

SGI Sustainable Governance
Indicators 2009

Luxembourg report



Executive summary

During the last two decade's rise in international financial markets, Luxembourg's economy has grown more than the OECD average. In terms of GDP per capita, it has become the richest country in the world. This situation is not entirely the result of deliberate policy. Luxembourg has been constrained by the dictates of globalization and by the harmonization process within the European Union, but has nevertheless profited handsomely by creating a favorable environment for the establishment of foreign companies. Due to the country's wealth, the government has often been tempted to try solving problems through increased spending on social programs. However, Luxembourg's culture does not easily accept the loss of newly won rights. This makes it difficult for the government to return to a more moderate, or realistic, level of spending.

More than most other industrial nations, Luxembourg benefits from a rejuvenating population, largely due to high rates of immigration. This phenomenon is even stronger within the economically active population, since many people work in Luxembourg but live across the border in France, Belgium or Germany. Approximately 41 percent of wage-earners belong to this cross-border commuter category, and their number has steadily increased over the past decades.

The social security system's current equilibrium is dependent on growth in the number of members, and on their relative youth, which means the system will collapse if growth slows. In fact, studies have shown that in order to sustain the system an annual growth rate of 4 percent of GDP and an annual job-growth rate of 2 percent must be maintained. Were these developments actually to take place, Luxembourg's resident population would swell to 700,000 in 2050 (compared to 476,000 as of January 2007). This is neither realistic nor feasible. Therefore, the social security system will need major reforms in the years to come.

After a temporary economic slowdown, business, labor and government representatives agreed in April 2006 on a series of measures aimed at a more sustainable socioeconomic development path. This agreement dealt with the state's budgetary policy, public investment policy, indexing of salaries,

adjustment of rents and pensions, financing life insurance, solidarity taxes, employment policy, the guaranteed minimum income, the issue of providing comparable social insurance benefits for workers and employees, and energy policy. The most emblematic measure agreed upon was the temporary suspension of salary indexation, a mechanism which automatically adjusts salaries to inflation if it reaches a certain level.

During this pact's long negotiations, growth unexpectedly revived. Nevertheless, the temporary slowdown was interpreted by some as a reminder that Luxembourg should not waste its good fortune by relying solely on its recent good luck. Rather, these people argued, the country should invest in structural projects that would provide value in the future. Luxembourg's economy does not rely solely on the exploitation of legal and fiscal niches, but also on a calm social climate and a feeling of security and stability. Thus, a climate of openness and the capacity to welcome and integrate foreigners are factors of productivity, and their maintenance is critical.

Strategic Outlook

Luxembourg's problems point toward a relatively clear set of policy needs. There is first and foremost the need to better integrate the high proportion of foreign residents and foreign workers. This is an absolute requirement for the long-term preservation of Luxembourg's otherwise enviable situation. The most important step to be taken in this respect is the granting of citizenship, including dual nationality, to those foreigners who aspire to it.

In order to combat the Luxembourg paradox – an increasing unemployment rate despite the increasing absolute number of jobs – the educational system must be reformed in a way that is fairer to children of immigrant families, but which also raises educational levels more generally. Professional training has been neglected for too long. Due to its small size, Luxembourg has sought quick solutions, and instead of adapting its school system to the needs of the economy, it has simply employed people from neighboring countries. This has been true even for high-skilled positions, because too few native Luxembourgers attend university. Luxembourg will have to reform the education system in order to draw on its own talent to a larger degree, and to simultaneously reduce domestic unemployment.

The country's economy must diversify, though this will be a difficult task. The most promising sectors are those dealing with audiovisual production,

telecommunications and e-commerce. Nevertheless, industrial production must not be forgotten. The government must work to attract new companies and to facilitate local innovation. In order to attract firms, Luxembourg should not only advertise its competitiveness, but also tout its stability, security, living conditions and the availability of a skilled and international work force. The indexation of salaries as a contributor to social peace is very important in this respect too, though often overlooked. The social security system, including the problematic relationship between the guaranteed minimal income and the minimum wage, must be reformed in order to avoid the perpetuation of a class of working poor, and to provide necessary enticements for the unemployed to join the active workforce.

Finally, governmental structures have to be adapted to the requirements of European integration in order to increase their efficiency and their impact on the formulation of European policies. In addition, political authorities must draw on the available expertise, especially in the social and economic sciences, to improve the monitoring of their policies and the knowledge base needed for successful policy-making.

Status Index

I. Status of democracy

Electoral process

Fair electoral process

Score: 10

Electoral law presents no restrictions in registering a party for election. Party candidate lists can be as small as a single individual. All that is required of candidates is that they be citizens of Luxembourg. Parties submit individual candidate lists for each of the country's four electoral districts. Electoral law distinguishes between complete and incomplete lists. A complete list is one in which a party submits enough candidates in each electoral district to fill all the seats allocated to that district.

Luxembourg has a strong tradition of single-issue parties such as the "Action Committee for Democracy and Pensions Justice," which was originally founded as a group demanding equal pension rights for everybody. Similarly, a group called the Association of Divorced Men is likely to submit candidates in the 2009 national election. Electoral law gives even these mini-parties complete freedom to bid for votes, though they are sometimes specific enough to reach the point of near-absurdity.

Fair electoral campaign

Score: 5

Media coverage is distributed rather unevenly between parties during the elections. All major newspapers are linked rather closely to one of the big parties and are therefore often partisan in their coverage. Broadcast media outlets provide a closer approximation of equal access, because government takes care that all parties get a minimum amount of air time. However, complete lists get more air time than the incomplete ones, as do the four big parties. This means in effect that party or list size is directly related to the ability to gain access to the media. Hence, small parties are right to claim that they are not treated equally in electoral campaigns.

*Inclusive
electoral process*
Score: 8

In order to take part in elections either actively and passively it is necessary to be a citizen of Luxembourg, to be at least eighteen years old on the day of the elections, to have full civil and political rights and to be domiciled in the country. Luxembourgers living abroad can vote by mail. Hence, there is no observable discrimination.

However, 42 percent of the resident population is excluded from national elections because they are not citizens of Luxembourg. Of those, 86 percent are EU citizens, and can therefore participate in European and local elections, provided they fulfill certain residency requirements and are registered on the electoral list. This large resident population's exclusion from national elections has been an important issue in the political debate in recent years, marring the country's full equality of opportunity with respect to voting rights.

Access to information

Media freedom
Score: 9

The media's independence is respected by the government. A generous press subsidy allows small newspapers to survive. Luxembourg's small market supports six daily newspapers and five weekly magazines, with most of them depending on the press subsidy. Aimed at promoting a pluralistic media landscape, this aid paradoxically benefits the bigger newspapers in particular. Some also allege that the subsidies are an indirect way of influencing the media. Nevertheless, the rules for granting the subsidy are transparent and unanimously accepted. The aid has not sparked any significant controversy since 1992, with the funding of the newly created weekly "Gréngespoun," linked to an environment-focused party.

Media pluralism
Score: 6

Given the small size of the country it is rather difficult to provide a fair assessment of ownership structures and the resulting media pluralism. Most newspapers are very closely related to a political party, and the market is dominated by "d'Wort," a paper close to the Catholic Church and the allied Christian Social People's Party (CSV). "D'Wort" is stronger than all its competitors combined. A similar imbalance can be found in the broadcasting sector, with RTL as the dominant player. While both markets are strongly oligopolistic, the press and broadcast markets in combination give Luxembourg's media landscape a reasonable amount of competition and diversity.

*Access to
government
information*
Score: 8

Luxembourg does not as yet have a freedom of information act, but does have a well-developed e-government strategy, by which the government attempts to make as much information as possible available over the Internet. Still, the type of information provided by individual parts of the government bureaucracy

differs widely. A forerunner and role model in this respect is the government's Press and Information Service. However, if specific information is needed, the most effective and efficient way is still to file a query with a member of the Chamber of Deputies. Every year, legislators put 600 to 700 such questions directly to ministers. Luxembourg has signed the United Nations' Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters, thus mandating open access to information in at least this one policy field.

Civil rights

Civil rights protection

Score: 9

Civil rights are effectively protected in Luxembourg and all state institutions respect these rights. There are four institutions in charge of civil rights protection: the Constitutional Court, an advisory board on human rights, the National Commission on Data Protection and a parliamentary ombudsman. However, the judiciary system's overload and subsequently slow case processing has triggered concerns over due process and equitable treatment. The European Court of Justice has reprimanded the country on several occasions in recent years as a result of delays in the court system.

Non-discrimination

Score: 7

Luxembourg is a prosperous society and has a booming economy. Cases of manifest discrimination are rare, but do exist. Explicit discrimination, including legislation banning Roma from state territory, as well as more implicit or structural discrimination such as wage disparities between men and women, can be easily found, however.

The existence of a Ministry for Equal Opportunities cannot compensate for the lack of institutional protection against discrimination. Luxembourg was condemned by the European Court of Justice in June 2004 for not having adopted the EU directive implementing the principle of equal treatment between persons irrespective of racial or ethnic origin. Nevertheless, the Chamber of Deputies took another two years to transform this directive into national legislation. This was finally achieved on November 2006, but some of the law's important provisions have yet to be implemented.

Rule of law

Legal certainty

Score: 6

Luxembourg has a long-standing tradition of a lawful state. Nevertheless, citizens are too often confronted with judicial vagueness or even a lack of legal guidance. Luxembourg's administrative culture is based on pragmatism and common sense rather than judicial subtleties. This means that many matters

cannot be decided with reference to well-known and established rules. Administrative decisions are sometimes arrived at in a decidedly ad hoc manner. Still, most people accept this mode of operation for government and administrative matters, trusting that the legal flexibility in any given situation may result in a compromise favoring their own interests.

Judicial review

Score: 10

The existence of an administrative jurisdiction and the Constitutional Court guarantee an independent review of executive and administrative acts. The Administrative Court and the Administrative Court of Appeals are very busy. The annual report covering the period from September 2005 to September 2006 counts 949 judgments, indicating that judicial review is actively pursued in Luxembourg.

Corruption prevention

Score: 7

According to Transparency International, Luxembourg is among the countries with the lowest level of corruption. However, despite the fact that Luxembourg's Court of Auditors has recently seen an increase in power and responsibility, there still is a lack of formal institutionalized controls. One may argue that in a country as small as Luxembourg, where "everybody knows everybody," especially in the rather undersized circle of civil servants, social control is the best means of preventing corruption. Indeed, these mechanisms seem to work rather well, except for some instances of nepotism. However, the lack of institutional controls is a detriment to the overall cause of corruption prevention.

II. Economic and policy-specific performance

<i>Basic socioeconomic parameters</i>	<i>score</i>	<i>value</i>	<i>year</i>
GDP p.c.	10	70245 \$	2005
Potential growth	4.71	4.2 %	2008
Unemployment rate	8.58	4.7 %	2006
Labor force growth	5.4	4.1 %	2007-2008
Gini coefficient	8.82	0.26	2000
Foreign trade	10	191.5	2005
Inflation rate	7.32	2.6 %	2007
Real interest rates	9.54	1.2 %	2007

A Economy and employment

Labor market policy

Score: 6

Labor market policy has had only mixed success in Luxembourg. There are a number of problems, some of which are themselves due to questionable policy measures. On the one hand, there is a serious shortage of high-skilled labor in the country. More than half of newly created jobs require a university degree, while only 25 percent of people in any given age cohort gain such a degree and about 20 percent leave school without any degree. In addition to the educational system's problems, there are strong incentives for early retirement. Only about 30 percent of individuals between 55 and 65 years old are still at work. Less than 30 percent of women work outside the home.

On the other hand there is a high supply of unskilled labor in the region. A large wage differential compared to France and Belgium has led to a strong influx of workers into the country. The minimum wage in Luxembourg is 19 percent higher than in Belgium and 12 percent higher than in France. Hence, more than a third of Luxembourg's total workforce is made up of cross-border commuters. At the same time, very generous unemployment and social security benefits tied to the country's guaranteed minimum income lead to a high reservation wage level for Luxembourg natives. This, in turn, causes higher than necessary unemployment rates. Low-skilled young people make up one of the most problematic groups in this respect, as they are able to earn unemployment benefits even without prior periods of employment.

Enterprise policy

Score: 8

In the majority of international comparative studies, Luxembourg is rated highly in terms of competitiveness and capacity to attract new companies. It is a small country, where business can be commenced swiftly without administrative red tape. It has a high level of social harmony, with hardly any strike activity over the last 80 years. The government offers a wide variety of custom-tailored investment and R&D incentives, and a high standard of living in a cosmopolitan and hospitable environment is available.

The national business community has complained of a deterioration in the business climate due to the level of corporate taxes, a lack of flexibility in labor laws, social overprotection, educational system shortfalls, high environmental standards, risk averseness and a lack of entrepreneurial culture. However,

enterprise policy is considered to foster entrepreneurship and competitiveness today, in part due to the government's establishment of the Luxembourg Board of Development as a one-stop shop for investors.

Tax policy

Score: 9

In 2002, a coalition government including the Christian Social People's Party and the Democratic Party implemented one of the most substantial tax reforms ever undertaken in Luxembourg. The new rules were clearly inspired by Anglo-Saxon liberal-conservative models of taxation. The reform reduced the income tax for individuals and companies. Guaranteed minimum income payments remained entirely exempt from taxation. Tax rates on the highest incomes were fixed at levels that are among the lowest in the European Union. The government also decided to scale back the corporate tax rate from 37.45 percent to 30.38 percent. Tax rates generally are lower than in other OECD countries. The average total of income tax and social security contributions paid on labor income, about 12 percent, is well below the OECD average of about 28 percent, and is particularly advantageous compared to the tax rates prevailing in the three neighboring countries.

Vertical distribution is generally judged as fair, but beneficiaries of the guaranteed minimum income could not take advantage of recent tax decreases because they do not pay tax. In order to improve the tax system further, a negative tax is under discussion. There is little doubt that taxes raise sufficient public revenue, as Luxembourg has enjoyed budgetary equilibrium for the last 20 years.

Budgetary policy

Score: 8

In the wake of the economic slowdown that started in 2003 and for the first time in 20 years, the government budget began to run current deficits in 2004 and 2005. Thus after a long period of consolidation it once again began increasing the total debt and debt-to-GDP-ratio. Although the deficit stayed far below the Maastricht treaty's debt-to-GDP threshold of 3 percent and well below the debt-to-GDP-ratio of most other countries, the government acknowledged that the country was confronted with structural problems, and considerably slowed the growth rate of public expenditures. There was also a growing awareness of the fact that nearly 30 percent of tax revenues originated within the highly volatile financial sector. This helped lead to a much more conservative budgetary policy. The government imposed some drastic spending

cuts, including the postponement of some major infrastructural projects and a freeze in civil servants' salaries. Budget policy in Luxembourg remains cautious and budgetary law for 2008 shows prudence in its spending approach.

B Social affairs

Health policy

Score: 9

The public health system offers general coverage, generous reimbursement of health costs and freedom of choice. The fact that private health insurance plans play only a marginal role indicates that the universal social security coverage is quite satisfactory. Luxembourg's medical infrastructure is well developed, and in some fields there is even overcapacity. However, the system is very cost intensive, and government attempts to reduce inefficiencies in the hospital infrastructure have not yielded the expected benefits. Although Luxembourg can currently bear these expenses, the government must act to keep this issue under control, or risk the future financial sustainability of the system.

Social cohesion

Score: 9

Social cohesion is highly valued as a public goal in all parts of the society, and is seen as one of Luxembourg's primary competitive assets. Consequently, Luxembourg's society appears to be very egalitarian, in comparative terms. Many instruments have been put into place to ensure cohesion, including a minimum wage, a guaranteed minimum income (set at €1098 for individuals and at €1647 for a household of two adults) and child support mechanisms. Disparities have increased over the last 20 years, but Luxembourg as a whole successfully prevents poverty and limits social inequalities.

Family policy

Score: 6

The employment rate of women in Luxembourg is lower than the EU average. This is due in part to the high salaries and generous family allowances that permit a couple with children to live comfortably on a single salary. Traditional roles for men and women also remain important in this predominantly Catholic society. Nevertheless, this model is slowly changing. This can be seen in the fact that the number of fathers taking the six month (or 12 month, for part-time) parental leave after the birth of a child is on the rise, although the overall rate is still lower than 20 percent. Day care facilities are running short of space,

another indication of social change. The Ministry for Family and Integration estimates that 34,000 new spaces are needed to cover current needs. To address this, a new law established the concept of “intermediary housing for children” in 2005. These structures combine day-care centers, homework assistance, temporary stay and holiday activities in a single facility. They complement regular schools and are largely subsidized by the state. In 2006, 92 such houses existed. The ministry also wants to encourage education of children at home through the “Daagesmammen” program. Daagesmammen are small, private day-care centers serving four to seven children.

Pension policy

Score: 8

According to the European Social Observatory (ESO), Luxembourg’s pension system is a typical social insurance system with a Bismarckian influence, but with the addition of some private and voluntary components. The first mandatory public pillar provides a minimum personal pension to insured persons who have contributed to the system for at least 20 years. This flat-rate component, financed by social contributions shared equally between the employee, the employer, and the state, effectively prevents old age poverty. The second pillar is tied to earnings, with pension levels calculated on the basis of total contributions. In 2002, payments from the first and second pillar represented a gross replacement rate of almost 90 percent of workers’ pre-retirement income and accounted for 97 percent of pensioners’ net retirement income. Public pension spending totaled 7.4 percent of GDP in 2000. Given the generosity of these two pillars, the third component, consisting of supplementary private and voluntarily funded pensions, is of only marginal importance.

Policymakers are aware that the current social security equilibrium may be disrupted by future economic developments, including an increase in the population’s average age. There are no plans yet for handling these risks. Additional criticism has focused on the difference between relatively high private sector pensions and their public sector counterparts. This differential gave rise to the Action Committee for Democracy and Pensions Justice, a political party founded 15 years ago pressing for pension equality. While the private-public pension gap has since been reduced, some difference – and some controversy – remains.

Annotation:

David Natali, “Luxembourg - The Pension System,” in research project: La

Methode Ouverte de Coordination (moc) en Matiere des Pensions et de l'Integration Europeenne, Observatoire social europeen, 2004.

<http://www.ose.be/files/mocpension/LuxOMC.pdf> (accessed February 29, 2008).

C Security and integration policy

Security policy

External security

Score: 9

Defense policy is formulated primarily with reference to Europe and NATO. Since 2003, Luxembourg's army has been a member of Eurocorps, serving under the operational command of a Belgian unit. National defense priorities include the safety of Luxembourg's own territory, cooperation at the international level, the prevention and resolution of wars, and the provision of humanitarian aid. Military expenditures have increased in recent years, from 0.91 percent of the national budget in 2004 to 1.29 percent in 2006, after the government agreed to participate in the NATO operations in Kosovo and Afghanistan, and to share in the costs of these operations. Over the same time, army enrollment nearly doubled from 500 to 1000 soldiers.

Since 2003, Luxembourg has pioneered a new policy allowing EU citizens residing in the country for more than 36 months to enroll in the national army. By the end of 2006, 66 soldiers of foreign nationality had enrolled. Although serving in part as a free rider on the military capacity of its European and transatlantic allies, Luxembourg effectively protects its citizens against external security risks.

Internal security

Score: 9

Given the rapid changes associated with a growing population, Luxembourg's police services have undergone significant reforms to cope with new challenges. In 1999, two distinct corps, the gendarmerie and the police, were unified in the Police Grand-Ducale. From 2000 to 2007 this group's budget increased by 70 percent. In 2004, the government announced plans to centralize most public safety services into a new facility, called Police City. However, this plan was postponed for budgetary reasons.

Internal security policy currently focuses on a pair of goals. The government has sought to fight public feelings of insecurity by developing local and regional safety plans, and by integrating police more tightly into communities. The public security services have also been tasked with fighting organized crime, especially money laundering and human trafficking. As there are often

close links between tax evasion, money laundering, smuggling and organized criminality, tax authority experts have been assigned to the Criminal Investigation Department in order to accelerate investigations in that domain.

*New security
policy*

Score: 8

Luxembourg is not and cannot be a big player in the security domain. Due to its size it has to seek cooperation with other states. The country is part of Europe's Schengen border-control agreement, named after the small Luxembourg town where the accord was signed. Luxembourg was also one of the seven states that signed the Prüm Convention in 2005, a cooperative agreement aimed at combating terrorism, cross-border crime and illegal migration through the exchange of DNA and fingerprint data. Luxembourg often acts as a pioneer in international cooperative efforts, with the government actively promoting the drafting of European criminal, civil, and family codes.

Integration policy

Score: 8

In 2007, close to 42 percent of Luxembourg's resident population were foreigners. Furthermore, about 70 percent of the economically active population is composed of foreign nationals. Quite naturally, integration issues feature prominently in the political debate. Two ministries are responsible for integration issues: the Ministry for Family and Integration and the Ministry for Foreign Affairs and Immigration. The "Commissariat Du Gouvernement Aux Etrangers" is part of the Ministry for Family, and must provide assistance to new immigrants. The responsibilities of the Ministry for Foreign Affairs and Immigration have recently been expanded, with a minister delegate created in addition to the minister. With a total of about 60 staffers, this ministry's Immigration Department is now made up of a bureau dealing with asylum seekers, and a service dealing with work permits.

A reform of citizenship law, and the central question of whether to allow double citizenship, has sparked still-unsettled controversy. One hotly debated point is whether the knowledge of the Luxembourgish language should be made obligatory for anybody who wants to attain citizenship.

D Sustainability

Environmental policy

Score: 6

Luxembourg subscribed to the Kyoto environmental protocol and agreed to reduce its carbon emissions by 28 percent by 2012. The country's strategy for achieving this goal is to reduce energy consumption. The first important

measure towards this goal was the introduction of a vehicle tax related to a car's carbon emissions at the beginning of 2007.

Considerable political debate has also been focused on fuel tourism, or the sale of diesel and gasoline to tourists and residents of neighboring regions. Local fuel prices are much lower than in France, Germany or Belgium. The fuel sold contributes to the country's overall carbon dioxide emissions, but is also a source of revenue adding €1.1 billion to Luxembourg's annual budget. Harmonizing the minimum level of taxes on diesel and gasoline inside the EU would therefore lead to a substantial loss of income for Luxembourg. The country's prime minister announced that he would not oppose this harmonization, but demanded transition measures for the countries whose policies would have to change most as a result. This would allow Luxembourg to avoid abrupt financial and budgetary problems. In the meantime, the income generated through fuel tourism is dedicated to a fund financing Kyoto-related activities. The fund has three objectives, including the support of new energy conservation measures on the national level, the support of projects in foreign countries as compensation for domestic pollution, and the creation of the European carbon emissions trading program.

Research and innovation policy

Score: 8

Awareness of the need to increase public R&D spending and to create public research facilities has long been growing, but little was done before the beginning of the new millennium. However, the creation of the National Research Fund in 1999 and the establishment of the University of Luxembourg in 2003 helped change the country's direction. The amount of public money spent on research has more than quadrupled over the last decade, reaching about €10 billion, or nearly 1 percent of GDP, in 2006. The government is eager to double this percentage by the end of the decade in order to meet the European Union's Lisbon Strategy goals.

Aware that fast growth without well-defined guidelines could lead to uncontrollable growth, the government recently demanded an evaluation from the OECD. The report concluded that the bottom-up approach dominating Luxembourg's present R&D policy needs to be complemented by top-down elements clearly determining national goals for research and innovation.

Private research is in the hands of a few large corporations such as Arcelor Mittal, Goodyear, and Dupont de Nemours. It is estimated that about two-thirds of the money spent on R&D comes from the private sector.

Education policy

Score: 3

Luxembourg's education system performs poorly, as revealed by the OECD's Program for International Student Assessment (PISA) study of 2003, in which the country ranked behind all other EU member states. According to the OECD, Luxembourg's system fails to fulfill two important objectives: the reduction of social inequalities, and the preparation of each citizen for participation in a labor market that increasingly asks for spatial as well as educational mobility.

Language barriers present the main obstacle to equality of opportunity, particularly for immigrant children who are not fluent in Luxembourgish. Additionally, neither German nor French are taught as foreign languages, since they are official state languages. The school system was not designed to support a pupil population of whom 40 percent have immigrant origins, and who are not familiar with all official languages. The educational level of young people entering the job market also reflects on the inefficiencies of the education system. In 2006, about 20 percent of new workers had not finished school.

Following the June 2004 elections, the new socialist education minister launched a set of policies aimed at reducing the impact of social or cultural origins on educational attainment, reforming language teaching, and improving professional training to reduce the number of young people excluded from the labor market because of low skills. However, confronted by the powerful teachers' lobby, the Ministry of National Education avoided difficult measures, instead encouraging a variety of experiments which did not go to the heart of the system's problems.

Management Index

I. Executive Capacity

<i>Cabinet composition</i>	<i>Prime minister</i>	<i>Parties in government</i>	<i>Type</i>	<i>Mode of termination *</i>	<i>Duration</i>
	Jean-Claude Juncker	Christian Social People's Party (CSV), Luxembourg Socialist Workers' Party (LSAP)	minimal winning coalition	1	07/04-

** The following modes of termination should be distinguished: elections = 1; voluntary resignation of the prime minister = 2; resignation of prime minister due to health reasons = 3; dissension within cabinet (coalition breaks up) = 4; lack of parliamentary support = 5; intervention by head of state = 6; broadening of the coalition = 7.*

A Steering capability: preparing and formulating policies

Strategic capacity

Strategic planning
Score: 5

Generally speaking, Luxembourg lacks authoritative, independent and competent policy advisory capacity. The main reason for this situation is the fact that social sciences are underdeveloped in the country. Neither the newly established university nor the three public research centers consider social sciences a priority. This void is typically filled by a reliance on foreign expertise. The small number of experts and administrative personnel concentrated within the capital of this small country brings about many informal contacts among a small core group of strategic decision makers. Nevertheless, the issue of strategic planning remains a problematic one.

Scientific advice
Score: 7

Luxembourg lacks a robust independent policy advisory capacity. The Economic and Social Council, which consists of 32 individuals representing business owners and wage-earners in equal proportion, as well as 3 individuals directly appointed by the government, advises the government on

socioeconomic policy initiatives. But this body lacks an independent research capacity. Its composition furthermore leads to consensus-seeking behavior that seldom produces innovative or potentially controversial advice.

The only explicitly socioeconomic research facility is the publicly financed CEPS/INSTEAD (Center for Population, Poverty and Public Policy Studies/International Network for Studies in Technology, Environment, Alternatives, Development) in Differdange, which monitors social conditions and the effects of public policy. CEPS/INSTEAD does have some influence on policy-making, as was evidenced by its leading role in the introduction of the guaranteed minimum income. In addition, the Central Statistical and Economic Studies Office and the research department of the Central Bank of Luxembourg increasingly contribute to the public policy debate. If these institutions are not able to provide the advice needed, the government turns to foreign institutions such as the OECD, universities or foundations.

Inter-ministerial coordination

GO expertise

Score: 8

The government as a whole is of manageable size, so the Office of the Prime Minister has no difficulties in overseeing the other ministries. Although limited sectoral expertise is directly available to the government office, problems can usually be solved through informal contacts with line ministry civil servants.

GO gatekeeping

Score: 10

The Office of the Prime Minister is clearly the power center of the Luxembourg government. As coordinators of government policy, the prime minister and his office have the ability to return any item they feel conflicts with the government's policy agenda. However, since it is involved in most policy initiatives at an early stage, proposals formally reaching the prime minister's office typically have its consent already. In the end, a policy's success depends on the prime minister's authority. If he or she has objections to a proposal, they will be taken seriously. This is particularly true of the influential incumbent, Jean-Claude Juncker.

Line ministries

Score: 8

No proposition is presented in the Council of Ministers without being informally approved by the prime minister beforehand, even if the ministries and administrations are legally autonomous in the preparation of bills. Coordination is particularly sought in all matters involving the budget. The prime minister's dual role as minister of finance further strengthens this office's policy-making centrality. However, there are no interrelated coordination capacities, or institutionalized mechanisms of coordination with line ministries, in the prime minister's office. Given the small size of the

country and its administration, such structures would probably decrease rather than increase government efficiency.

Cabinet committees

Score: 9

The cabinet, which has a high workload, is able to ratify only those decisions that have been previously prepared in informal contact between senior officials, or in the so-called interministerial committees whose main job is to prepare the ground in interested ministries for new legislative proposals. While it is appropriate to say that cabinet meetings are well prepared, this does not imply that the cabinet uses the time freed this way to engage in additional strategic policy debate.

Senior ministry officials

Score: 10

Senior ministry officials play an important part in preparing cabinet meetings. They are appointed for life and represent continuity in the ministerial structure. The power they hold is amplified by the fact that ministers are usually in charge of more than one ministry. The record in this respect was established by Jean-Louis Schiltz, who at the close of this period of analysis headed three departments at once: Development Cooperation and Humanitarian Affairs, Communications, and Defense. Senior ministry officials are the chief advisors of their respective ministers and are largely responsible for cross-ministry coordination.

Line ministry civil servants

Score: 5

Although senior officials and interministerial committees are important in the coordination of policy proposals, the role of line ministry civil servants in this process is more limited.

Regulatory impact assessments

RIA application

Score: 1

There are no official procedures for regulatory impact assessment (RIA) in Luxembourg.

Needs analysis

Score: 1

Alternative options

Score: 1

Societal consultation

Mobilizing public support

Score: 9

Luxembourg's political culture is characterized by the search for consensus and attempts to prevent conflict. The Tripartite Coordination Committee, established in 1978, embodies the so-called Luxembourg model. As its name indicates, this committee is composed of an equal number of government,

trade union and employers' representatives. Formed in the wake of a crisis in the steel industry, it was intended as an exceptional response to an exceptional situation, but has nonetheless managed to remain active. The government still uses it as a consensus-finding device for all kinds of societal, economic and fiscal problems. Critics periodically question the committee's democratic credentials, arguing that it assumes responsibility for decisions that are rightly the domain of the legislature. However, once the committee has reached consensus, the Chamber of Deputies typically ratifies those compromises.

Policy communication

Coherent communication
Score: 9

Neither the government nor any individual minister has a spokesperson. Important decisions and events are announced at press conferences held in person by the minister involved. However, the prime minister clearly takes a leadership role in governmental communication. The most important issues are announced by the prime minister after the weekly meetings of the government council. The prime minister also acts as the spokesperson of the Tripartite Coordination Committee. Furthermore, through the government's Press and Information Service, which is under his direct authority, the prime minister efficiently coordinates the public communication of government members.

B Resource efficiency: implementing policies

Legislative efficiency

Veto players

	<i>Total</i>	<i>Share</i>
Bills envisaged in the government's work program	130	
Government-sponsored bills adopted	120	92.31 %
Second chamber vetos	-	- %
Head of state vetos	-	- %
Court vetos	4	3.08 %

Effective implementation

Government efficiency
Score: 8

Due to the stable majorities held by ruling coalitions, Luxembourg's governments have largely been able to push through their policy objectives. However, direct democracy and grassroots initiative movements have played

a growing role in recent years. Major infrastructural or zoning projects have triggered opposition by vocal citizens' groups, which the government cannot ignore. This has led to local referenda, which more often than not oblige the government to change its plans. This development may hinder the government's ability to achieve some of its goals.

Ministerial compliance

Score: 8

A number of institutional restraints prevent individual ministers or departments from deviations with respect to the government's agenda. The prime minister's authority is paramount in the government, and is backed by a binding coalition program. All important measures must be approved by the Council of Ministers, and coordination is maintained by frequent consultations between the parliamentary coalition parties and by the operation of the numerous interministerial committees.

Monitoring line ministries

Score: 6

Although the Office of the Prime Minister does not formally monitor line ministries, controversial issues usually trigger an intervention by the prime minister, who steps in to calm debate and make any necessary corrections. Such informal controls seem to be sufficient, as the government administration's small size fosters a high level of transparency without the necessity of explicit monitoring tools. However, institutionalized monitoring structures typically serve their purpose better than informal mechanisms which rely heavily on the characteristics of individual office holders.

Monitoring agencies

Score: 8

Executive agencies lack the autonomy to pursue action that exceeds the guidelines issued by their superior ministries. The strong opinions and personalities of individual agency heads have sometimes provoked conflict. However, in these cases, the views and interests of the responsible minister or his key collaborators typically prevail. Although agencies do enjoy a certain administrative and financial autonomy, they remain clearly under the supervision of the relevant ministerial department.

Task funding

Score: 8

Owing to the country's small size, Luxembourg contains no subnational entities, with the exception of its 116 municipalities. Municipalities are given some autonomy, but in general local authorities are closely controlled by the Ministry of the Interior, which approves their budgets. Local councils frequently complain that funding from the central government is insufficient to carry out their mandated tasks, particularly with regard to culture and public transport. On the other hand, since almost half of the members of the Chamber of Deputies also have a local mandate, localities usually have sufficient influence to plead their case.

Constitutional discretion

The national government limits local communities' scope of action in part through restrictive financial policies. Municipalities' fiscal autonomy has shrunk over time. Local taxes cover only about one-third of their financial

Score: 7

needs, and the percentage of corporate taxes they receive is a matter of negotiation with the central government. Hence, local government depends increasingly on transfers from the central government.

In addition, local government autonomy has been narrowed by a trend toward central land-use planning. The granting of building permits and the authorization of industrial and commercial sites has been increasingly predicated on compatibility with sectoral planning or national guidelines. An ambitious national plan called IVL (“Integrierte Verkehrs- und Landesplanung”) is bound to limit local governments’ scope of action further.

National standards

The central government generally ensures that local administrations meet a consistent standard in their public services.

Score: 9

C International cooperation: incorporating reform impulses

Domestic adaptability

Domestic adaptability

Score: 7

Domestic government structures have not been fully adapted to the increasing interdependence of national, EU and international policy-making. In 2004, the Economic and Social Council proposed reshaping executive branch structures and ministerial responsibilities to match the structure of the EU’s Directorates-General. These recommendations have not been implemented. This may be one reason why Luxembourg has had increasing difficulties implementing new EU directives.

External adaptability

International coordination activities

Score: 9

Luxembourg is regularly involved in international reform initiatives, particularly in the context of the European Union. This may seem surprising at first glance, given the small size of the country. But as a small country, Luxembourg is much more dependent on its international environment than are larger powers such as Germany, and therefore has an interest in actively shaping this environment. In addition, Luxembourg was one of the founding members of the European Community, and thus has a long tradition of active support for its further development. The country’s activism has become especially visible under current Prime Minister Jean-Claude Juncker, who took office in 1995.

Recently, Luxembourg has been especially active on environmental issues. It supports an EU initiative to reduce value-added tax for products with reduced energy consumption, and it is in favor of a carbon tax for imports from countries that do not actively engage in fighting climate change.

Exporting reforms

Score: 7

Although Luxembourg has a long tradition of exporting reform ideas, during the current period of review, its activism in exporting reforms has been difficult to judge. One of the biggest success stories is Luxembourg's long-standing plea for fiscal moderation and moderate taxation throughout the European Union. Recent initiatives have taken place on a slightly smaller scale (see "International coordination"). It would therefore be a slight exaggeration to call Luxembourg a present-day policy pioneer.

D Institutional learning: structures of self-monitoring and -reform

Organizational reform capacity

Self-monitoring

Score: 5

A Ministry for Public Service and Administrative Reform was created in 1995 when Jean-Claude Juncker became prime minister. The ministry has developed modest monitoring activities. In addition, audits are commissioned by the Chamber of Deputies from time to time, in order to review specific government practices. However, this usually happens only after concrete and significant misgivings have been expressed about the performance of parts of the administration.

Institutional reform

Score: 5

There were a number of structural changes in the Luxembourg government prior to the current period of review. However, they cannot be regarded as having considerably increased the government's strategic capacity. Most reforms of the present period were of a minor scale, such as an initiative to increase the service orientation of civil servants who have direct contact with citizens.

II. Executive accountability

E Citizens: evaluative and participatory competencies

Knowledge of government policy and political attitudes

*Policy
knowledge
Score: 7*

A fair judgment about the extent of information possessed by Luxembourg citizens is difficult to reach. This is mainly due to the fact that about 40 percent of residents are foreign nationals, who do not have the right to vote. However, recent surveys say that 50 percent to 70 percent of Luxembourg nationals regard themselves as well informed and interested in politics. This is bolstered by the fact that the Chamber of Deputies distributes all its proceedings free of charge to every household in Luxembourg.

F Parliament: information and control resources

Structures and resources of parliament, committees, parliamentary parties and deputies

Number of deputies	60
Number of parliamentary committees	22
Average number of committee members	12
Average number of subcommittee members	-
Pro-government committee chairs appointed	17
Deputy expert staff size	
Total parliamentary group expert support staff	8
Total parliamentary expert support staff	15

*Obtaining
documents*

Each legislator can ask the government for information or for documents, and ministries generally respond positively to those demands. Thus,

<i>Score: 8</i>	information flows regularly between the Chamber of Deputies and the government. Even with respect to sensitive issues such as national security, few restrictions exist. Being open with information is in the government's best interest, as this helps ensure parliamentary approval of its initiatives.
<i>Summoning ministers</i> <i>Score: 10</i>	Interaction between the Chamber of Deputies and the executive is very straightforward. There is no case where a minister has refused to appear before a legislative committee when asked to do so. When an issue becomes a matter of public controversy, ministers may occasionally plead scheduling conflicts. However, while this may allow them to postpone appearances before the Chamber, ministers inevitably show up in the end.
<i>Summoning experts</i> <i>Score: 9</i>	Parliamentary committees may summon government and outside experts, or any other person to testify.
<i>Task area coincidence</i> <i>Score: 9</i>	The task areas of legislative committees coincide almost perfectly with those of the ministries. There are minor deviations due to the fact that Luxembourg tries to minimize the number of ministries and ministers, sometimes amalgamating task areas that have no natural relationship.
<i>Audit office</i> <i>Score: 9</i>	Since 1999, the Court of Auditors has been absolutely independent of the executive. Even though it is not a part of the Chamber of Deputies, the court is exclusively accountable to the legislature. Its members are appointed by the Grand Duke, based on a list proposed by the Chamber.
<i>Ombuds office</i> <i>Score: 10</i>	The Chamber of Deputies has a petitions committee headed by a member of the opposition. A mediator or ombudsman position was added in 2004. This figure acts upon the Chamber's authority, but can independently bring any findings to the public. The ombudsman's office is well staffed, with four legal practitioners and four administrative staff members. In part because of proactive publicity, but also due to a sizeable accumulated need, the public's response to the introduction of this office was overwhelming. There were 953 appeals in the first twelve months of its existence, with 83 percent of decisions being revised after the ombuds office's intervention.

G Intermediary organizations: professional and advisory capacities

Media, parties and interest associations

<i>Media reporting</i> <i>Score: 7</i>	High-quality news broadcasting is rather scarce in Luxembourg. The main provider, RTL, has a near-monopoly and has thus assumed some of the traditional roles of a public media organization, although only to a limited
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extent. It broadcasts a daily news show of about half an hour, along with a number of shorter news spots. In addition to RTL there is a public radio station (Radio 100.7) with a very small audience, as well as Chamber TV, a station that offers live broadcasts of Chamber of Deputies plenary sessions.

Fragmentation

Parliamentary election results as of 6/13/2004

<i>Name of party</i>	<i>Acronym</i>	<i>% of votes</i>	<i>% of mandates</i>
Christian Social People's Party	CSV	36.1	40.00
Luxembourg Socialist Workers' Party	LSAP	23.4	23.33
Democratic Party	DP	16.1	16.67
Green Party	GP	11.6	11.67
Alternative Democratic Reform Party	ADR	10.0	8.33
The Left	DL	1.9	0
Communist Party of Luxembourg	KPL	0.2	0
Free Party of Luxembourg	FPL	0.1	0
Others		0.6	0

Party competence

Score: 8

In-depth analysis of the political situation, strategic plans and innovative policy proposals are not the main strength of party manifestos in Luxembourg. Program features tend to be interchangeable, since most parties try to gain the attention of voters in the middle of the political spectrum. Furthermore, the four main parties have to make sure that none of their programmatic positions prevent them from forming a coalition with any of their other main rivals. This exerts a moderating influence. Electoral contests have increasingly tended to be contests between the parties' key figures, with manifestos failing to serve as truly programmatic documents. Nevertheless, they are by and large plausible and coherent.

Association competence

Score: 7

Since employers' associations, trade unions and leading business associations participate in decision-making through the Luxembourg model (see "Mobilizing public support"), their policy proposals can be considered to be reasonable and realistic. In the context of Luxembourg's extraordinary economic growth and well-being, environmental and social interest groups

are the main advocates for sustainable development and long-term policies.

In comparison to the centrist party manifestos, interest associations contribute to the public debate by staking out clear sides on policy debates. Trade unions have an outspoken view on social policy issues, tending to be keen defenders of the welfare state. Employers' associations plead for structural changes and a scaling-down of the welfare state, while environmental associations, especially the "Mouvement Écologique," take very clear pro-environment stances. However, none of these associations take on extreme positions, instead proposing reasonable though clearly distinct policies.

*Association
relevance*

Score: 7

The government considers interest association proposals to be relevant to policy deliberations. This is in part due to the influence of the Tripartite Coordination Committee (see also "Mobilizing public support"), which the government heeds in all relevant policy matters, but also to interest associations' high public visibility and influence on public opinion.

This country report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at www.sgi-network.org

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