

# SGI Sustainable Governance Indicators 2011

Luxembourg report

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## Executive Summary

For some 30 years, the driving force of the Luxembourg economy has been the financial sector. This has led to a quality of life that is incomparable, in terms of per capita GDP, to that of its close neighbors and also highlights the general economy's strong dependence on this particular sector.

This development has led to a shortage in labor, which has been compensated for through large-scale immigration and an increasing reliance on a workforce that lives in the border regions of neighboring countries – the so-called transborder commuters – with the result that the country's pension and healthcare system is not faced with similar problems as its neighbors, who are struggling with the challenges of an aging population. In the past 10 years Luxembourg's population has increased by 16%, surpassing the symbolic figure of 500,000 in late 2009; domestic employment has increased by 28% and the number of transborder commuters has risen by 65%. Of residents, 43% are of foreign origin and of the working population, 42% are transborder commuters.

Population growth has created opportunities for companies and residents of Luxembourg. Workers of Luxembourgish nationality have aspired to stable and well-paid jobs in the public and associated sectors, with the result that today more than half of Luxembourg nationals work in the public, health and social sectors, leaving the competitive sectors to non-nationals.

Country finances have long been healthy and successive governments have become used to managing in times of abundance. Fiscal gifts, subsidies and sumptuous infrastructure grants were distributed without much oversight. Administrative breakdowns, cost overruns or project delays were practically never sanctioned.

Before the 2009 elections, however, the fallout of the financial crisis was already palpable though it did not become the central issue of the campaign. Instead, the government raised the salaries of primary school teachers in the hope of ensuring their cooperation, or at least their goodwill, toward reform – as well as their votes.

During this campaign certain nationalist and identity-related impulses, unusual for Luxembourg, manifested themselves, partly in response to a new law on citizenship making dual citizenship possible (that is, those who take on Luxembourgish nationality can now retain their original nationality). Some have called for reductions in social benefits provided to transborder commuters – a difficult proposal to enact, however, without infringing EU directives or risking complaints of unequal treatment. The populist tidal wave that some feared did not,

however, consume Luxembourg's politics.

In the period under review, the government coalition won re-election and the dominant position of the Christian Social People's Party (CSV), which has been in power since 1979, was reinforced. The people voted overwhelmingly in favor of Jean-Claude Juncker, himself at the head of the government since 1995, through a voting system that allows for the personalization of votes. With the Luxembourg Socialists Workers' Party (LSAP) as a weakened junior partner and opposition parties not having managed to step up during the global economic crisis, the CSV reinforced its hegemonic position. Once again it was proven that the electoral system does not favor the renewal of the political class and stymies any profound debate during the electoral campaign.

External attacks, mainly from Germany, on banking secrecy during the campaign probably contributed to a surge of national defensiveness, which worked in favor of the CSV as guarantor of the welfare state.

The financial crisis of 2008 affected Luxembourg in two ways. Activity in the financial sector slowed and the government had to make some €2.8 billion in contributions to save two large banks, Fortis and Dexia. Additionally, the European Union applied political pressure to end the culture of banking secrecy as well as tighten loosely regulated activities, upon which the success of Luxembourg's financial sector is partly based.

The Luxembourg government, accustomed to budgetary surpluses, has seen its income diminish and, according to Maastricht calculations, in 2009 faced a deficit of 1%. All political actors agree that it is necessary to cut costs and public expenditures.

In this context, businesses have proposed reforming Luxembourg's very strict labor laws and reviewing its highly developed social redistribution mechanisms, with a view to increasing the country's competitiveness. They particularly criticize a special practice unique to the industry: the automatic readjustment of salaries proportionate to the rise in the cost of living.

The unions seek to defend this practice with the argument that it guarantees social peace, a situation which is seen by economic and political actors alike as one of the competitive advantages of Luxembourg. The positioning of actors in this controversy is one of the major divisions in political debate across all the parties. Even the Liberal Party has not taken a clear or unanimous position in favor of the elimination of the index.

## Strategic Outlook

Luxembourg faces several challenges related to its lack of economic diversification, its size and location in Europe as well as its fitness in adopting its economy to the demands of the global economic crisis and other long-term developments. The health of its democracy still can be improved as well.

The financial sector has been at the heart of Luxembourg's economic success over the past two decades. This sector still generates over 20% of aggregate tax revenues. The global economic crisis therefore hit Luxembourg at its economic heart. In the medium-term, financial sector activities tend to be increasingly outsourced. Luxembourg lacks specialists to continue financial activities at the highest level, especially with advanced IT technology. So in the long-term, Luxembourg's international competitiveness is expected to erode (Bourgain/Pieretti/Høj, 2008).

At the moment when negotiations over an austerity plan between social partners failed, three news items appeared. One was that state revenue for the first trimester of 2010 was higher than predicted. The second was that the president of the Commission for the Oversight of the Financial Sector (Commission de Surveillance du Secteur Financier, CSSF), the institution responsible for the supervision of credit institutions, stated that the situation of banks in Luxembourg had "almost returned to normal." And third, employment statistics began to rise. These unexpected events demonstrate well the main weakness of the Luxembourg system. The country's room to maneuver is often dictated by exterior decisions, upon which it has little influence. In this sense, we cannot speak of Luxembourg having a sustainable economic situation. The economic and political weight of Luxembourg is too weak for there to be any other option other than profiting from opportunities as they arise.

Luxembourg is in serious need of economic diversification, which the government is addressing by trying to attract new companies in the tertiary sector (biomedicine, media, e-business), but also the industrial sector (logistics, automotive suppliers).

Beyond the most pressing economic tasks, the government has also announced territorial reform. Its task is to rapidly create administrative regions whose critical mass will permit effective management. Demographic growth requires a parallel effort in the creation of new housing, which must be included in the territorial development plan. It is also necessary to build infrastructure to make Luxembourg the center of a transnational greater region, with a focus on public transport, particularly for access to the capital and movement within it.

A common governance policy with Belgium, France and Germany is a great challenge and could be a model for EU regional policy.

Public organizations have not mirrored the growth of the economy and are often overwhelmed by new demands. They have to adapt quantitatively and qualitatively to the challenges. The OECD has advised Luxembourg to improve the adaptation of labor market requirements in school education (OECD 2010).

## Status Index

### I. Status of democracy

#### **Electoral process**

Candidacy  
procedures  
Score: 10

Electoral law presents no restrictions in party registration. Party lists, complete or partial, are made up for each of the four electoral districts by political parties or groups of candidates. The lists are introduced, either by 100 voters registered in the district or by an elected MP from the district (whether an incumbent or about to leave office), or by three communal councilors elected by the district.

The lists can be as small as a single individual; this creates the possibility of small, ad hoc, single-issue parties. During the most recent elections for example, an “Association of Divorced Men” which had announced its participation eventually made an alliance with the Alternative Democratic Reform Party (Alternativ Demokratesch Reformpartei, ADR), which was itself founded as single-issue party seeking equal pension rights for all.

Media access  
Score: 5

All newspapers are closely tied to political parties and tend to be partisan, especially during election campaigns. This situation is to the advantage of the larger political parties, especially the CSV, which can count on the support of a newspaper empire that is also close to the Catholic Church, which plays an almost hegemonic role in print media. As there are no public broadcasters in Luxembourg to counterbalance this influence, the one private broadcaster assumes this role. During election campaigns, the government provides the political party lists with airtime and the opportunity to broadcast television ads on a more or less equal footing with each other. Under the government’s oversight, roundtable discussions with candidates from all the lists are organized.

The financing of election campaigns, particularly the distribution of promotional leaflets by post, is granted by law, although this guarantees minimal electoral success.

Citation:  
Loi électorale du 18 février 2003

Voting and  
registrations rights  
Score: 8

To take part in elections one must be a citizen of Luxembourg who is 18 years old or older on the day of the elections, who claims full civil and political rights and who lives in the country. Luxembourgers living abroad temporarily can vote by mail. Hence, there is no observable discrimination.

However, 44% of the resident population is excluded from national elections because they are not citizens of Luxembourg. Of those, 70% are citizens of the European Union and can therefore participate in European elections. All foreigners, EU citizens as well as non-EU citizens, have the right to participate in local elections provided they fulfill certain residency requirements and are registered on the electoral list.

The political participation of foreigners at the local level has improved. Voting list enrollment has recently been facilitated and in April 2010, a proposal was introduced to allow foreigners to stand as candidates for the positions of mayor and councilor. Prime Minister Jean-Claude Juncker has, however, exercised his veto against allowing foreigners to vote in parliamentary elections.

Citation:

Your citations: See here the eligibility conditions as explained to the voters: <http://www.gouvernement.lu/dossiers/elections/systeme-electoral/index.html>.

PM Juncker's speech on the political participation of foreigners: [http://www.gouvernement.lu/salle\\_presse/discours/premier\\_ministre/2010/03-mars/29-juncker-asti/index.html](http://www.gouvernement.lu/salle_presse/discours/premier_ministre/2010/03-mars/29-juncker-asti/index.html)

Party financing  
Score: 8

Party financing was clarified by the law of December 21, 2007 (into force as of January 1, 2008), which introduces public funding of routine party activities, rules on transparency and monitoring, and penalties for breaches of regulation. The Council of Europe's Group of States against Corruption (GRECO) applauded the law's introduction, while noting that some gaps in regulation persist: "...in so far as insufficient account was taken of the financing of election campaigns and of candidates for election. Because the law breaks such new ground, the impact of the improvements in the area of transparency, monitoring (by the Court of Auditors) and sanctions still need to be determined; at least on paper, there are some lacunae."

The GRECO Evaluation Team (GET) complained about the lack of a uniform assessment of various services and benefits in kind, such as the assistance of allied media during the election campaign and demanded a system of "effective, proportionate and dissuasive penalties" for those who break the law. The GET criticized that despite the new law, parties still have no specific legal status. The major finding of the evaluation was the lack of public control of the parties' accounts, as the parties experience difficulties in setting up an

accounting system.

Pointing to the need for a fully coherent monitoring system of political funding, the GET recommends that “a clear separation be made between the financing of parliamentary groups and that of political parties or that the Court of Auditors’ jurisdiction be extended to parliamentary groups.”

Citation:

Loi du 21 décembre 2007 portant réglementation du financement des partis politiques  
GRECO, Evaluation Report on Luxembourg on the “Transparency of Political Party Funding”, Strasbourg, 13 June 2008 [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3\(2007\)6\\_Luxembourg\\_Two\\_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3(2007)6_Luxembourg_Two_EN.pdf)

### Access to information

Media freedom  
Score: 9

The media market is small and a pluralistic market is only possible thanks to generous press subsidies. One might allege that the subsidies are an indirect way of influencing the media, but in general the independence of the media is respected by the government and the rules for granting subsidies are transparent and unanimously accepted.

Media pluralism  
Score: 7

Luxembourg’s six daily newspapers are more or less closely controlled by political parties. There is a marked imbalance of influence among these papers, which generally reflects the strength of their political sponsors. The leading newspaper, “Luxemburger Wort,” is owned by the Archbishop and is close to the Christian Social People’s Party (CSV). It has a circulation of roughly 80,000, which is a large number considering Luxembourg’s total population of one-half million; the paper’s circulation is alone larger than the combined circulation of its competitors.

The media landscape since 2007 has been shaken up by the release of two free daily newspapers. The audience share of the “Luxemburger Wort” fell to 43%, while that of “L’Essentiel,” its free competitor, is 27%, with an even higher proportion of readers among 15- to 49- year-olds. Among this target market the free paper exceeds the coverage of the historic leader, “Luxemburger Wort,” thus in effect counterbalancing the influence of the CSV.

In television and radio, the station RTL clearly dominates. RTL has had no real competitors in television and it remains well ahead of its radio competitors, despite the liberalization of the market launched in the early 1990s. Its audience share is 4.5 times that of DNR, a station which has close ties to the CSV.

As competition has increased since the last review period, media pluralism is ensured.

Citation:

for a summary of the TNS media market analysis refer to [http://www.ipl.lu/forcedownload.php?idownload=46&type=\\_pdf](http://www.ipl.lu/forcedownload.php?idownload=46&type=_pdf)

Access to gvmt.  
information  
Score: 8

As the absence of a freedom of information act has remained an issue, the program of the 2009 government promises a “new law inspired on the principles adopted by the laws of our neighbors and recommendations of the Council of Europe.” Meanwhile, the most effective way to obtain information from the government is the so-called parliamentary query; the government is required to provide an answer within a month or even within a week, in case of urgency. The most recent statistics for the parliamentary session 2007-2008 include 859 questions submitted, generally involving more technical or circumstantial issues, but sometimes involving sensitive matters. General information is easily obtained from the government website, which centralizes access to ministries and communication between official agencies and citizens.

Citation:

In relation to parliamentary queries see : Section 80 of the standing orders: Règlement de la Chambre des Députés, Mémorial A — N° 206 26 novembre 2007  
Government program: [www.gouvernement.lu/gouvernement/programme-2009](http://www.gouvernement.lu/gouvernement/programme-2009)  
Chambre des Députés, Rapport d’activité de la session parlementaire 2007-2008, Luxembourg 2009  
[www.gouvernement.lu](http://www.gouvernement.lu)

### **Civil rights**

Civil rights  
Score: 7

Civil rights are effectively protected in Luxembourg and all state institutions respect these rights. There are still some shortcomings. Same-sex marriages have not been awarded the same rights as traditional marriages. Data retention was extended to email communication in 2010.

There are four institutions in charge of protecting civil rights: 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.

Political liberties  
Score: 8

No infringements of the right to speak, think, assemble, organize, worship or petition have been reported during the period under review.

Rather marginal anticlerical forces demand the separation of church and state and criticize the state's subsidies for churches, particularly the Catholic Church, which is dominant in Luxembourg. They denounce the offer of Catholic religious education in public schools. As a reaction to this pressure, the 2009 government program promises the creation of so-called houses of secularism, following the Belgian model.

Non-discrimination  
Score: 8

Obvious cases of discrimination are very rarely reported as Luxembourg public culture traditionally condemns manifestations of xenophobia. In contrast, until very recently, institutional protections against discrimination were very weak and Luxembourg was condemned by the European Court for non-implementation of various directives in this area. Meanwhile the EU Directive on equal treatment between men and women (76/207/CE and 2002/73/CE) was adopted in the law of May 13, 2008.

The EU Directive on equal treatment between persons irrespective of racial or ethnic origin (2000/43/CE) had already been adopted by a law of November 28, 2006 and led to the creation of the Center for Equal Treatment (CET) in 2008. Its purpose is to promote, analyze and monitor equal treatment between all persons without discrimination on the basis of race, ethnic origin, gender, sexual orientation, religion or beliefs, disability or age, but its activity has almost exclusively focused on awareness-raising campaigns.

The activity of the CET has been very modest and awareness of it is not widespread, as shown by a survey it commissioned itself, in which only 1% of the respondents indicated the CET among institutions fighting against discrimination.

Citation:

CET-survey about the perception of discriminatory situations, attitudes and behaviors in Luxembourg <http://www.cet.lu/en/content/download/216/1736/version/1/file/TNS+ILRES+CET+Conf%C3%A9rence+de+presse+21+avril+proposition%5B1%5D.pdf>

### **Rule of law**

Legal certainty  
Score: 6

Luxembourg has a long-standing tradition of being 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 or established rules.

Administrative decisions are sometimes arrived at in a decidedly ad hoc manner. Still, most people accept this method 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.

Courts are overloaded and take far too long to settle cases brought before them. The government has only recently begun to address this problem by hiring more judges. Since the creation of independent administrative courts and a constitutional court 10 years ago, the number of pending cases has dramatically increased, which clearly underscores the government and its administrative office's lack of respect for legal regulations.

Judicial review  
Score: 8

The existence of an administrative jurisdiction and the Constitutional Court guarantees 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 2007 to September 2008 includes 945 judgments at the Administrative Court and 377 judgments at Administrative Court of Appeals, indicating that judicial review is actively pursued in Luxembourg.

Citation:

Rapport d'activité du Ministère de la Justice 2008, Luxembourg March 2009

Appointment of  
justices  
Score: 9

The Constitutional Court is composed of nine members, all professional judges. They are appointed by the grand duke on the recommendation of the members of the Superior Court of Justice and the Administrative Court of Appeals, who gather in a joint meeting convened by the president of the Superior Court of Justice. These two jurisdictions are appointed by the grand duke on the recommendation of the court itself, so their recruitment is co-opted. This principle is enshrined in Article 90 of the constitution and has never been questioned. It gives a great degree of independence to the Constitutional Court as well as to the Superior Court of Justice and the Administrative Court of Appeals.

Citation:

Loi du 27 juillet 1997 portant organisation de la Cour Constitutionnelle

Loi du 7 novembre 1996 portant organisation des juridictions de l'ordre administratif

Loi du 1er juillet 2005 arrêtant un programme pluriannuel de recrutement dans le cadre de l'organisation judiciaire.

ORGANISATION JUDICIAIRE, Textes coordonnés Avril 2009 [http://www.legilux.public.lu/leg/textescoordonnes/compilation/recueil\\_lois\\_speciales/ORGANISATION.pdf](http://www.legilux.public.lu/leg/textescoordonnes/compilation/recueil_lois_speciales/ORGANISATION.pdf)

Corruption  
prevention  
Score: 8

No corruption scandal was revealed during the period under review. Experts consider Luxembourg a country with a very low level of corruption. Parliament, political parties and civil servants are considered very reliable. Problems however can be found within the private sector and business.

Luxembourg's Court of Auditors still lacks formal institutionalized controls. So it is less formal audit mechanisms but social control that prevents corruption in this very small country. Indeed, these mechanisms seem to work rather well, except for some instances of nepotism. However, the lack of institutional controls is detrimental to the overall cause of corruption prevention.

## II. Policy-specific performance

### A Economy

#### Economy

Economic policy  
Score: 7

Luxembourg's prosperity is based on the multinational companies that have established themselves in the country. Contrary to the caricatured image of the country drawn by competitors, the reasons for this cannot be reduced simply to banking secrecy and low taxes. Luxembourg has a competitive business environment, a strategic location in the heart in Europe, a knowledge-based innovative economy, a stable business climate and skilled workforce and, in addition to purely economic aspects, a welcoming society and low crime rates. (1)

All economic actors are aware of these details, and it is the underlying reason and very explanation of the consensual Luxembourg model embodied in the Tripartite Coordination Committee. Apart from the shortfalls and slowness in administration matters, the overall result is successful, as measured by GDP per capita or the many competitiveness rankings where Luxembourg continues to hold top positions. The Competitiveness Observatory within the Ministry of Economy and Foreign Trade keeps track of these rankings, which are used as arguments during business development and prospecting missions. At these occasions, officials like to emphasize Goldman Sachs's "Growth Environment Scores" where Luxembourg was ranked number one among 170 competitors in 2005. (2)

The business community prefers the Global Competitiveness Index (GCI) of the World Economic Forum, which ranks Luxembourg at 21

out of 133 (GCI 2009-2010) and identifies the most problematic factors for doing business in the country: restrictive labor regulations; an inadequately educated workforce; difficult access to financing; an inefficient government bureaucracy; and an inadequate supply of infrastructure. (3)

April 2010 faced the breakdown of concertation within the framework of the Tripartite conference. This body failed to agree on any of the adjustment measures proposed by the government. Trade unions and employees' associations have pushed alternate strategies to address the economic crisis. The government has not yet been able to provide a strategy that could be agreed by all social partners.

Citation:

(1) These arguments are taken from the following governmental website: <http://www.luxembourgforbusiness.lu/why-luxembourg> (accessed April 8, 2010)

(2) [www.odc.public.lu](http://www.odc.public.lu) (accessed April 8, 2010)

(3) [http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20 Report/index.htm](http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm) (accessed April 8, 2010) see also: OCDE Economic surveys of Luxembourg:

[http://www.oecd.org/infobycountry/0,3380,en\\_2649\\_34569\\_1\\_70591\\_119663\\_1\\_1,00.html](http://www.oecd.org/infobycountry/0,3380,en_2649_34569_1_70591_119663_1_1,00.html)

## Labor market

Labor market policy  
Score: 6

Even if unemployment has increased considerably in the past few years, despite the economic crisis unemployment numbers have seemed to have leveled off in recent months. The official, seasonally adjusted unemployment rate stood at 5.9% in February 2010 and still remains low when compared to other European countries. Job security is also relatively high as Luxembourg remains – thanks to a labor law that is very strict on this point – the country with the highest rate of permanent employment contracts in the European Union (95%).

As Luxembourg's economy far exceeds its demographic resources – native and immigrant alike – it is largely dependent on a non-resident workforce, the so-called transborder commuters. Since summer 2009, the total number of people in the workforce has stabilized after more than two decades of rapid growth. This has led to a decline in the relative proportion of transborder commuters in the workforce.

In the current atypical situation of manpower shortage, achieving full employment remains one of the stated goals of the government. It aims to achieve this through a series of proactive measures: to reform the public employment agency; to press companies to first attempt to fill vacancies from within the national labor market through the public employment agency; to create subsidies for job creation, particularly if

said jobs benefit young unskilled workers, older people (50+) or women wanting to re-enter the workforce after starting a family. These actions however only have had a very limited impact on more general sources of unemployment. These include the serious shortage of highly skilled labor, or more generally speaking, the inadequacy of educational qualifications with the requirements of the labor market. The very generous unemployment and social security benefits, as well as a high guaranteed minimum wage, lead to a high reservation wage level.

## Enterprises

Enterprise policy  
Score: 7

The breakdown of the corporate concertation in April 2010 also included the failure of the strategy of Jeannot Krecké, minister of economic affairs. Krecké wanted to achieve a “roadmap” toward the reestablishment of competitiveness with 65 proposals. The minister and employees complained that Luxembourg suffered a 27% decline in labor unit costs during the period from 1998 to 2009 vis-à-vis Germany, according to Eurostat figures.

On the other hand Luxembourg’s enterprise policy offers very little room for maneuvering due to the country’s small size and its lack of industrial diversification. As Luxembourg’s economy relies very strongly on the financial sector (responsible for 45% of GDP, including indirect contributions by service providers) (1), the great challenge for enterprise policy is the fostering of diversification through a two-way strategy. This includes, first, custom-tailored investment and R&D incentives for local business and, second, attracting new business worldwide.

Founded in 2008, “Luxembourg for Business” operates as a trade promotion agency to foster the country’s outbound economic activities. In recent years, a dozen companies in the communication and media sector have gained a foothold in Luxembourg. E-business is also promoted as a new economic niche; several large international information and communications technology (ICT) companies have locations in Luxembourg. (2)

Other sectors are promoted with varying degrees of success. One of these is logistics. Luxembourg airport represents the fifth largest air cargo hub in Europe, and a road/railway piggyback service operates between Luxembourg and the French/Spanish border. Another is the automotive sector, where around one-fifth of activity is said to be devoted to research and development. This includes, inter alia, the multinational tire manufacturer Goodyear, DELPHI (which concentrates on the design, development and testing of components related to energy and engine management systems) and IEE

(producing sensing products). An emerging sector, biomedicine, includes three projects being undertaken in collaboration with the University of Luxembourg and renowned international partners: a bio-bank, a systems biology center and a cooperative research project to validate markers for lung cancer.

Citation:

(1) Comité pour le Développement de la Place Financière , Étude d'impact de l'industrie financière sur l'économie luxembourgeoise (2008), Luxembourg Novembre 2009 (Impact study of the financial industry on the Luxembourg economy (based on 2008 figures) published on the website of CSSF (Commission de Surveillance du Secteur Financier) the institution responsible for the prudential supervision of credit institutions : [www.cssf.lu](http://www.cssf.lu) (accessed April 8, 2010). (=CODEPLAFI 2008)

(2) [www.luxembourgforbusiness.lu](http://www.luxembourgforbusiness.lu) (accessed April 8, 2010)

(3) "Comment sortir ensemble de la crise?". Union des entreprises luxembourgeoises, Luxembourg 2010

## Taxes

Tax policy  
Score: 8

Two laws of December 19, 2008 increased the attractiveness of Luxembourg: capital duty was abolished from January 1, 2009 and the corporate tax rate was further reduced. "Paying Taxes 2010," a study by PricewaterhouseCoopers and the World Bank Group, measures the ease of paying taxes across 183 economies worldwide, by assessing both the cost of taxes and the administrative burden of tax compliance. Luxembourg ranks at 15 in the list. The total tax rate as a percentage of commercial profits is 20.9%, far below that of other European countries.

Since 2001, the distribution of the tax burden between households and business changed much to the disadvantage of households, whose share increased from 56% in 2001 to 64% in 2009.

This is nevertheless accepted, because the general tax burden for private income is relatively low. (Income tax rates are progressive with a limit at 38%, but due to significant reduction, the tax burden is low overall. For instance, a couple with two children and an income of +/- €35,000 pays no tax; the fortune tax was abolished in 2006; savings are taxed at a reduced flat rate of 10%; premiums paid into extra-legal pension funds are counterbalanced by tax relief measures; and VAT on the acquisition of real estate is greatly reduced.)

Two innovative measures in recent years deserve to be mentioned. First, the tax benefits of married couples have been expanded to hetero- and homosexual couples living under a "civil solidarity pact" partnership (Pacte civil de solidarité, PACS). Second, child allowance on income tax has been replaced by a tax bonus, so that parents who pay little or no taxes at all can profit from this advantage.

So the criteria of sufficient revenues are not met at an absolute level, but relatively well as compared to other states. The level of competitiveness however is controversial among experts.

Citation:

PricewaterhouseCoopers, *Paying Taxes* 2010, [www.pwc.com/gx/en/paying-taxes](http://www.pwc.com/gx/en/paying-taxes) (accessed April 8, 2010).

## Budgets

Budget policy  
Score: 8

According to the Maastricht criteria, Luxembourg is a model budgetary student. Despite a counter-cyclical spending program, the country's budget deficit in 2009 remained at 1% of GDP under the Maastricht formula, compared to 3.2% in Germany, 5.9% in Belgium and 8.2% in France. In 2008 Luxembourg had a debt of 13.5% of GDP, at the lower end of EU countries. In addition, its net debt, resulting from its debt minus investments in companies (i.e., Arcelor-Mittal, SES and BNP-Paribas) and reserves, for example pension and employment funds, lies below zero.

The government has presented a stability and growth program that will lower the public sector deficit to zero by 2014. This would be possible through annual savings of around €400 million. This measure, which trade unions have characterized as representing unnecessary and exaggerated austerity, will be one of the most controversial topics of the Tripartite.

However, budgetary policy is not really sustainable as the budget balance is too dependent on the use of regulatory niches. This can be illustrated by a recent change in VAT regulation within the European Union. On December 4, 2007, the Council of the European Union reached a political agreement on changing the rules on VAT so as to ensure that VAT on services accrues to the country where consumption occurs, rather than where the supplier is located. For e-commerce, or more precisely for business-to-consumer supplies of services, this will only start on January 1, 2015, with a four-year transitional phase in which taxes will be shared by both the country of the supplier and of the consumer.

As the VAT revenues of e-commerce are equivalent to about 1% of GDP, the loss of revenue will be considerable. But furthermore, to avoid job cut-backs the government has some 10 years to persuade enterprises attracted by the possibility of applying the lowest possible VAT rates that there exists other reasons to stay in Luxembourg (e.g., state-of-the-art IT infrastructure, good broadband connectivity and skilled labor).

Citation:

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/208> (accessed April 8, 2010) "Programme national de stabilité et de croissance: les actualisations du Luxembourg", [www.gouvernement.lu](http://www.gouvernement.lu)

## B Social affairs

### Health care

Health policy  
Score: 8

The public health system in Luxembourg is very efficient, as confirmed by the Euro Health Consumer Index (EHCI). In 2009 Luxembourg fell four places in this index because of failures in the field of e-health, namely e-transfer of medical data between professionals. The country still remains eighth in the classification of 33 states. Luxembourg also ranks first in the new European ranking of conditions for people living with HIV (Euro HIV Index).

There recently has been a major reform of public health insurance funds. The funds organized by professional bodies for historical reasons have been brought together to form one single administration.

Because of the permanent growth of the workforce, the age distribution of the insured is very favorable in Luxembourg and, in recent years the health insurance fund has not encountered the same funding problems as experienced in other countries. Only in 2009 did a small deficit appear. This deficit is expected to grow rapidly in 2010, and for this reason a recovery plan is under discussion, with the presentation of a bill expected on April 23, 2010. Two of the key measures of this bill should be a better balancing of the infrastructure between hospitals to avoid doubling-up, especially for expensive equipment, and the introduction of the so-called primary care physician model (Hausarztmodell), with a family doctor as gatekeeper to coordinate medical services and avoid duplication of treatment.

Citation:

[www.healthpowerhouse.com](http://www.healthpowerhouse.com)

Etudes économiques de l'OCDE, Luxembourg, Volume 2008/12, June 2008

## Social inclusion

Social inclusion  
policy  
Score: 9

Social cohesion is seen as a pillar of competitiveness in Luxembourg, as it ensures social stability. It has been an explicit goal of successive governments and has been encapsulated in many social laws: a minimum salary for wage earners, uniform in all the sectors of the economy; a guaranteed minimum income subject to certain conditions (minimum age, period of residence in Luxembourg, etc.); and other social allowances such as child benefits and a minimum pension.

Despite the increase in unemployment and the scarcity of affordable housing, the latter of which is seen as a major problem especially for young families, Luxembourg's society still appears very egalitarian, in comparative terms.

Citation:

The amounts of the various allowances can be found on the website of the Ministry of Social Security: [http://www.mss.public.lu/publications/parametres\\_sociaux/index.html](http://www.mss.public.lu/publications/parametres_sociaux/index.html)  
See also: STATEC, Travail et cohésion sociale au Luxembourg, Rapport 2009, Cahiers économiques 109, Luxembourg 2009

## Families

Family policy  
Score: 9

Childcare has significantly improved over recent years in terms of provision and quality. In 2004, the state and municipalities secured the care of 7,481 children. In 2008, this number increased to 23,000, and it is predicted to further increase by more than a third to respond to the demand created by a new original measure to promote equal opportunities for children living in Luxembourg. This measure, established on March 1, 2009, is called the "child care voucher." Each child under 13 years is entitled to free out-of-school care for 3 hours per week and 21 hours at a greatly reduced cost. This benefit focuses mainly on communal day care centers, which care for children after school until their parents finish work, but the voucher can also be used for other activities (relating to sports, culture etc.). This measure is restricted to resident parents and could be considered to discriminate against transborder commuters. The female employment rate has impressively progressed from 53.8% in 2000 to 61.3% in 2009.

## Pensions

Pension policy  
Score: 8

The public pension system is well-developed, with a minimum monthly pension of €1,514 producing a redistribution of wealth in favor of the elderly. This can be illustrated by the following citation from the 2009 OECD Pensions survey: “On average, men in Luxembourg will receive around \$825,000 in pensions over their lifetimes and women around \$1 million. Luxembourg may be an extreme example, but lifetime pensions are worth \$400,000 for men and \$475,000 for women on average in OECD countries.”

Despite its extreme generosity, the public pension system is doing well, with huge reserves of around €10 billion, or 3.6 times annual expenditure. This is due to the recent sharp increase in the workforce, which has led to growth in the number of affiliated members, as well as their relative youth. But funding is only provided in the medium-term and will be threatened when the number of affiliates starts to decline. According to the Social Services Authority in Luxembourg (Inspection Générale de la Sécurité Sociale, IGSS), employment in the country will need to treble by 2060 to maintain pension equilibrium.

The Luxembourg Business Union (Union des entreprises luxembourgeoises, UEL) is concerned about a system that, even based on optimistic assumptions, will produce a cumulative deficit of 190% of GDP by 2050, and has presented a plan to reform it. Some of its propositions include: reducing the current replacement rate (which is now often above 75%); removing the systematic and automatic adjustment of pensions to the general trend of wages, lowering the maximum contribution threshold, which is currently €8,413; and encouraging employees to opt for a later retirement.

Citation:

OECD, Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries, Paris 2009

Union des entreprises luxembourgeoises, La réforme du régime général d'assurance pension, Luxembourg, July 2009, [http://www.uel.lu/fr/upload/doc1637/Rapport\\_2009-07-15.pdf](http://www.uel.lu/fr/upload/doc1637/Rapport_2009-07-15.pdf) (accessed April 8, 2010).

## Integration

Integration policy  
Score: 9

In 2009, 43.7% of Luxembourg's resident population were of foreign origin. The number of foreigners has increased significantly (44,570 between 2000 and 2008), but the number of arrivals and departures is even greater (125,213 arrivals and 80,643 departures during the same period). These figures show that integration policy is an important issue in Luxembourg. As xenophobia is quite marginal, or at least not openly expressed in public, we can say that the country's integration policy works well.

The citizenship law was revised to allow for dual citizenship from January 1, 2009. At the same time knowledge of the Luxembourgish language has been made obligatory for anybody who wants to attain citizenship.

The ability to retain their citizenship of their home country while becoming Luxembourgers has encouraged new groups of well-integrated foreigners to take advantage of this opportunity. As shown in the assessment covering the first 10 months of the new procedure, the number of applications has multiplied by four compared to the same period the year before; the language test too has not been an insurmountable barrier.

Nevertheless, immigrant associations point out the vexatious and deterrent nature of the test, which – in their eyes – has no reason to exist in a multilingual country, where French is the principal language of communication. They see it mainly as a measure of appeasement, a concession to conservatives fearing foreign infiltration.

A new integration law (Loi du 16 décembre 2008 concernant l'accueil et l'intégration des étrangers au Grand-Duché de Luxembourg) reorganizes the administrative structure managing integration policy by creating the Luxembourg office of reception and integration (Office luxembourgeois de l'accueil et de l'intégration, OLAI). This office has the following responsibilities: implementation and coordination of reception and integration policy; implementation and management of the "reception and integration contract"; facilitation of the integration of foreigners; definition of a "national action plan for integration and against discrimination"; definition of a five-year national report on the integration of foreigners; administration of accommodation facilities; supervision of asylum seekers; and action against discrimination.

The reception and integration contract, which is voluntary in nature, contains some reciprocal commitments for the government and the immigrant to organize and facilitate their integration: the government undertakes to provide language training and civic courses as well as measures to promote the social and economic integration of the

foreigner; the immigrant is committed to participate in societal life. The electoral law at the municipal level will be changed in favor of foreigners.

Citation:

For details on the new law of citizenship and the first statistics see: [http://www.mj.public.lu/actualites/2009/11/Conference\\_de\\_presse\\_DN/index.html](http://www.mj.public.lu/actualites/2009/11/Conference_de_presse_DN/index.html) (accessed April 8, 2010).  
www.olai.public.lu

## C Security

### External security

External security  
policy  
Score: 9

External security is guaranteed by Luxembourg's membership in NATO and its military budget is expected to increase to 0.7% of GNP by the end of the most recent legislature, due to a general program of renovation of military installations and the purchase of military aircraft. Seven NATO states will purchase 180 A400M aircrafts with deliveries beginning in 2009. Luxembourg will buy one A400M in partnership with Belgium and has earmarked €120 million for this purpose. Due to delivery difficulties, this sum is expected to increase, but the Luxembourg defense minister has already said that he stands ready to cover some of the extra costs. This aircraft is used primarily to carry personnel, equipment and cargo into conflict areas.

Luxembourg's participation in peacekeeping operations in Afghanistan, southern Lebanon and other humanitarian missions is not disputed, but the acquisition of the A400M is highly controversial, especially since the government is reducing social protections at the same time. This issue is particularly worrisome among core supporters of the LSAP, namely its trade union wing and its youth organization.

### Internal security

Internal security  
policy  
Score: 9

According the "Mercer's 2009 Quality of Living Survey" Luxembourg is the safest city in the world (outpacing Bern, Geneva, Zurich and Helsinki) and the inhabitants of the country feel less threatened by crime than the EU average. Although crime statistics have increased over the past five years, internal security has not become a political issue.

The explanation for this probably lies in the fact that these statistics

reflect an increase in police activity rather than crime. The financial resources of the police have been greatly expanded in recent years, from €90 million a year in 1999 to €160 million in 2009. Furthermore, a new law provides for the reinforcement of security forces; in five years, their number will increase by 25%.

Citation:

Mercer's 2009 Quality of Living survey, <http://www.mercer.com>

Crime statistics are published in the Annual Activity Report of the Police. The most recent update was presented in a press conference: [http://www.gouvernement.lu/salle\\_presse/actualite/2010/03-mars/30-halsdorf/statistiques-pdf](http://www.gouvernement.lu/salle_presse/actualite/2010/03-mars/30-halsdorf/statistiques-pdf)

## D Resources

### Environment

Environmental  
policy  
Score: 7

Sustainable governance has been declared to be one of the priorities of the 2009 government program. One important step in this direction is the creation of a super-ministry called the Ministry for Sustainable Development and Infrastructures. This will combine the former departments for the environment, transport, territorial planning and public works.

Luxembourg's commitment under the Kyoto Protocol to reduce its emissions by 28% has had no real impact up until now. Per-capita CO<sub>2</sub> emissions still are the highest in the OECD (three times the European OECD average). According to forecasts, Luxembourg will have to heavily buy pollution credits from the European Union greenhouse gas emissions trading system. Since 2007, and following the "polluters pay" principle, the annual vehicle road tax has been based on CO<sub>2</sub> output and a tax on road transport fuel has been introduced, both dedicated to funding the Kyoto penalties. But as fuel prices remain significantly lower than those of neighboring countries, 75% of sales are made to non-residents. This so-called petrol pump tourism is reduced by increasing taxes; too slowly, however, according to environmental groups.

In its "Environmental Performance Review," the OECD acknowledged the efforts of the government, especially the incentives to purchase cleaner cars and more energy-efficient household appliances, and the encouragement of energy savings and use of renewable energies in the home. It also welcomed the 2009 Action Plan to promote environmental research and the development of green technologies. The OECD report formulated a total of 41 recommendations (foster the "user pays" principle to improve water quality and reduce waste

production; encourage sustainable farming, etc). It also pointed out the lack of coherence of some measures. For instance, the aforementioned actions to reduce fuel consumption are counterbalanced by generous deductions on income tax for commuters.

Citation:

OECD, Environmental Performance Reviews: Luxembourg 2010

[http://www.oecd.org/document/58/0,3343,fr\\_2649\\_34307\\_44846906\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/58/0,3343,fr_2649_34307_44846906_1_1_1_1,00.html) (accessed April 8, 2010).

## Research and innovation

Research and  
innovation policy  
Score: 8

Overcoming the backlog of Luxembourg's research activities is a declared objective of the government. For this reason, it plans to raise expenditure for public and private research to 3% of GNP by the end of the legislative period in 2014. The two major actors of public research activities are the national research foundation (Fonds national de la recherche, FNR) and the University of Luxembourg.

The activities of the FNR cover three distinct domains: 1) supporting researchers (implementing a research program which reflects national research priorities; attracting outstanding researchers to Luxembourg; improving young researchers' working conditions with grants for doctorate and post-doctorate training); 2) improving Luxembourg's research environment and institutional framework; and 3) promoting scientific culture, particularly among the young. The government funds are allocated through a three-year performance contract (€40 million in 2010). A common criticism of the FNR is that its bureaucracy grows more quickly than its research activities and that too much money is spent on ancillary costs.

The University of Luxembourg was founded in 2003 and is still in its formative phase. Momentum has been slowed as its new campus, on former industrial wasteland, is still under construction. The university thus is a good example of a widespread problem in Luxembourg: projects are started before they are fully designed and are then further developed through improvisation and negotiation among stakeholders, leading to troubles and unwanted outcomes. But in a small country that lacks critical mass in its administration, this grassroots or bottom-up approach is often the only possibility to effect change.

The university's four-year development plan for 2010 to 2013 defines five research priorities: 1) international finance; 2) security, reliability and trust in information technology; 3) systems biomedicine; 4) European and business law; and 5) learning and development in

multilingual and multicultural contexts. Critical voices note the strong emphasis given to the finance department in these priorities (the so-called Luxembourg School of Finance) and view some industry sponsored chairs as a “submission to the neoliberal ideology.”

Citation:

FNR performance Contract 2008-2010: <http://fnr.lu/en/About-Us/Mission>

The four year development plan of the University of Luxembourg (2010-2013)  
[http://www.en.uni.lu/content/download/24646/300015/file/2%C3%A8%20plan%20quadriennal\\_2010-2013.pdf](http://www.en.uni.lu/content/download/24646/300015/file/2%C3%A8%20plan%20quadriennal_2010-2013.pdf)

A blog critical of government research policies: <http://laurette.blog.lemonde.fr/>

## Education

Education policy  
Score: 4

Luxembourg is a multilingual society and to succeed in its educational system students must master the three official languages (Luxembourgish, German and French) as well as English in high school. Intensive language teaching leaves little time for other subjects. Forty percent of students are of foreign origin and have difficulties coping with the linguistic requirements, especially when they immigrate with their parents after school entrance age.

Luxembourg’s school system is highly selective and especially discriminatory toward students with a migrant background. It is also the most expensive school system within the OECD: a student costs more than two times the OECD average (9,060 “cumulative expenditure per student over the theoretical duration of primary and secondary studies”). This amount is explained by high teacher salaries, but seems not so extravagant when it is put in the perspective of per capita GNP.

The first PISA study, which ranked Luxembourg at 29 out of 31 countries, came as a shock and after the 2004 elections the new LSAP education minister launched an ambitious reform of school in general and language teaching in particular. Since the coalition was renewed in 2009, the reforms will continue. The government is correct when it declares that it has done more in this regard during the most recent legislative period than any government before it. The government has undertaken reforms of the School Act of 1912, which defines the organization of primary school, as well as vocational training, and a reform of the secondary school system is under way.

To give an idea of the content of the primary school reform and to rebut the charge that the school pays too much attention to abstract knowledge – such as vocabulary and grammar instead of real speech skills – teaching will be determined by a new paradigm: the competency-based skills approach. Students will continue to acquire

knowledge, but the school will be committed to making them capable of using this knowledge in new and varied contexts. The outdated rating system based on a 60-point scale will be progressively replaced by new assessment tools fostering documentation of progress made and promoting motivation among the children. Teamwork between teachers and between pupils, as well as attempts to combat failure and exclusion, are other main features of the new approach.

It is too soon to assess the real impact of these reforms. But, as is often the case in Luxembourg, the reforms were poorly planned and carried out hastily. For instance, the pilot projects started over the past few years were not really evaluated and teachers do not seem prepared to change their habits and their mentalities.

Citation:

OCDE, Education at a Glance 2009: OECD Indicators, Paris 2009

The main innovations and changes covered by the reform are listed in: Ministère de l'Éducation nationale et de la Formation professionnelle, Rentrée scolaire 2009 – 2010, Des nouveautés dans la continuité la continuité dans les nouveautés [http://www.men.public.lu/actualites/2009/09/090910\\_rentree/090914\\_rentree\\_dossier\\_presse.pdf](http://www.men.public.lu/actualites/2009/09/090910_rentree/090914_rentree_dossier_presse.pdf)

## Management Index

### I. Executive Capacity

#### A Steering capability

##### Strategic capacity

Strategic planning  
Score: 4

The Luxembourg state apparatus lacks the critical mass to have an authoritative and competent policy advisory capacity. In most cases, the administration is fully occupied with daily operations and has neither personal advisory unit for ministers nor extra-governmental bodies to do strategic planning. The most outstanding exception is the Ministry of Social Security, which has a long tradition in medium- and long-term social programming, namely of the actuarial balance of the pension system. New capacities are developing in the recently created Ministry of Sustainable Development and Infrastructure.

A good example of the lack of planning capacity is the Hospital Plan. Some critics have pointed out that what is supposed to be a plan for the future does not go beyond a description of the current situation and the management of practical constraints.

The only major research facility in the socioeconomic field is the publicly financed Centre d'Etudes de Populations, de Pauvreté et de Politiques Socio-Economiques / International Network for Studies in Technology, Environment, Alternatives, Development (CEPS/INSTEAD), which, like the central statistics office STATEC, has no policy planning capacities.

Citation:

Règlement grand-ducal du 13 mars 2009 établissant le plan hospitalier national et déterminant les missions et la composition minimales des structures d'évaluation et d'assurance qualité des prestations hospitalières et les modalités de coordination nationale de ces structures.

Scholarly advice  
Score: 5

Owing to the lack of domestic expertise, the government often turns to foreign institutes for opinion and advice (e.g., OECD, the International Labor Organization (ILO), universities or private study offices). The most notable example is Professor Lionel

Fontagné (Paris School of Economics) who has advised the Ministry of Economic Affairs on the issue of competitiveness. Sometimes, nongovernmental organizations such as Ecological Movement (Mouvement écologique, MECO), an environmental organization, rely on foreign academic experts to oblige the government to change its ways. The recently established university has so far brought no change to this situation.

A good example is the reform of psychiatry. A Swiss health expert who had already participated in a 1993 report presented a so-called planning study, comprising an inventory and offering recommendations. In 2008 this study was transformed into a national reform plan. In 2008 the same expert evaluated the implementation of the recommendations of his own planning study (of 2005), which led to a 2009 law on the hospitalization of persons with mental disorders (Loi du 10 décembre 2009 sur le placement des personnes souffrant de troubles mentaux).

Citation:

Various reports on psychiatry can be accessed at the following address:  
<http://www.sante.public.lu/fr/systeme-sante/systeme-politique-sante/politique-nationale-sante/reforme-psychiatrique/index.html>

### **Inter-ministerial coordination**

GO expertise  
Score: 7

According to law, Luxembourg's prime minister plays the role of a "primus inter pares" and as a consequence the Office of the Prime Minister (PMO) has no institutional resources to assess or control the activities of other ministries. Nevertheless, through informal contacts with line ministry civil servants a certain checking process is exercised and the respect of government priorities is enforced.

The PMO employs some 40 civil servants, and six of them can be considered senior officers (conseiller de gouvernement). Their number has doubled over recent years. Their background and training is primarily in law, economics or political science. Expertise in economics and finance is less well-represented. The number of diplomats working for the prime minister's diplomatic cell has also been expanded, reflecting the increased role the prime minister plays in international affairs. As far as employee recruitment goes, partisan affiliation plays (or is supposed to play) a negligible role. But on the other hand membership in the prime minister's party is not detrimental to recruitment.

The Inspectorate General of Finance (Inspection générale des finances, IGF) evaluates ministerial draft bills and participates in

numerous interdepartmental committees. This can be considered part of the core government, especially as the prime minister was finance minister for a long period and remains treasury minister today.

GO gatekeeping  
Score: 8

In theory, the prime minister can of course reject policy proposals. There is some disagreement between experts if and how the prime minister uses this right. On the one hand, the current prime minister, Jean-Claude Juncker, overshadows the other members of government by his charisma and international recognition. This gives him a certain authority that, in these days of unaccustomed austerity, has proved essential for the cohesion, and perhaps even the survival, of the government coalition.

On the other hand the prime minister acts as a “primus inter pares” and it would seem that he is particularly reluctant to interfere in dossiers handled by ministries controlled by the coalition partner. Here too, technical expertise at the Office of the Prime Minister or the lack of it would seem to prevent the prime minister to become more active in the formulation of governmental policy. The arbitrage function is exerted if at all at the level of the numerous consultative bodies or interministerial organs and of course the Inspectorate General of Finance (Inspection générale des finances, IGF) affiliated to the budget ministry. That is where a genuine arbitrage role takes place, although limited most of the time to the financial or budgetary impact of policy measures.

Line ministries  
Score: 8

Technically speaking, as there are no institutionalized mechanisms of coordination with line ministries, the Office of the Prime Minister has no capacity to become involved in the preparation of bills or proposals by line ministries and is not even legally entitled to do so. Line ministries are pretty much free to pursue policy initiatives provided that they are in accordance with the governmental and coalition programs and that they respect budgetary constraints. There is no unit dealing with policy assessment and evaluation. Informally, no proposal is presented to the Council of Ministers without being approved by the prime minister beforehand. Even though, since 2009, the prime minister no longer holds the very strategic finance portfolio, his central role in governance has not been weakened.

Citation:

For government structure see: Arrêté grand-ducal du 27 juillet 2009 portant constitution des Ministères.

For attributions of Ministers see: <http://www.gouvernement.lu/gouvernement/membres-gouvernement-2009>.

Cabinet  
committees  
Score: 8

In a strict sense there are no cabinet committees, and the cabinet has to rely entirely on the work of the different ministries or inter-ministerial groups, if more than one department is concerned. Generally cabinet meetings are well-organized and only bills that have been accepted informally are presented to the cabinet. Moreover, bills have to be scrutinized by experts at the finance ministry.

Senior ministry  
officials  
Score: 9

Senior officials play a very important role in the preparation of cabinet meetings. Appointed for life and generally remaining in the same ministry, senior officials represent continuity and over time they form an informal network with their peers from other ministries. Their power is also based on the fact that ministers are usually in charge of more than one portfolio and must rely on a trusted advisor, especially in small ministries that may not be their main focus or central to political debate. Senior officials heading such departments have a certain degree of autonomy. Before the cabinet meeting, there is often a preparation meeting held at the senior official level.

Line ministry civil  
servants  
Score: 8  
Informal  
coordination  
procedures  
Score: 10

Senior officials and interministerial committees are important in the coordination of policy proposals.

There are many occasions for informal contact and coordination between experts and administrative personnel. The fact that their numbers are in general small; that all actors are concentrated in the capital; and that within the capital the government district itself is intimate. Furthermore, there is much consultation between the two coalition parties.

## RIA

RIA application  
Score: 2

Regulatory impact analysis, in the true sense of the concept, does not exist in Luxembourg. Nevertheless, as of 10 years ago, every new law or regulation has to be accompanied by a financial fact sheet listing direct expenses and revenues and an impact assessment form specifying administrative costs. The administrative costs are all the formalities and administrative obligations incumbent on businesses, citizens, administrations and ministries, directly or indirectly related to the legislation. In late 2009, the impact assessment form was redesigned by the Committee for Administrative Simplification (Comité à la Simplification Administrative, CSA) to give new life to a poorly used tool.

## Citation:

Comité à la Simplification Administrative, Fil conducteur pour la fiche d'évaluation d'impact : Mesures législatives et réglementaires, Luxembourg 2009  
[http://www.simplification.public.lu/archives/Documents/procedure\\_analyse\\_flux/Fil\\_conducteur\\_de\\_la\\_fiche\\_d\\_valuation\\_d\\_impact.pdf](http://www.simplification.public.lu/archives/Documents/procedure_analyse_flux/Fil_conducteur_de_la_fiche_d_valuation_d_impact.pdf)

Needs analysis

Score: 1

Does not apply.

Alternative options

Score: 1

Does not apply.

### Societal consultation

Negotiating public support

Score: 8

Luxembourg is a consensus-oriented society. This includes some neo-corporatist features such as six professional chambers, three representing employers and three representing workers, which have to give their advice on any bills or regulations relating to their sphere of competence. These professional chambers also have the right to submit proposals to the government, so they play an active role in the legislative process. The Economic and Social Council (ESC) is an advisory body composed of representatives from business as well as from trade unions and government. It meets regularly, in contrast to the Tripartite Coordination Committee established in the wake of a crisis in the steel industry in 1978, which gathers only in urgent situations.

As its name indicates, the Tripartite Coordination Committee is composed of three parties with an equal number of government, trade union and business representatives. Intended as an exceptional response to an exceptional situation, it is called to life in economically difficult situations.

The tradition of some 60 years of consensual negotiation and dialogue with a high level of social stability is described as the "Luxembourg model" (Hirsch 2007).

However in spring 2010 the model came under pressure as the Tripartite Coordination Committee failed to agree on measures in response to the global financial crisis and its impact on Luxembourg's economy. The focus of the meeting was set primarily on the competitiveness of the national economy, the situation of the labor market and the evolution of public finances.

The challenge of drastic austerity measures in a country accustomed to wealth brings about a crucial test for the survival of this institution and the “Luxembourg model” in general.

Citation:

(1) Mario Hirsch, L'économie luxembourgeoise. Le «modèle luxembourgeois», gage de stabilité politique et sociale. In: Service Information et Presse, Lëtzebuerg. Grand-Duché de Luxembourg, Luxembourg 2007. (Translation Fernand Fehlen)

See also : Patrick Thill, Adrien Thomas: Le “modèle social luxembourgeois” au défi de la crise. CEPS/INSTEAD, Gouvernance & Emploi n°12.

### **Policy communication**

Coherent  
communication  
Score: 9

Weekly press briefings held by the prime minister after cabinet meetings constitute the government's main information channel. It is generally the prime minister who presents the major issues and responds to journalists' questions. Revealing any dissent in the government or between coalition parties would go against the deeply rooted consensus tradition and is rare. Thus the government “speaks with one voice.” This unanimity is currently threatened, however, by the policy of austerity adopted in response to the financial crisis.

## **B Policy implementation**

### **Effective implementation**

Government  
efficiency  
Score: 7

In general, the government is able to implement its strategic objectives, although this process often takes much longer than planned, given that policy based on consensus is often cumbersome. Projects are sometimes not only slowed down but delayed indefinitely, especially when powerful lobbies are involved.

This is particularly the case for major infrastructural or zoning projects, such as a tramway system for the city of Luxembourg, which has been under discussion since the 1990s. A law proposal that was already very far advanced was postponed before the 1999 election, as the CSV were afraid of the reactions of some local business lobbies. Since then, different variants have been discussed, studies have been carried out and it has been decided to go ahead with the tram in principle. The Alternative Democratic Reform Party (ADR) made its opposition to the project a key

election issue in 2009, but it did not meet with the hoped-for response of voters. A final decision is subject to finance questions and is still pending.

Ministerial  
compliance  
Score: 8

Luxembourg's electoral system, known as "panachage," is a combination of the proportional representation of lists with the possibility for the voter to pick individual candidates by giving them preferential votes. Consequently, the voter, and not the party, decides the composition of parliament and even of the government, since those with the best results usually become ministers.

This system encourages politicians to take personal initiatives, but as they generally address small lobbies, they do not conflict with the government's agenda.

A "go-it-alone" action of a CSV member of parliament and former minister has, however, caused a lot of attention, because it challenged one of the basic tenants of consensus within the political system, namely not to appeal to nationalism and xenophobia. This MP submitted a proposal for a law to change the Luxembourg national flag, without any prior consultation with the party establishment. Even if the purpose was folkloristic, a petition in favor of this initiative obtained a number of signatures corresponding to 12% of the electorate.

This personal initiative annoyed the CSV because it does not correspond to the modern image the party wants to convey. On the other hand, it contributed to attracting those in the electorate who fear being "swamped" by foreigners and being unable to compete with them on the labor market.

Citation:

Fernand Fehlen, A New National Flag For Luxembourg - Struggling Over Identity In A Small Multilingual Society, In: Mats Andrén, Thomas Lindkvist, Ingmar Söhrman, Katharina Vajta (eds) Cultural Identities and Cultural Borders, Göteborg 2009, pp. 67-84

Monitoring line  
ministries  
Score: 6

There is no formal monitoring by the Office of the Prime Minister as no institutional resources exist to carry it out. However, the small size of the government administration fosters a high level of transparency without the necessity of explicit monitoring tools. In case of conflict, the prime minister acts as conciliator.

Monitoring  
agencies  
Score: 8

Executive agencies lack the autonomy to pursue a course of action independent of the guidelines issued by the ministries that control them. Sometimes, the strong personality of agency heads leads to some conflicts. But, if and when these become known in public, the views of the minister or his key collaborators prevail. At least the domain of social security has a department dedicated

to monitor the executive agencies, namely the Social Services Authority (Inspection Générale de la Sécurité Sociale, IGSS). The Ministry of Finance also has a department to monitor the financial management of all governmental agencies, namely the Inspectorate General of Finance (Inspection générale des finances, IGF).

Task funding  
Score: 8

Owing to the country's small size, Luxembourg contains no subnational entities, with the exception of its 116 municipalities. Two-thirds of municipalities have fewer than 3,000 inhabitants, which is thought to be too small to cope with political, administrative and technical demands. Therefore a process of territorial reform has been initiated, which will be accelerated after the municipal elections of 2011 and completed with the elections for the newly merged communities in 2017. No municipality shall have fewer than 3,000 inhabitants or more than 100 square kilometers.

Municipalities have no fiscal autonomy and frequently complain that funding from the central government is insufficient. The past decade was, however, marked by a decentralization of cultural infrastructure, resulting in operational costs that are perceived as excessive by many citizens confronted with an austerity unknown until this point. When the Tripartite considered finding savings at the municipal level, the Union of Luxembourg Towns and Municipalities (Syndicat des Villes et Communes Luxembourgeoises, SYVICOL) protested, placing particular emphasis on its non-representation within this body.

Citation:

[http://www.gouvernement.lu/salle\\_presse/actualite/2009/03-mars/10-halsdorf-communes/index.html](http://www.gouvernement.lu/salle_presse/actualite/2009/03-mars/10-halsdorf-communes/index.html)

Constitutional  
discretion  
Score: 7

Local government depends increasingly on transfers from the central government. The land-use regulation was centralized in the most recent legislative period and a first conflict between local interests and the rules of the integrated traffic and land use plan (Integrierte Verkehrs- und Landesplanung, IVL) occurred when the construction of a business center with 129 shops in a rural region near the capital was not authorized.

With the reform of the education system the municipalities have lost one of their major prerogatives, the autonomous management of teaching staff in primary school (involving pupils from four to 12 years of age).

In return, the government program promises more autonomy as a result of the territorial reform, especially more financial autonomy

and the backing of municipal finance by regional funds.

This increased financial autonomy and backing of municipal finance was part of the governmental program in 2009 but has not progressed to date.

National standards  
Score: 9

The Ministry of Interior ensures control of the local administrations. As part of the territorial reform, the administration responsible for monitoring the municipalities' finances will be integrated within the existing national Auditing Court.

## C Institutional learning

### Adaptability

Domestic  
adaptability  
Score: 7

Luxembourg has made significant progress in implementing European legislation. Its implementation deficit reduced from 2.8% in December 2007 to 1.4% in November 2009. Due to the improved performance of most member states, Luxembourg still ranks 26 out of 27 and its implementation delay remains considerably high (15 months compared to an average of 9 months), however the quality of its implementation is satisfactory, as it ranks 5 out of 27.

The government has announced as part of its program an analysis of the current implementation system to identify potential problems, with a simplification of interplay of parliament and states council under consideration. So far no draft legislation has been submitted.

Citation:

Figures from Internal Market Scoreboard 16 and 20:  
[http://ec.europa.eu/internal\\_market/score/index\\_en.htm](http://ec.europa.eu/internal_market/score/index_en.htm)

International  
coordination  
Score: 8

Luxembourg is mainly involved in international reform initiatives in the context of the European Union. As a founding member and through its senior ministers who have a better understanding of how the system works than their colleagues, it plays a certain role that is only noticed by public opinion if it is reported in the news, for instance, during discussions on bank secrecy. This occurred in spring 2009, when it succeeded alongside Austria and Belgium in gaining exceptions in information exchange in the context of the European Savings Tax Directive.

Sometimes Luxembourg can play a more dynamic role and seize opportunities. The regulation of investment funds throughout the European Union, known as the Undertakings for Collective

Investment in Transferable Securities (UCITS), is a convincing example. UCITS refers to a series of European Union directives that established a common regulatory regime for marketing collective investment vehicles throughout Europe. Luxembourg was the first country to pass the UCITS legislation into national law in 1988, granting itself a competitive advantage not lost since then, and confirmed during the transition to UCITS III in December 2002. This alertness has contributed to making Luxembourg a major center for investment funds. At the moment, lobbies are maneuvering to speedily implement UCITS IV, adopted in January 2009 into national law and their think-tanks are already looking beyond this to UCITS V.

Citation:

<http://www.alfi.lu/investor-centre/how-do-ucits-investment-funds-work/understanding-ucits>

### **Organizational reform capacity**

Self-monitoring  
Score: 5

In the absence of systematic monitoring of institutional arrangements, the government mainly relies on international expertise. This includes, for instance, the 2007 OECD Country Report on Research and Innovation that led to the creation of a higher research and innovation committee and the more recent 2009 ERAWATCH assessment of research systems and policies. An example for best practice is the 2006 Council of Europe Report entitled "Profile of the Luxembourgish educational linguistic policy," which was conducted through a two-year long discussion process involving national stakeholders and had a real influence on policy-making, as it led to a reform of language teaching in 2009.

The audit performed by the OECD on the labor market administration (Administration de l'emploi, ADEM), has meanwhile resulted in a draft bill that is scheduled for June 2010. Critical voices say that these reports, regardless of their actual quality, cannot replace local expertise.

Citation:

ERAWATCH Full country report 2008: An assessment of research system and policies. <http://cordis.europa.eu/erawatch/index>

Various reports on language teaching:  
[http://www.men.public.lu/publications/syst\\_educatif\\_luxbg/langues/](http://www.men.public.lu/publications/syst_educatif_luxbg/langues/)

Institutional reform  
Score: 6

The Ministry for Public Service and Administrative Reform created in 1995 is not among the most dynamic and effective departments, but has over time reached a modest but steady pace of reforms. The 2009 government program foresees a series of administrative reforms. One of the most ambitious, the general opening of the civil service to citizens of the European Union, with the exception of some positions relating to the exercise of national sovereignty, has already been voted through and came into effect on January 1, 2010.

Most other reforms are in the domain of e-government, such as the planned implementation of electronic internal and external document exchange, or the following developments of the past two years:

- 1) LuxTrust, a certification authority based on a public-private partnership between the Luxembourg government and major private sector actors in Luxembourg, in particular the financial sector, which issues and manages electronic certificates.
- 2) Guichet.lu, Luxembourg's Citizen & Business portal, a unified on-line office targeting both citizens and businesses for dealing with administrative formalities, and offering the possibility of on-line income tax submission for individuals.
- 3) The year 2009 has seen many new Web presences among various administrations: Luxembourg.lu for general information and national branding; "Luxembourg for ICT" to promote Luxembourg as a center for online and ICT business and as central gateway to European markets, with the same concept as the older "Luxembourg for finance" and "Luxembourg for business" websites; and more specialized portals for health services and volunteering.

The first "Master Plan of Electronic Governance" was dated 2002, but its implementation has taken much time. It was accelerated by a presentation charter and project tailoring definitions, known as the "new normalization reference" in 2007. Since then evolution has been very positive.

Citation:

Loi du 18 décembre 2009 (...) fixant le statut général des fonctionnaires de l'Etat

## II. Executive accountability

### D Citizens

#### Knowledge of government policy

Policy knowledge  
Score: 8

There is some difference between native Luxembourgers and foreign nationals. The latter (42.9% of the population on January 1, 2010) do not really participate in political life, as they have restricted voting rights and about half of them do not speak Luxembourgish, the language in which political debate takes place. Two new free daily newspapers published in French and particularly popular among young adults may improve awareness of national politics among this population.

The parliament has its own television channel, called ChamberTV, which broadcasts public sessions and a modest one-hour per week magazine is repeated in loop. Even if its audience is small (5.2%), the impact of this program is probably greater than that of the parliamentary newspaper, called Chamber-bliettchen, which consists mainly of verbatim transcripts of the proceedings, and is distributed free of charge to every household in Luxembourg.

Citation:  
TNS-Ilres-Plurimedia-Survey 2009

### E Legislature

#### Legislative accountability

Obtaining  
documents  
Score: 9

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

Summoning  
ministers  
Score: 10

Interaction between the parliament and the executive is generally straightforward, even in relation to controversial issues, such as the so called Bombing Affair (Bommeleeër-Affair). This is one of the most sensitive files in Luxembourg's legal history, going back to a series of bombings in the 1980s, which have still not been solved and which, it appears today, were staged by the police's own special forces. To investigate this hypothesis the parliamentary commission for justice invited the justice minister and the prosecuting attorney to discuss the issue before them. Even if the commission did not contribute to solving the case, it is an example of the parliament's power to get information.

Summoning  
experts  
Score: 9

Parliamentary committees are able to summon government or nongovernmental experts to testify. They are invited to committee meetings or, in exceptional cases, when issues become a matter of significant public interest, to meetings open to the public. In October 2009 three environmental organizations were invited to a public hearing about the national plan on CO2 reduction.

Task area  
coincidence  
Score: 8

The tasks areas of parliamentary committees do not match the task area of ministries in total. Sometimes control responsibilities are split because of developments within the government. An example in the 2009 government is that the minister for agriculture, viticulture and rural development is also minister for sports and deputy minister for social economy. The Ministry for Agriculture has a committee of its own, while sports issues are amalgamated with education, and social economy is combined with economy and foreign trade.

With the creation of the super-ministry for sustainable development, the parliamentary committee has also been redefined to correspond to its new responsibilities.

Joint meetings of two or more committees take place if the subject topic requires it.

Audit office  
Score: 9

Since 1999, the Court of Auditors has controlled the financial management of the instruments, administrations and services of the state in an absolutely independent way and transmits a general report to parliament each year.

Moreover, the court can present its findings and recommendations on specific areas of financial management in a special report at any time, either at the request of the parliament or on its own initiative. These special reports are also submitted to parliament.

During the revision period, the court presented a special report on the computerization of ticketing in public transport and on the planning and construction of the museum of the fortress of

## Luxembourg.

Ombuds office  
Score: 10

The ombudsman, at the head of an institution created in 2004, has become a well-accepted and respected mediator between citizens and state authorities. His responsibilities have recently been broadened by a new function, the inspection of detention centers (in the context of the United Nations' Optional Protocol to the Convention against Torture (OPCAT) convention).

The number of complaints to the ombudsman has been stable (between 900 and 950) for the past three years, as has the rate of rulings in favor of complainants' correction rate (about 80%). These high figures show both the efficiency and the necessity of this institution.

### Citation:

Annual reports of the ombudsman are available at: [www.ombudsman.lu](http://www.ombudsman.lu)  
OPCAT (Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment) was adopted by the United Nations General Assembly in New York on 18 December 2002 and signed by Luxembourg in 2005. Its ratification in 2010 is yet another example of the slowness of the legislative process in Luxembourg.

## F Intermediary organizations

### Media

Media reporting  
Score: 5

Apart from some local stations, Luxembourg has only one television program that meets professional standards. This program, broadcast by RTL, consists of a core broadcast of one hour, comprised of a 30-minute news magazine with some additional features (e.g., sports, youth items), and is repeated throughout the day. Though privately owned and oriented mainly toward "infotainment," a convention with the government imposes a minimum standard, especially with regard to national information services. Recently a five-minute news flash in French was added, while the main news has been broadcast in Luxembourgish with French and German subtitles since 2007.

Radio broadcasting is still dominated by RTL but has diversified. Its small competitors include a public radio station (Radio 100.7), which has about a 10% share of the audience among Luxembourgers over the age of 18.

Parliament has its own channel, called ChamberTV, to broadcast public sessions, and a very modest television program (one hour per week repeated in loop). Even if its audience is modest (5.2%), the impact of this media presence is probably more significant than that of the parliamentary newspaper, entitled “Chamberbliettchen,” which consists mainly of the verbatim transcripts of the proceedings, and is distributed free of charge to every household in Luxembourg.

Citation:

TNS-ILReS Plurimedia 2009

### Parties and interest associations

Party competence  
Score: 8

The four major parties propose plausible programs in the sense that they involve no excessive or extravagant proposals. Luxembourg political culture is based on a form of consensus and pragmatism that converges on conservatism. Vested rights and social achievement are respected by all parties. The Christian Social People’s Party is probably the most socialist party of Europe within the Christian democratic party family; the social democrats, who still call themselves the Socialist Workers’ Party (LSAP), is the party of the economics minister, who travels the world to attract new companies to Luxembourg; the Democratic Party (DP) criticizes the government’s austerity and present themselves as the defender of families, the middle class and civil servants. The Green Party holds positions on the city councils of the two major cities. In the capital, they are the junior partner of the Democratic Party and in the second largest city they are the partner of the LSAP.

The panachage system reinforces the tendency toward immobility, as candidates rely on personalized votes. A proposal that is not “plausible” to voters means a candidate will gain no votes. Given that different, sometimes contradictory, categorical interests have to be taken into account, electoral programs sometimes lack coherence. Strategic plans and innovative policy proposals are not fostered by this voting system.

Association  
competence  
(business)  
Score: 8

Employers’ associations, business associations and trade unions are involved through the aforementioned neo-corporatist institutions in policy-making, namely the Economic and Social Council (Conseil économique et social, CES), which regularly publishes studies of great interest, for instance a yearly report on the economic, social and financial evolution of the country. The

government commissioned the CES, alongside the Council for Sustainable Development (Conseil supérieur pour un développement durable, CSDD), to study an alternative measure of wealth and well-being independent of GNP (inspired by the Stiglitz Commission on the Measurement of Economic Performance and Social Progress).

Citation:  
[www.ces.public.lu](http://www.ces.public.lu)

Association  
 competence  
 (others)  
 Score: 9

Various NGOs have considerable recognition in Luxembourg and provide a significant contribution to public debate.

The Ecological Movement (Mouvement écologique, MECO), which sees itself as a lobbyist for the environment and sustainable development, denounces low gasoline prices, among other things. Its internet site, Mecoskop, monitors the implementation of the government's program commitments.

The "Cercle de cooperation," an umbrella organization of development NGOs, caused a lot of turmoil with a study on the financial sector, accusing Luxembourg of siphoning off considerable amounts of money from developing countries through illegal or at least illegitimate means. The banking association (Association des Banques et Banquiers Luxembourgeois, ABBL) refuted the conclusions and showed numerous factual errors.

The Catholic Church, which could once be considered the opinion leader in a conservative and rural country, has greatly lost its influence, even if it still owns the major newspaper. In contrast, Caritas, the Catholic charity organization, recently attracted attention with its socially progressive views and its commitment to asylum seekers. The Caritas Yearbook has been published since 2007 to foster "the dialogue between political leaders, civil society and business."

Citation:  
[www.mecoskop.lu](http://www.mecoskop.lu) (Mecoskop monitors 100 commitments of the 2009 government program, which stem, mainly but not exclusively, from the field of environmental policy.)  
 Rainer Falk, Zur Debatte um Steueroasen - Der Fall Luxemburg - Fragen aus entwicklungspolitischer Sicht, Cercle de cooperation, 2009, <http://woxx.lu/public/images/newwoxx/Etude-Falk.pdf>  
 CARITAS, Sozialalmanach 2010 - Schwerpunkt: Aus der Krise in die Armut? Luxemburg 2010

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