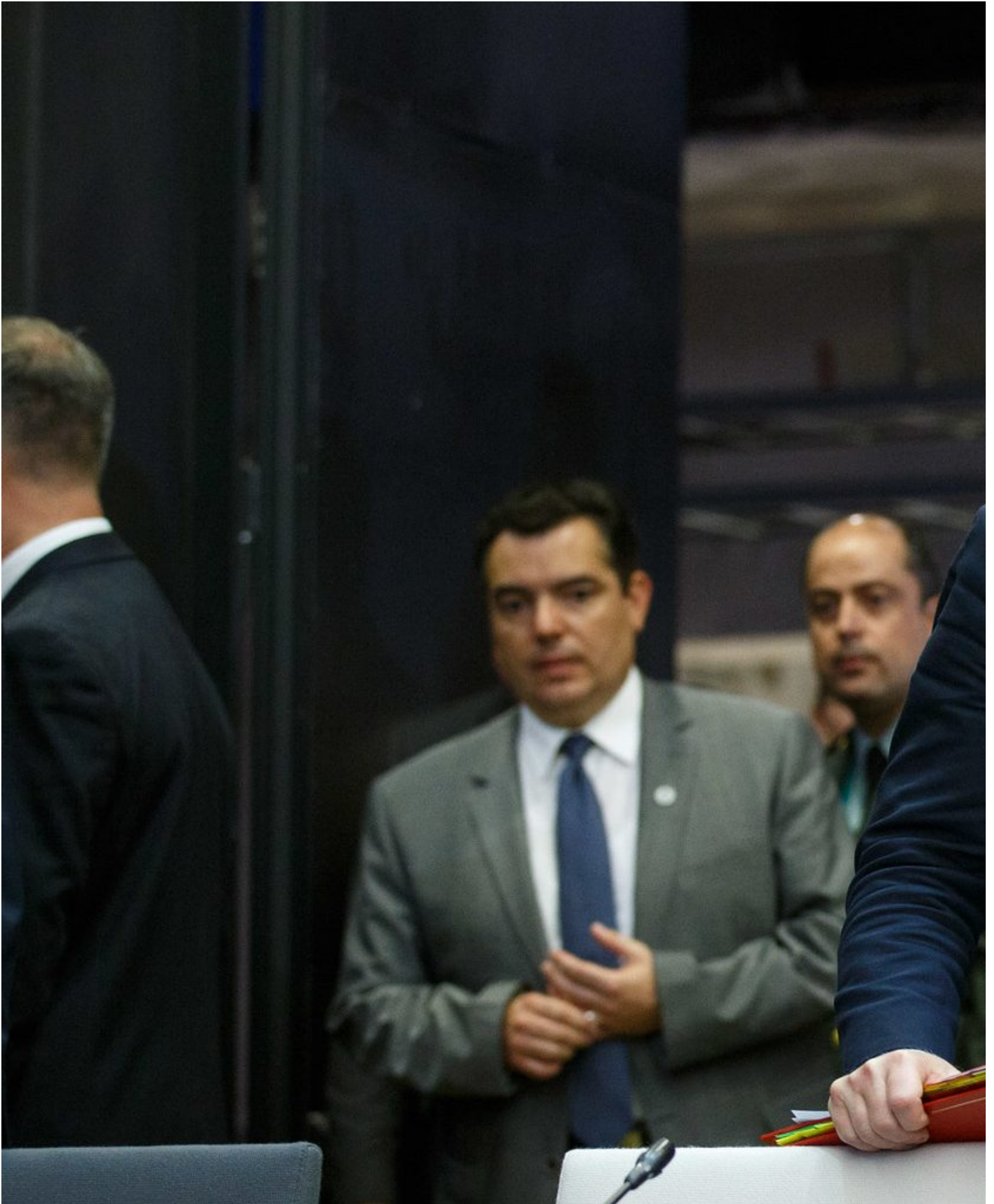


The Frugal Four exhibit a British attitude to European integration

*The proposal put forward by the European Commission to issue common debt to finance the economic recovery from the coronavirus pandemic is a remarkable and unprecedented step in EU solidarity. Despite Germany and France backing it, a small but significant group of member states remain vehemently opposed to parts of the plan. Their position looks similar to previous British complaints about the EU, highlighting that this debate is not just about money. It is driven by fundamentally different views on further European integration, argues **Pepijn Bergsen** (Chatham House).*

Following a joint proposal from Germany and France for a €500bn recovery fund for the regions and sectors hardest hit by the pandemic, and financed by the Commission borrowing in the markets, the Commission put forward its own proposal in late May. Under this plan it would borrow €750bn, of which €500bn would be used for grants and €250 would be lent to member states under beneficial conditions.

Regardless of the final composition of the spending plans, member states agreeing on a recovery fund would break the taboo on common borrowing in the EU. Although forms of collective borrowing have happened before, something of this scale would be a first. Shared fiscal capacity is generally regarded as one of the missing pieces in the architecture of the eurozone. Some, including the German finance minister, have therefore recently alluded to the potential creation of the fund as a Hamiltonian moment – a reference to the US treasury secretary who ensured that the federal government took on the states' debt resulting from the US War of Independence. Such a comparison [overplays the significance of the fund](#), as member states will remain liable for their existing debts and the additional debt arising from the current crisis. Most importantly, the fund is clearly designed to be a one-off.



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This could explain why Germany, previously a vocal opponent of fiscal integration in the eurozone, surprisingly came out in support of it. Its previous allies in opposing fiscal integration, mainly in the eurozone, have put up significant opposition, including during the inconclusive European Council meeting on June 19th. The Netherlands and Austria initially teamed up as the 'Frugal Four' with non-euro Sweden and Denmark to oppose a recovery that would provide grant funding. Although nominally supportive of European solidarity and of ensuring that the current crisis does not cause more divergence in economic fortunes in the eurozone, the Frugal Four put on the table a counterproposal that would offer only the slightest bit of help. Demanding that countries pay back the spending they would receive from the fund would limit the cost to them of the plan even further though.

This suggests that this is mainly a debate about money, not completely dissimilar to the scraps over the next EU budget earlier this year. The leaders of the Frugal Four, who come from both the centre-left and the centre-right, do not want to be seen sending their taxpayers' money to 'spendthrift Southerners.' Even if their opposition to the subsidies in the plan has now softened, they have made clear that they at least want to retain their budget rebates.

The similarities with previous British positions in the EU are clear. The Frugal Four prime ministers value their rebates as much as Margaret Thatcher once did. It is not too much of a stretch to say that the current proposal would never have even made it to the table had the United Kingdom still been a member of the EU, as London would have almost certainly vetoed it. One of the arguments often put forward in favour of Brexit was that the UK should leave before it would inevitably get roped into the eurozone's mess. During the euro crisis, the UK largely avoided this fate, only contributing to the bailouts of Portugal and Ireland. But having to pay for economic support for the southern euro countries is exactly what is now being asked from non-euro countries like Sweden, Denmark and the Czechia.

The comparison with the UK is also instructive because the frugal four were often closely aligned with London in EU's debates. They broadly share the British focus on free trade and on the EU as an economic project, as opposed to its political dimension, as Germany more often tends to focus on. Just like the UK, the Frugal Four also tend to have relatively Eurosceptic electorates, albeit ones that continue to indicate in polls that they would vote to remain in the EU if asked.

The COVID-19 crisis has drawn attention to Italian voters and their disillusionment with the EU caused by the lack of support they experienced during their time of need in this pandemic. As Catherine de Vries, a preeminent scholar of public opinion on European integration [showed](#) on this blog, this does not mean they necessarily want to follow the UK out of the EU. If anything, they are instead asking for more Europe, in part out of dissatisfaction with the functioning of their own democracy.

In contrast, electorates in many of the so-called frugal countries tend to be relatively satisfied with their national governments and the state of their democracies, while significantly less enthusiastic about further political integration in the EU. They have not looked to the EU as a potential source of help during the pandemic, focusing instead almost exclusively on what their national government could and *should* do for them.

Because the fund proposed by the Commission is clearly a one-off solution, designed to soften the economic fall-out of a once-in-a-century pandemic, it probably provides at best a template for deeper permanent integration in the future. Nevertheless, many EU citizens, particularly in the 'frugal' member states, will see it as the Rubicon of fiscal integration being crossed. In reality, merely lending money to Southern member states, as the Frugal Four are currently proposing, would resemble previous bailouts rather than any sort of template for a permanent fix for the eurozone's incomplete institutional set-up.

A [recent poll](#) in the Netherlands, whose government has been the most vocal opponent of the plans for a common fiscal response to the current crisis, shows that 72 per cent of Dutch voters agree with the government's position on loans versus grants. In contrast, [a poll among German voters](#) highlighted that just over half support the Franco-German plan, which was also based on grants instead of loans. The divergence between Dutch and German attitudes is particularly striking because they used to be closely aligned on these issues. Whereas the German government, including Chancellor Merkel, has clearly seen the risk to the survival of the single market that a halting recovery in Italy and Spain would pose and has, therefore, recently been actively working to change public attitudes in her country, the Dutch government chose to emphasise its opposition to the plans from day one.

Governments and politicians in the Frugal Four largely continue to talk about European integration in the way most British politicians used to, using it as a handy scapegoat for unpopular policy and blustering in Brussels mainly to satisfy their domestic audience. In the short run, this strategy has led them to clash with, not just most of the rest of the bloc, but also their previous ally within the EU – Germany. In the long run, such a strategy raises questions over how the Frugal Four will deal with the secular pressure for more integration within the eurozone, particularly for the Netherlands and Austria as Denmark and Sweden are unlikely to join the single currency anytime soon. Even in areas other than the euro, there will be a push for more integration. This will create conflict with the vision of the EU that many of these member states share with the UK, which is now no longer in the club helping them to push back against this direction of integration.

A clear appreciation of their small size and heft in the world and their deep economic integration with the rest of the EU would likely discourage them from following the UK out of the union. But the current episode once again highlights the difficulty of deeper integration between countries with very different visions for the future of the EU and a political class unable, or unwilling, to try and shift their electorate's stance on Europe.

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