with the particular role of small states in the EU.

For a long time of European integration, little attention was paid to the role of small states (for an exception, see Jones, 1993). However, since the 1995 enlargement of the EU, political scientists have increasingly turned to the role played by small states in Europe (Archer & Nugent, 2002; Goetschel, 1998; Jakobsen, 2009; Nasra, 2011; Thorhallsson & Wivel, 2006). In so doing, they also focused on policies outside the realm of foreign and security issues (Arter, 2000; Lee, 2004; Panke, 2010a; Thorhallsson, 2000). On the one hand, this literature has highlighted the structural disadvantages of small states in the EU:

'Small states have fewer votes, undersized staff and fewer financial means' (Panke, 2010b, p. 801). Moreover, the size and openness of their economies provide little bargaining leverage when it comes to issues of Single Market or economic governance in the EU. On the other hand, scholars revealed alternative sources of power that are typical of small states. First, their small administrations allow for more informality, flexibility, and autonomy in EU decision-making (Baillie, 1998, p. 200; Thorhallsson, 2015, pp. 2-3). Second, relative gains of small states are less threatening to their larger partners, whereas losses or concessions are deemed less acceptable (Baillie, 1998, pp. 202-204). Third, small states may profit from their typical role as a broker between larger member states in EU negotiations (Maes & Verdun, 2005, p. 343; Thürer, 1998, p. 39).[6] Finally, a crucial but often neglected way of compensating for structural disadvantages is the use of particular strategies (Björkdahl, 2008; Grøn & Wivel, 2011; Schure & Verdun, 2008). The arguably most comprehensive approach in this regard has been presented by Diana Panke, who differentiates between capacity-building activities and shaping strategies (Panke, 2010a).[7]

However, despite this diversity of approaches, only few scholars have dealt with the role of small states in EMU. Jones et al. (1998) examined how the preparation for EMU membership affected national agendas, but they did not look at the diplomatic strategies used to influence EU decision-making. Two contributions dealt with the role of small states in EMU governance and reform in particular: Maes and Verdun (2005) analysed the roles of Belgium and the Netherlands in the creation of EMU, concluding that they played a significant role as pace-setter and gate-keeper, respectively. Chang (2006), by contrast, compared the behaviour and treatment of Germany and France under the EMU's Stability and Growth Pact (SGP) to those of smaller member states and found that larger states had been privileged.

[6] In line with this, Thomson (2008) has shown that the role of small states in the decision-making of the Council is not to be underestimated: models taking into account only the preferences of large member states are less accurate in predicting outcomes than models considering small member state preferences as well.

[7] Capacity-building strategies aim to compensate for size-related disadvantages by investing bureaucratic resources and increasing expertise on priority issues. Shaping strategies serve to directly influence negotiations' outcomes. They can be persuasions-based, such as arguing, framing or lobbying, or consist in bargaining strategies, such as coalition-building or brokering.

Hence, while there is an *acquis* of literature on which this project can build, we still lack knowledge about the decision-making strategies or 'diplomacies' (Cooper & Shaw, 2009) of small states in IR and the EU (see also Long, 2017). By investigating these strategies, rather than the capabilities or competences of small states, this study responds to the need to 'shift the focus from the power that states *possess* to the power that they *exercise*' (Steinmetz & Wivel, 2010, p. 7). Empirically, the study breaks new ground by focusing on the diplomatic strategies of small EMU member states. In particular, the specific subgroup of small *creditor* states in the eurozone has not been studied so far.

Conceptualization

The literature in IR and European Studies offers a multitude of strategies that small states may use to pursue their preferences. In Europeanization research, Börzel (2002) has proposed a useful distinction between three types of behaviour, namely 'foot-dragging', 'fence-sitting' and 'pace-setting'. Drawing on this typology, the present study proposes that the choice of a certain type of behaviour depends on the distance between an actor's preferences and the status quo, ranging from 'foot-dragging' (smallest distance), via 'fence-sitting' and 'co-shaping', through to 'pace-setting' (largest distance).

If actors prefer the status quo to any policy or institutional change on the table, they will use a veto or at least threaten to do so, build counter-coalitions and blocking minorities, or try to delay the decision-making process in other ways (e.g. through rhetorical action). Given their limited power resources, the forming of counter-coalitions with other states is arguably the most prominent of these strategies. Although such *foot-dragging* strategies may not suffice to prevent a policy or institutional change altogether, they can bring about concessions (package deals), compensation (side-payments), or derogations (opt-out clauses).

As a second option, small states may also free-ride on the leadership of more powerful actors. In the realist school of IR, such behaviour has been described as 'bandwagoning for profit': small states share or subordinate their preferences to those of more powerful states because they 'are lured to the winning side by the promise of future rewards' (Schweller, 1994, pp. 88-89). This behaviour is comparable to what Börzel has labelled '*fence-sitting*' in the context of Europeanization (Börzel, 2002, pp. 206-208). If states do not fear any significant costs from the pro-active behaviour of others, they may adopt a passive position in the decision-making process. As opposed to 'bandwagoning', which is a deliberate decision to side with the more powerful, 'fence-sitting' states adopt a neutral position or even build changing coalitions. Be it through 'bandwagoning' or 'fence-sitting', free-riding can be seen as the default strategy of smaller states, since their efforts to change or maintain the status quo against the will of more powerful states are often unsuccessful or disproportionately costly. Hence, the study expects small states to opt for 'fence-sitting' if they fear that any action may be more costly than the expected outcome (be it status quo or change).

This does not preclude that small states may be faced with situations in which they conclude that active participation in the decision-making process pays off. In such cases they may use 'shaping strategies' (Panke, 2010a, pp. 20-29) to influence the outcomes in the desired way ('*co-shaping*'). These strategies range from bargaining strategies such as issue-linking and coalition-building to persuasion-based activities such as framing and shaming (see Table 1). While the former build on a logic of consequentiality and negotiation theory (e.g. Héritier, 1999, pp. 16-18; 2007, pp. 40-66), the latter originate in a logic of appropriateness, communicative (Risse, 2000) or rhetorical action (Schimmelfennig, 2003, pp. 194-228).

In addition to the general diplomatic strategies known from the IR literature and listed in table 1, a number of strategies have been identified as particularly suited for small states. One of those is to 'go public' (Keohane, 1971, pp. 175-179). Assuming that actors behave strategically to pursue their self-interest, but are bound by normative standards, smaller states can bring norm-based arguments to the public in order to shame larger states into making concessions (see Schimmelfennig, 2003, pp. 194-228). Another possibility is to bypass powerful states by contacting international or supranational institutions. Several authors have found that maintaining an intense relation to the European Commission constitutes a crucial strategy of small states in the EU (Geurts, 1998; Panke, 2010a, pp. 21-22; Schure & Verdun, 2008; Thorhallsson, 2015, pp. 3-4).[8] Yet another small state strategy

[8] Janning has argued, however, that the increasing politicization of the Commission gives more leverage to the large member states, which is why it has lost its significance as an ally for small states (2012, pp. 137-138).

is to exert influence through national officials occupying influential positions, such as the chairmen of preparatory bodies or Director-Generals in the Commission (Thürer, 1998, p. 39). In this regard, Tallberg (2006) has shown that the rotating Presidency of the Council is an effective way to pursue national interests in EU negotiations, which is another opportunity for small member states to punch over their weight (Janning, 2012, p. 136).

Finally, once a group of states has decided to actively co-shape the decision-making process, the question arises who will move first and '*set the pace*' for others to follow. Generally speaking, it is rather unlikely that small states with their limited resources take on such leadership (Schoeller, 2019, pp. 33-40). However, in line with the study's general proposition (see above), it can be expected that those states suffering the highest status quo costs will move first as they have most to lose from continuity. Hence, in situations in which there is much at stake and no opportunity to free-ride on the leadership of more powerful states, small states may emerge as 'leaders by default' (see Schoeller, 2018b, p. 87).

Table 1: Small state strategies

<table>
<tr><td>Divergence of preferences form status quo</td><td colspan="4">low → high</td></tr>
<tr><td>Role</td><td>Foot-dragging</td><td>Fence-sitting</td><td>Co-shaping</td><td>Pace-setting</td></tr>
<tr><td>Strategies</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Bargaining ↑</td><td>Veto</td><td></td><td>Issue-linking</td><td></td></tr>
<tr><td></td><td>Threat of veto</td><td></td><td>Pre-negotiations</td><td></td></tr>
<tr><td></td><td>Counter-coalition-building</td><td>Passive coalition-building</td><td>Active coalition-building</td><td>Unilateral action</td></tr>
<tr><td></td><td>Filling influential positions in IOs</td><td></td><td colspan="2">Filling influential positions in IOs</td></tr>
<tr><td></td><td>Delaying</td><td></td><td>Acting as broker</td><td>Agenda-setting</td></tr>
<tr><td></td><td>Going public</td><td></td><td colspan="2">Going public</td></tr>
<tr><td></td><td>Shaming</td><td></td><td>Shaming</td><td></td></tr>
<tr><td></td><td>Lobbying</td><td></td><td colspan="2">Lobbying</td></tr>
<tr><td>↓ Persuasion</td><td>Framing / Arguing</td><td></td><td colspan="2">Framing / Arguing</td></tr>
</table>

Reference: Own compilation

Data Collection

Given that most of the relevant data to assess small creditor states' strategies is publically not available, the most important data source are semi-structured interviews with officials who have been directly involved in the relevant issues of EMU governance and reform (see Hammer & Wildavsky, 1989).[9] As, for instance, Brian Rathbun points out, interviews are often the only way to infer preferences independent of action (2008, pp. 690-691). They thus allow the investigator to avoid the tautological trap of first inferring preferences from observable behaviour and then explaining behaviour with recourse to preferences. In addition, interviews can be an efficient way of gathering data and obtaining valid results (Bogner et al., 2009, p. 2). Therefore, this study relies on a rich body of 31 semi-structured elite interviews with mostly high-ranking officials working in the relevant ministries in eurozone member states, EU institutions and Permanent Representations in Brussels (for a complete list see below). These in-depth interviews are complemented with five background talks with experts on EMU politics and reform.

After an early explorative interview with a former President of the Eurogroup Working Group, a first round of semi-structured interviews were conducted with EU officials from the General Secretariat of the Council, the Secretariat of the Economic and Financial Committee, the Eurogroup Working Group, the European Commission, the Single Resolution Board, and Permanent Representations in Brussels. The information obtained was complemented with a second round of interviews in the ministries of eurozone creditor states where the national positions and strategies are shaped. Subsequent phone interviews were added to fill remaining gaps in knowledge and clarify open questions. In order to obtain relevant information, the respondents were guaranteed strict confidentiality. With a view to increasing the reliability of the material, several officials from each country were interviewed independently of each other and questions suggesting causal relationships or social desirability were omitted. Moreover, open questions were inserted to rule out that any important position or strategy was neglected. If the respondents agreed, the interviews were recorded. Otherwise, handwritten notes

[9] While in the German-speaking world such interviews are often referred to as 'expert interviews' (Bogner et al., 2009), the Anglo-American methodological debate usually speaks of 'elite interviews' (Peabody et al., 1990). However, the central methodological issues as well as the respective target groups are largely identical (Littig, 2009).

were made during and immediately after the interviews (Hammer & Wildavsky, 1989, pp. 70-71).

The information obtained was triangulated with other types of sources, such as government declarations and non-papers, Euro Summit Statements, Eurogroup reports and term sheets, legislative proposals and communications from the European Commission. Where necessary, the material was further complemented with secondary sources such as press articles and policy briefs.

Findings

This section gives an account of the empirical findings. In a first step, the focus is on preferences, showing that despite a general interest in national adjustment (rather than European risk-sharing) the preferences on current issues of EMU governance and reform diverge among smaller creditor states in the eurozone. The second sub-section reports on the strategies that these states use to realize their preferences. It finds that small creditor states in EMU do not pursue diplomatic strategies in a systematic or organized way. They rather act *ad hoc* and make issue-specific use of single strategies such as coalition-building or framing via personal channels. At the same time, they usually refrain from deploying hard bargaining strategies such as veto threats or brinkmanship. The third sub-section investigates the diverging levels of activeness of smaller eurozone creditor states, pointing to a continuum of activeness with examples at both extremes. The fourth sub-section, finally, presents the findings on the recent emergence of the New Hanseatic League (New Hansa) as a coalition of smaller creditor states in EMU. Although the New Hansa reflects the features outlined in the preceding subsections, such as its *ad hoc* character, issue-specificity and internal heterogeneity, it is still an unprecedented phenomenon in EMU politics, which may point to a new emancipation of smaller creditor states vis-à-vis Germany and other powerful eurozone member states.

Preferences – not so homogeneous

It has become almost a truism that the preference constellation in EMU reflects a cleavage between creditor states in the north of the eurozone, which prefer national adjustment (austerity) and structural reforms, and debtor states in the south, which instead advocate European risk-sharing (solidarity). Arguing that the camp of creditor states is represented by Germany as its most powerful proponent, while debtor states interests' are advocated by France, political scientists have focused on Germany and the Franco-German relationship rather than scrutinizing the particular preferences of smaller creditor states (e.g. Schild, 2020a, 2020b; Schimmelfennig, 2015; Schoeller, 2017, 2018c). A notable exception is the Horizon 2020 project 'EMU Choices', which assessed the preferences of member states on EMU reform between 2010 and 2015. While this data points to a more differentiated picture, it still seems to confirm the creditor-debtor divide during the eurozone crisis years (Wasserfallen et al., 2019). However, we do not know whether this divide has persisted after the immediate threat of the eurozone crisis faded. Thus, the alleged homogeneity of preferences in the camp of creditor states has remained a largely unchallenged assumption.

The findings of the present project, which focuses on current EMU governance and reform, reveal that the preferences of eurozone creditor states are less homogeneous than usually portrayed in the academic literature and the media coverage. Arguably the most salient example in this regard is the controversy over a Eurozone Budget, where the positions of Germany clearly diverged from those of smaller creditor states. On 19 June 2018, Germany and France proposed in the so-called 'Meseberg Declaration' to establish a Eurozone Budget 'to promote competitiveness, convergence and stabilization in the euro area... . Resources would come from both national contributions, allocation of tax revenues and European resources. ... It could finance new investments and come in substitution of national spending.'[10] Although this Franco-German compromise was far less ambitious than the original proposal by French President Emmanuel Macron, it was a clear commitment to a genuine eurozone budget with an explicit stabilization function existing independently of the EU budget. The Netherlands, Austria and other small creditor states announced strong opposition (Interviews BRU7, DE1, DE2). As a closely

[10] https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806 last accessed 2020-04-06.

involved Dutch official explained: 'when it comes to this idea, we have totally different ideas because our government is not in favour of this stabilization function' (Interview NL2). Most prominently, Dutch Prime Minister Rutte stated unmistakably 'I would never support more stabilisation mechanisms at eurozone level' (cited in Valero et al., 2019).

At the Eurogroup meeting of 13 June 2019, eurozone finance ministers finally agreed on the crucial features of a Budgetary Instrument for Convergence and Competitiveness (BICC). At this occasion, the creditor states led by the Dutch succeeded in blocking all key features of a stabilizing and genuine Eurozone budget while realizing their own preferences of a conditional reform delivery tool within the EU budget. From the outset of the negotiations, the Dutch drew two red lines in the Council: no stabilization function and no budget outside the Multiannual Financial Framework (MFF) (Interview NL6; also DE1, NL1, NL2). In addition, most features were agreed along the lines demanded by the Netherlands and the New Hansa countries. In particular, the instrument would focus on structural reforms and investments, require national co-financing, be linked to the European semester and thereby to Country-Specific Recommendations, and its size would be decided only within the MFF framework (Interviews NL1, NL2). As a Dutch government official stated after the negotiations: 'We would never call it a eurozone budget. We would always say it's an ... EU budget instrument for Convergence and Competitiveness ... So it's a little bit like the reform delivery tool the Commission has proposed earlier' (Interview NL1).

When the pending issues of allocation and financing were negotiated at the Eurogroup meeting of 9 October 2019, diverging preferences became visible not only between Germany and smaller creditor states, but even within the New Hanseatic League. The allocation issue concerned the question of how much of the funds would flow back to the member states providing them. Negotiations started with a 50% floor. Germany and Finland did not demand any floor at all, albeit for different reasons.[11] By contrast, the Netherlands argued for a floor of 85%. In the end, the Netherlands prevailed in the negotiations, as the final compromise provided for a 70% floor for at least 80% of the funds (Interviews DE1, FI4). The second key issue regarded the provision of additional

[11] While Germany considered full flexibility to be important given the small size of the instrument, Finland had legal concerns because of existing cohesion policy provisions.

funding through an Intergovernmental Agreement (IGA). While Germany argued in favour of an IGA, the Netherlands, Finland and Austria were against the proposal. A final decision was postponed to the MFF negotiations. At the Eurogroup meeting of 17 February 2020, finance ministers adopted a report on a possible IGA. Among other things, the report confirmed that participation in an IGA would be voluntary.[12]

In summary, in the controversy over the Eurozone Budget, the preferences of smaller creditor states diverged from the German position. Despite a Franco-German compromise on the establishment of a Eurozone Budget, smaller creditor states succeeded in blocking a genuine Eurozone Budget and instead realizing an agreement on a reform delivery tool within the EU budget. In addition to the divide between Germany and smaller creditor states, the latter were divided as well. For instance, Slovakia was explicitly in favour of a stabilizing Eurozone Budget and Estonia would have agreed to a stabilization function if integrated in the MFF, whereas the Netherlands and Austria were clearly against any distributional budgetary instrument (Interviews AT1, BRU2, EE1, EE2, NL1, NL2).

A preference constellation that is almost the reverse of that of the Eurozone Budget has emerged in the case of the European Deposit Insurance System (EDIS). The Commission formally proposed a regulation to establish EDIS on 24 November 2015[13], but no agreement has been found to date. Among the creditor states, Estonia is clearly in favour and would support even the original Commission proposal. In principle, Austria supports the establishment of EDIS as well and successfully advanced the debate under its EU Presidency in 2018. The Netherlands are more sceptical, but would be ready to go ahead under strict conditions, such as a reduction of government exposure to banks, an asset quality review, harmonized insolvency regimes for corporates and banks, and a binding agreement on low levels of non-performing loans. On a continuum between full support and total opposition, the Netherlands would thus find themselves somewhere in the middle. Germany, by contrast, has blocked EDIS from the outset of the discussions and is thus the main veto player. A more accommodating position expressed by German finance

[12] https://www.consilium.europa.eu/en/press/press-releases/2020/02/17/eurogroup-report-on-a-possible-intergovernmental-agreement-for-the-budgetary-instrument-for-convergence-and-competitiveness/ last accessed 2020-04-16.

[13] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52015PC0586 last accessed 2020-05-22.

minister Scholz in November 2019 in the *Financial Times*[14] has been considered as rather symbolic and, due to the hardly realizable conditions attached, no real change of position (Interviews AT1, DE1).

A further example of preference divergence within the camp of eurozone creditor states regards the regulatory treatment of sovereign exposures: whereas the Netherlands strongly advocate regulation aimed at reducing the concentration of sovereign debt in the balance sheets of national banks, Austria is clearly against such regulatory disincentives, which is not least a reason Austria has not joined the New Hansa so far (Interview AT1). The preferences of creditor states diverged also with regard to the revision of the European Stability Mechanism (ESM). For instance, the Netherlands preferred the inclusion of the International Monetary Fund (IMF) in the assistance programmes, which was clearly opposed by Finland (Interview FI3). By contrast, the Netherlands opposed the introduction of a precautionary credit line, which was advocated by Germany (Interview NL6). Another example regards the 85% majority voting rule for ESM emergency decisions, which leaves a veto to Germany, but not to smaller states, and thus created an additional divide between big and small states. In the case of the Banking Union, finally, the camp of creditor states is divided into so-called 'home countries', such as Austria or the Netherlands, and 'host countries', such as Estonia or Slovakia (Interviews BRU2, EE3).[15]

In addition to such concrete preferences on EMU reform, underlying interests and ideas diverge with regard to the type of further EMU integration. As a strongly involved top official explained, countries have different 'visions' of EMU integration. Whereas the Netherlands, for example, advocate a model based on supranational rules, Finland prefers a sovereignty-based system. According to the latter, fiscal discipline cannot be imposed from above, but must be 'home-grown'. A sovereignty-based model would therefore imply full reliance on market discipline and the exclusion of any kind of financial assistance between member states. As a consequence, there would also need to be the option to leave

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[14] https://www.ft.com/content/82624c98-ff14-11e9-a530-16c6c29e70ca last accessed 2020-05-22.

[15] 'Home countries' are those where large, multinational banks reside. 'Host countries' are those where the subsidiaries of these banks are located. These subsidiaries are often systemically important for the host countries, while they are only of marginal importance for the home country. The conflict line between home and host countries therefore revolves around the question of who will bear the risks if a multinational bank goes bankrupt and the shock spreads to the subsidiaries.

EMU. If, by contrast, fiscal restraint is imposed through supranational rules, the EU would also have to provide for the welfare of member states as 'those who call the shots have to bear the responsibility' (Interview FI4). With regard to 'monetary solidarity' in EMU (Schelkle, 2017), the Finnish view also diverges from the German approach[16], which accepts intergovernmental financial assistance as 'ultima ratio', but only against strict conditionality to be negotiated between 'debtors' and 'creditors' and supervised by technocratic institutions. According to the Finnish perspective, trading financial assistance against member state solidarity is bound to generate toxic political debates within member states. Instead, federal structures serving the same goal should be built, where public services (such as unemployment benefits) are provided directly from the EU to the citizens (Interview FI4). In summary, as the above examples demonstrate, the preferences in the camp of eurozone creditor states are more heterogeneous than meets the eye.

Strategies – ad hoc *and issue-specific*

While we find that eurozone creditor states pursue their preferences by using diplomatic strategies in the way conceptualized by our framework, we also observe that they do not deploy these strategies systematically.[17] Instead, we find evidence for an issue-specific *ad hoc* use of strategies such as coalition-building (see below: 'The New Hanseatic League'), framing and persuasion by promoting technical or normative arguments via personal channels and the press, and applying the 'power of the chair' (Tallberg, 2003) through presidencies and chairmanships. Generally speaking, smaller creditor states refrain from using hard bargaining strategies or even putting in a veto. Thus, while they may well act as 'foot-draggers', they would rather accept a second-best option than ultimately blocking an issue. On the other side of the continuum, we find our expectation confirmed that smaller states rarely act as 'pace-setters' by setting the agenda and/or acting unilaterally.

[16] This approach has been fortified in the eurozone crisis (Donnelly, 2018; Seikel & Truger, 2019, pp. 6-7), but may be changing with the current Corona crisis.
[17] Moreover, the use of strategies varies considerably between smaller creditor states (see below: 'Activeness – striking asymmetries').

Hence, we find them most often in the position of 'fence-sitters' and 'co-shapers' (see Table 1 above).

The most prominent strategy of smaller creditor states is to build or join coalitions. As many interviewees argued, coalitions are a particularly effective way for smaller countries to be influential (e.g. Interviews AT1, EE1, EE3, FI2, FI4, NL3) and thus to compensate for their 'structural disadvantages' (Panke, 2010a, 2010b). This strategy is illustrated in more detail below using the recent example of the New Hanseatic League. A second important strategy for smaller states is to use the personal relationships between government officials in order to share ideas at their Brussels meetings or mutual visits. Such an exchange of views takes place at different levels, ranging from civil servants via 'deputies' through to the level of ministers. The arguments that are exchanged at such occasions regard either technical issues or normative ideas, but in both cases they serve to promote the own position. In the case of technical or legal arguments, the feasibility or non-feasibility of a given proposal may be claimed. By exchanging normative arguments, by contrast, a concrete proposal may be approved or disapproved by relating it to established overall values or stated policy priorities ('framing', see Björkdahl, 2008; Princen, 2011, p. 933). Less frequently, such normative arguments are also published through the press ('going public') (Interviews AT1, FI2, FI4, NL1, NL7).

Yet another way for smaller creditor states to pursue their preferences in EMU is to make use of Presidencies or Chairmanships. While we find no evidence for such instances in the more technical preparatory bodies, such as the Eurogroup Working Group, confirming evidence can be found at the higher political level. Thus, if smaller states hold crucial political positions such as the President of the Eurogroup or the EU Presidency, they can promote their own preferences by emphasizing certain issues and neglecting others. However, if such influence takes place, it is *ad hoc* and issue-specific rather than systematic. In line with this, and opposed to our theoretical expectations, states do not fill influential positions *ex ante*, but use them occasionally if they exist. Moreover, there is evidence suggesting that this strategy works well for middle-sized states such as the Netherlands and Finland, as they possess the necessary resources to realize the full potential of such positions. Very small member states, instead, often lack expertise and human resources to make strategic use of influential positions (Interviews AT1, BRU6, EX1, NL1).

Little evidence could be found for situations in which smaller creditor states acted as ‘pace-setters’ through agenda-setting and/or unilateral action. Only in the case of the Netherlands, which stand out among other smaller creditor states due to their larger resources,[18] we find some evidence for successful agenda-setting. Thus, the Netherlands proposed single-limb collective action clauses (CACs)[19] and a public debt-sustainability analysis for the revised ESM treaty, and they first pushed for a regulatory treatment of sovereign bonds in bank balance sheets as a condition for EDIS (Interview NL2). As these examples show, if smaller eurozone states set the agenda, they do so by making detailed technical proposals rather than promoting big political visions. In this regard, also Austria put some issues on the agenda during its 2018 EU Presidency, which, however, have not been realized so far. These proposals include a ‘hybrid model’[20] of EDIS and the idea of having a harmonized European insolvency law as a necessary condition for a real Capital Markets Union (CMU) (Interview AT1).

If it comes to blocking decisions in EMU by threatening with a veto or actually using it, we find even less evidence. Indeed, putting in a veto does not seem to be a realistic option for small states in EMU governance. First, a veto or a credible veto threat can work only under conditions of unanimity. Second, even if unanimity is given, smaller member states are well aware that they need other member states in future decisions or different policies (‘shadow of the future’) and therefore search for constructive solutions or even accept second-best outcomes rather than blocking a decision (Interviews AT1, EE1; Background Talk 1). As a knowledgeable top official explained: ‘veto power is something like a nuclear weapon, you can never really use it; you can threaten with it’ (Interview BRU10). One notable exception is the role of the Netherlands in the case of the Eurozone Budget

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[18] Due to their intermediate size, the Netherlands are also called the ‘smallest of the large’ or the ‘largest of the small’ member states.

[19] For a short introduction, see https://www.europarl.europa.eu/thinktank/de/document.html?reference=EPRS_BRI%282019%29637974 and https://www.esm.europa.eu/content/revised-esm-treaty-envisages-introduction-single-limb-collective-action-clauses-cacs-what last accessed 2020-05-25.

[20] For details, see https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjT1djKh8_pAhWpxoUKHeNNAe0QFjAAegQIBBAB&url=http%3A%2F%2Fdata.consilium.europa.eu%2Fdoc%2Fdocument%2FST-14452-2018-INIT%2Fen%2Fpdf&usg=AOvVaw2mtlimBitUmjqbLLg5hpD9 last accessed 2020-05-25.

proposal. Not only did the Dutch succeed in preventing a genuine Eurozone Budget with the help of their New Hansa partners; in doing so, they also made unmistakably clear that they would veto the establishment of a eurozone stabilization instrument outside the EU budget (Interview BRU10). This rather atypical veto threat is in line with the more recent perception of the Netherlands as the most 'hawkish', 'radical' or 'foot-dragging' member state in EMU governance and reform (Interviews BRU10, DE1, DE2, EX1, FI4, SI1).

The only conceptualized strategy that the present project could not find at all is 'shaming'. In this case, we would expect smaller creditor states to use a prior verbal commitment of other EMU member states or institutions to expose a discrepancy between this rhetoric statement and the actual behaviour and thus pressure the respective actors into making concessions (see Rittberger & Schimmelfennig, 2006). The reason that evidence for shaming is completely absent may be the 'smallness' of the relevant states itself. As Schimmelfennig and colleagues have pointed out, rhetorical action such as shaming needs an audience (Schimmelfennig, 2001; Schimmelfennig et al., 2006). Hence, if states are too small to generate a large audience or salience of an issue, shaming might fail.

Activeness – striking asymmetries

An inductive and thus rather unexpected finding is the striking asymmetry in terms of activeness even within the subgroup of smaller eurozone creditor states, i.e. without Germany. On the one side of the continuum we find the Netherlands as the most active creditor state, followed by Finland and, depending on the respective issue at stake, sometimes Austria. On the other side, we find very small countries that lack not least the bureaucratic resources to engage actively in EMU decision-making, such as the Baltics or Slovenia.

The substantive gap in activeness has been confirmed by government officials on both sides of the continuum. As a Dutch official stated, for instance: 'we get the impression that for example the Baltic countries are happy to follow us if we take an initiative but they have not very often started an initiative themselves … Maybe it's also not necessary, maybe we can do it for them' (Interview NL4). By contrast, an Estonian official admitted: 'There are not more than half of the questions where we actually define the national interest. We rather follow the general thinking' (Interview EE2). Independently from this statement, a Finnish official explained: 'The Baltic countries … have been very sort of silent partners … . They even sometimes told us that their decision-makers … basically were just ordered to follow Germany and Finland' (Interview FI3).

Many interviewees attributed this gap in activeness to the differences in financial and human resources (Interviews SI1, EE2, EE3, NL1). While the relevant EU division in the Dutch Ministry of Finance counts 17 to 18 officials (not including the separate financial markets division), for instance, the counterpart units in smaller countries such as Slovenia or Luxembourg often consist of only two or three officials. As a consequence, the very small eurozone countries often build coalitions with the Netherlands or Finland to profit from their networking and information capabilities even if they do not fully share their positions (Interview EE3). In an in-depth interview with an Estonian diplomat it became clear that such small states often have no other choice than to free-ride on the diplomatic efforts of other countries. Even if they hold critical positions such as the EU Presidency, they need assistance from larger member states such as Germany rather than exerting influence themselves. Putting forward own initiatives or insisting on particular positions is considered too costly by the smallest states. Instead, the benefits of being a member of the EU and EMU outweighs the opportunity costs of reaching only a second-best outcome. Hence, according to our conceptualization, the smallest eurozone creditor states are typical 'fence-sitters'.

A coalition of smaller creditor states such as the New Hanseatic League (see the following sub-section) therefore constitutes a win-win situation. Single states such as the Netherlands or Finland are too small to 'voice' (Hirschman, 1970) alone. If they want to make their preferences heard by the largest states, they need other smaller states to form a visible coalition. The smallest states, by contrast, would not 'voice' anyways, but by joining the coalition they can free-ride on the efforts of the coalition leaders even if these do not represent their preferences in each single aspect. At the same time, states like the Netherlands can strengthen their own position by gathering smaller states behind them (Interviews NL1, NL3, NL4).

The New Hanseatic League – a coalition of smaller creditor states on the rise?

By the end of 2017, the 'New Hanseatic League' emerged in the eurozone as a group of eight northern EU countries: the Netherlands, Denmark, Sweden, Finland, Ireland, Estonia, Latvia and Lithuania. Six of the eight countries – the three Scandinavian and the three Baltic EU members – already had a long-standing cooperation based on informal meetings on the eve of Council meetings ('NB6') and in the context of the larger Nordic-Baltic cooperation ('NB8'). However, it were the Irish who first called for a meeting by inviting ministers of like-minded countries for dinner on the side-lines of a Eurogroup meeting (Interview FI4). Dutch Finance Minister Wopke Hoekstra grasped the opportunity and joined the dinner. Building on the pre-existing NB6 structure, he saw the chance of building a coalition to counter-balance proposals for more risk-sharing and a possible Franco-German compromise in that direction at the time. Thus, the Netherlands took the lead and coordinated the first positon paper of the New Hansa (Interview NL1, NL2).

On 5 March 2018, the finance ministers of the eight countries published a position paper in which they outlined their shared views on the EMU architecture.[21] They advocated a more inclusive format for discussion, which should also be open to non-euro area members and they underlined the need of public support for future reform steps. To strengthen EMU, they demanded 'decisive action at the national level' as regards fiscal discipline and the compliance with common rules, and they committed themselves to completion of the Banking Union. Moreover, they supported a stronger role for the European Stability Mechanism (ESM) in the development and monitoring of financial assistance programs and the exploration of orderly sovereign debt restructuring. Finally, they proposed to support the implementation of national structural reforms through the EU budget.

Taken together, the substantive proposals promote risk-reduction at the national level (instead of risk-sharing at the European level) and would thus shift the distribution of

[21] See https://vm.fi/documents/10623/6305483/Position+EMU+Denmark+Estonia+Finland+Ireland+Latvia+Lithuania+the+Netherlands+and+Sweden.pdf/99e70c41-6348-4c06-8ff8-ed2965d16700/Position+EMU+Denmark+Estonia+Finland+Ireland+Latvia+Lithuania+the+Netherlands+and+Sweden.pdf.pdf last accessed 2019-04-01.

gains within the currency union in the direction of creditor states (see Frieden & Walter, 2017). With regard to institutional issues, a more inclusive format for discussion would strengthen the position of creditor states as it would also include their 'frugal' Scandinavian allies, notably Denmark and Sweden. Moreover, the proposal to support the implementation of structural reforms through the EU budget was a counter-proposal to the French demand to have a stand-alone eurozone budget with a stabilization function and counter-cyclical features. Integrated in the EU budget, such a eurozone budgetary tool would be strictly limited in size, subject to various institutional safeguards, and under the additional control of non-eurozone states. Largely excluding distributional features and being linked to structural reforms and investments, the New Hansa's counter-proposal therefore amounted to introducing conditionality into cohesion funds. The proposed budgetary tool materialized one year later as 'Budgetary Instrument for Convergence and Competitiveness' (BICC), but was then silently dropped in the context of the Corona recovery package proposed by the Commission in May 2020 (see below).

Further activities of the New Hansa in the same direction include internal and public opposition to Franco-German plans for a eurozone budget after their so-called 'Meseberg declaration' (Interviews BRU3, BRU11), a position paper supporting Capital Markets Union (CMU) coordinated by Ireland (Interview NL1) and a paper demanding a reinforced role for the ESM as regards the negotiation and monitoring of conditionality agreements, which was led by Finland (Interview NL1). Occasionally, the New Hansa has been joined by other small states such as the Czech Republic and Slovakia. In terms of process, the finance ministers of the New Hansa states usually meet for dinner every two months around ECOFIN or Eurogroup meetings, and there are monthly meetings at Financial Counsellor level in Brussels (Interviews BRU6, NL2, NL4). So far, the New Hansa's biggest victory has arguably been the prevention of a stand-alone eurozone budget with a stabilization function as promoted by French President Macron. Led by the Netherlands, the new coalition succeeded in replacing this idea with a reform delivery tool to be established within the general EU budget.

According to a closely involved Dutch official, the aims of the New Hansa are: first, to promote a 'counter-narrative' of the causes of the crisis; second, to set the agenda on issues in the interest of creditor states, such as sovereign debt restructuring in the eurozone; and third, to block certain proposals such as a eurozone budget. Against this backdrop, the New Hansa is an appropriate tool as it saves transaction costs for smaller states: by collecting and aggregating the preferences of these states, the Netherlands strengthen their own position while the interests of smaller states are represented more forcefully (Interview NL1). Although not all government officials were so decided about the specific task description of the New Hansa (e.g. Interview EE2), they all agreed that it served to coordinate their positions and thus increase smaller creditor states' influence (Interviews EE1, EE3, FI2, FI4; background talk 5). In the words of another Dutch official, 'We know that on our own, as a small member state, we are not that important. So, if we want to gain some influence … we have to show that we operate as a block or that we, as the Netherlands, can speak for a larger group' (Interview NL3).

As a German official underlined, a coalition like the New Hansa is unprecedented in eurozone politics (Interview DE2). On the one hand, this regards the intentional public visibility of the New Hansa, which pro-actively publicizes its joint papers and meetings instead of working behind the closed doors of Committees and Eurogroup meetings (Interview NL7). On the other hand, the group's novelty lies in its potential to disrupt conventional practices in the EMU decision-making process. As an EU official put it, 'these Hanseatic countries … opened another front... Until then ... the set-up was such that we said "ok, once France and Germany agree on some sort of compromise, well, everybody else will more or less find him- or herself behind these two countries." But with these Hansa countries you have a new front, and that's why the French are so annoyed about it' (Interview BRU3).

The emergence of the New Hansa must be seen against the background of Brexit and possible Franco-German compromise in favour of more risk-sharing in the eurozone. With regard to Brexit, the argument is that small liberal states such as the Netherlands lost an important ally with the exit of the UK (e.g. Brunsden & Acton, 2017). The result is a (perceived) shift of power in the EU towards Germany and France. Therefore, the New Hansa has been interpreted as a counter-weight to this development (Interviews EE3, NL2, NL6; Background Talk 4). However, the officials interviewed in this project gave considerably more weight to the role of a Franco-German compromise disadvantaging smaller creditor states than to Brexit (DE2, EE1, EE3, FI2, FI4, NL3, NL4, NL5). As a Dutch official put it: 'Our strategy … is mostly one of trying to get the Germans stay firm against the French by showing that there is a significant block of member states that wants … to be on a more strict line' (Interview NL1). Independently from this statement, a colleague from another Dutch ministry explained: 'we would always be careful whether the Franco-German tandem will not crush us in their spirit of compromise … I think it's inherent in being a smaller country amongst bigger countries that you are afraid that you'll be crushed, so that's why you have Hansa League' (Interview NL4). These statements were echoed by officials from other smaller creditor states. For example, in the words of a Finnish official: 'One aspect of it [the New Hansa] is probably the fact to show the French and Germans that if you take decisions … please don't decide on our behalf' (Interview FI3).

The emergence of the New Hansa countries did not pass unnoticed (Interviews DE1, DE2). Whereas France responded with an outspoken disapproval of the new coalition (Khan, 2018; Interview BRU3), Germany acted with more reserve and considered the concerns of the smaller countries understandable at least from an economic point of view (Interview BRU7). The actual impact of the coalition became visible at the latest with the Eurogroup negotiations in June 2019, where the New Hansa under the lead of the Netherlands succeeded in replacing a genuine and stabilizing Eurozone budget, as proposed by Germany and France, with a reform delivery tool to be established within the EU budget (BICC). From a Dutch perspective, the Netherlands 'won on all fronts' and the 'Hanseatic League was tremendously successful' in these negotiations (NL6, also NL4). But also officials of other member states recognized the effectiveness of the New Hansa in the Eurozone Budget debates. As an Austrian[22] official put it: 'They have set their stakes in which direction that should go ... and, yes, that certainly influenced the negotiations'[23] (Interview AT1, also FI4).

After this victory, the activeness and salience of the New Hansa diminished again. In October 2019, an EMU top official explained this with the fact that the immediate threat

[22] Although Austria counts as a member of the 'frugal four' (together with the Netherlands, Denmark and Sweden), it has not become part of the New Hansa so far. The reasons were partly the Austrian EU Presidency in 2018, which required a certain degree of neutrality, but also divergence of preferences regarding certain issues such as the regulatory treatment of sovereign exposures (Interview AT1).

[23] Original: 'Die haben da ihre Pflöcke eingeschlagen in welche Richtung das gehen soll… und, ja, das hat auch sicherlich die Verhandlungen beeinflusst'; translated by the author.

of a Franco-German proposal in favour of more risk-sharing was gone (Interview FI4). Given the issue-specific *ad hoc* character of the New Hansa, further activity was not considered necessary any longer at the time. Moreover, Dutch diplomats outside the Finance Ministry recognized that the salient and firm appearance of the New Hansa created considerable irritation in the rest of the EU (Interview NL4). These developments point to a likely reduction of the New Hansa's activities.

A first empirical test came in May 2020 (time of writing), when France and Germany proposed a 500bn recovery fund to reconstruct the EU economy after the Corona crisis. Instead of intergovernmental loans, grants should be given to the most affected regions and sectors through the EU budget. This meant a crucial departure by Germany from its intergovernmental approach of 'trading' loans against austerity measures and structural reforms in the member states concerned. According to the explanation put forward above, we should therefore expect opposition from the New Hansa to rise again. However, instead of the entire New Hansa, only a smaller coalition of the 'four frugals' (Austria, the Netherlands, Denmark and Sweden) emerged with a counter-proposal, which was based on loans rather than grants. The reason for the absence of other New Hansa countries such as Finland and Estonia may be seen in the fact that the current Franco-German proposal does not imply an intrusion into member state sovereignty, but some form of federal capacity-building as preferred by those states (Interviews EE2, FI4). The counter-initiative of the four frugals, however, shows once again that the camp of eurozone creditor states is less homogenous than is generally assumed.

Conclusions

The present study has investigated how smaller eurozone creditor states pursue their preferences in EMU, whether they free-ride on Germany's 'hegemony' or rather advance their own agenda, and which strategies they use to realize their goals. With regard to the preferences on EMU governance and reform, a main finding of this study is that since the end of the eurozone crisis the camp of creditor states has been less homogenous than usually portrayed. While eurozone creditor states still share a general interest in keeping adjustment costs at the national level, rather than mutualizing risks at the European level, their preferences on concrete reform steps diverge considerably. The respective dividing lines run not only between Germany and smaller countries, such as in the case of EDIS or the 85% emergency decision rule of the ESM, but also within the subgroup of smaller creditor states. The regulatory treatment of sovereign exposures (Netherlands vs. Austria) or the inclusion of the IMF in ESM programmes (Netherlands vs. Finland) are cases in point.

Regarding the diplomatic strategies deployed, the study finds that smaller creditor states in the eurozone have an arsenal of strategies to draw on. However, instead of using them systematically, the deployment is *ad hoc* and issue-specific. In most cases, we find smaller creditor states in the position of 'fence-sitters' or 'co-shapers'. By contrast, cases in which they adopt a 'pace-setter' role or make use of hard bargaining strategies to block a decision are highly exceptional. The most important, almost intrinsic strategy of small states is coalition-building. While such coalitions are usually quite flexible and volatile, depending on the respective issue at stake, the recent emergence of the New Hanseatic League represents an unprecedented exception in EMU governance. Further important strategies are 'framing' and persuasion by promoting technical or normative arguments via personal channels, and applying the 'power of the chair' (Tallberg, 2003) through presidencies and chairmanships. In general, smaller creditor states rely on persuasion-based and constructive strategies rather than 'playing hardball'.

As conceptualized, the question of whether smaller eurozone creditor states act as 'foot-draggers', 'fence-sitters', 'co-shapers' or 'pace-setters' depends crucially on their particular preferences regarding the issue at stake. However, not only their distance from the status quo determines their role in EMU governance and reform. Also the available resources and the resulting activeness of a country decide about whether it adopts a free rider position or actively blocks or advances certain proposals. Hence, while we usually find very small countries like the Baltics or Slovenia in the rather passive position of 'fence-sitters' in EMU affairs, the Netherlands stand out as both 'foot-dragger' (risk-sharing) and 'pace-setter' (risk-reduction).

These findings bear implication for current and future EMU governance and reform. Most importantly, they show that the preference constellation in the eurozone is not so clear-cut into creditor versus debtor states anymore. To be sure, fiscal positions and current account balances are certainly still important determinants for a country's preferences in EMU matters (see Armingeon & Cranmer, 2018; Lehner & Wasserfallen, 2019). However, with the threat of the eurozone crisis and a possible collapse of EMU being less immediate, particular national interests come into play as well. For example, the countries' relative exposure to their national banking sectors (also Târlea et al., 2019), the role of national actors such as parliaments and populist challenger parties, and different views on the *finalité* of EMU determine the preferences of smaller creditor states, too (Interviews BRU2, BRU4, BRU6, BRU7, BRU10, BRU11, EX1, FI4). This results in dividing lines that do not necessarily run along the creditors-debtors divide. Hence, whereas in times of acute crisis management, smaller creditor states saw their preferences largely represented by the powerful Germany and thus subordinated their short-term preferences to a Franco-German compromise for the sake of maintaining the single currency, they are now ready to open a 'new front' (Interview BRU3) whenever they do not see their preferences sufficiently taken into account.

Does this more heterogeneous preference constellation mean that more deadlock is to be expected for EMU reform? Indeed, a more assertive group of smaller creditor states is likely to result in a dilemma for future reform steps. This is because reform in the EU is usually driven by a Franco-German compromise (Krotz & Schild, 2013). However, even if Germany makes the necessary concessions to France in order to find a viable compromise, the more hawkish creditor countries may now set out to counter-balance an emerging deal. This was the case with the prevention of a genuine Eurozone Budget, for instance. At the same time, a reignited crisis would increase the need for efficient decision-making led by Germany and France: as the eurozone crisis has shown, economic shocks that endanger the entire monetary union may indeed lead to a rapid regrouping of smaller member states behind a Franco-German compromise (Schild, 2013). This insight is in line with the more general finding that serious crises, which combine functional constraints with time pressure, can help overcome collective action problems and thus further European integration (Falkner, 2016). Paradoxically, the current Corona crisis could therefore be a chance for correcting some of the 'design failures' of EMU, despite diverging interests in the camp of creditor states.

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Interview BRU2 (2018), government official (Financial Counsellor), Permanent Representation to the EU, 29 October, Brussels, Belgium.

Interview BRU3 (2018), EU official, Council of the European Union, 30 October, Brussels, Belgium.

Interview BRU4 (2018), seconded national expert, European Commission, DG FISMA, 30 October, Brussels, Belgium.

Interview BRU5 (2018), EU official, European Commission, DG FISMA, 30 October, Brussels, Belgium.

Interview BRU6 (2018), government official, Permanent Representation to the EU, 1 November, Brussels, Belgium.

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Interview BRU8 (2018), Director, Single Resolution Board, 5 November, Brussels, Belgium.

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Interview EE2 (2019), senior government official, Ministry of Finance (Estonia), 30 September, Tallinn, Estonia.

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Interview EX1 (2018), former senior EU official, Council of the European Union, 24 September, Vienna, Austria.

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Interview FI2 (2019), senior government official, Prime Minister's Office (Finland), 27 September, Helsinki, Finland.

Interview FI3 (2019), senior government official, Ministry of Finance (Finland), 27 September, Helsinki, Finland.

Interview FI4 (2019), senior government official, Ministry of Finance (Finland), 22 October, phone interview.

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Interview NL2 (2019), senior government official, Ministry of Finance of the Netherlands, 27 June, The Hague, Netherlands.

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Interview NL4 (2019), government official, Ministry of Foreign Affairs of the Netherlands, 28 June, The Hague, Netherlands.

Interview NL5 (2019), senior economist, Dutch National Bank, 11 July, phone interview.

Interview NL6 (2019), policy advisor, House of Representatives (Netherlands), 12 July, phone interview.

Interview NL7 (2019), senior government official, Ministry of Economic Affairs and Climate Policy, 19 July, phone interview.

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Background Talks

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Background talk 2 (2018), senior fellow, Centre for European Policy Studies, 30 October, Brussels, Belgium.

Background talk 3 (2018), senior fellow, Bruegel, 31 October, Brussels, Belgium.

Background talk 4 (2018), senior advisor, National Bank of Belgium, 2 November, Brussels, Belgium.

Background talk 5 (2019), research fellow, Estonian Foreign Policy Institute, 30 September, Tallinn, Estonia.

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