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On the project

Due to the new treaty provisions of the Lisbon Treaty and the economic crises the enlarged EU of 27 member states is on the search for a new modus operandi while also continuing membership talks with candidate countries. The EU-27 Watch project is mapping out discourses on these and more issues in European policies all over Europe. Research institutes from all 27 member states and the four candidate countries give overviews on the discourses in their respective countries.

The reports focus on a **reporting period from December 2009 until May 2010**. This survey was conducted on the basis of a questionnaire that has been elaborated in March and April 2010. Most of the 31 reports were delivered in May 2010. This issue and all previous issues are available on the EU-27 Watch website: www.EU-27Watch.org.

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Luxembourg

Trouble in paradise

Jean-Marie Majerus*

The German Press Agency (dpa) released an astonishing headline on 28 April 2010: “Uproar in paradise – crisis splits Luxembourg.”¹

The Grand-Duchy’s economy, already badly shaken by the banking crisis in the aftermath of the Lehman Brothers’ bankruptcy, did not have to wait for the consequences of the Greek crisis to learn that new unhappy times were dawning. Being accustomed to growth rates of 4 to 9 percent over the last years, always meeting the Maastricht criteria without a problem, Luxembourg now had a “paradise lost” feeling. The beloved “Luxembourg model” seemed to guarantee a never-ending economic growth success story.

This famous “Luxembourg model” came into being in the mid-seventies in the aftermath of the steel crisis, and the birth of the Luxembourg financial centre is based on a tripartite social consensus dialogue between the government, the great representative unions and the employers’ federations.² Social cohesion and peace were preserved by steadily growing state revenues from the financial sector and a unique wage raise system in Europe. In fact, Luxembourg has generalised, since the 1970s, an automatic indexation of wages on the rise of living costs. The basket of goods to measure the evolution of living costs includes foremost necessity products such as milk and bread, but also nonessential consumer goods such as cigarettes and fuel prices. The advantage for the employers is that there is practically no labour action nor any other social unrest in tiny, peaceful Luxembourg. An indexation of salaries means that wages are automatically adapted without any negotiations if prices rise by more than 2.5 percent. No consideration of the actual economic situation is taken into account. The indexation was temporary put out of action in the past if inflation was so high that a full implementation of the indexation would have seriously harmed the national economy. But these most exceptional situations always led to political disarray. For the labour unions, the “indexation of salaries” is a “paramount social acquis” and its “manipulation” is unspeakable.³

The government is well aware that times are changing and that even a “paradise” like Luxembourg has to increase its economic competitiveness to be able to cope with the most serious economic crisis since World War II.⁴ However, Luxembourg is the only European country to have the automatic indexation of wages in the private and in the public sector. Maintaining the indexation of salaries is an important part of the government coalition program; it will be very difficult, if not sheer impossible, for the government coalition to abolish this Luxembourgish specificity. But most employers or human resources managers – many of them coming from foreign countries – are not so familiar with the Grand Duchy’s specificities and have little or no understanding for a system with an automatic rise of personnel costs not directly linked to an equivalent gain of productivity.⁵ As long as the Luxembourgish economic figures were fixed in the green zone, the employers’ request for an indexation abolition sounded like the “*ceterum censeo Carthago delendam esse*”⁶ of the Roman politician Cato.

The most recent tripartite negotiations should have come to a conclusion before the Prime Minister’s speech on the state of the nation in early May 2010. In fact the negotiations ended in failure on 27 April 2010, when the Prime Minister had to take note that no deal was possible.

Prime Minister Juncker had isolated preparatory consultations with all members of the tripartite negotiations copied from the “confessional method” used in European Commission negotiations. Although these consultations were said to be confidential, it was clear that it would be very difficult to find a *compromis à la luxembourgeoise* in the way compromises had been found in former times when Luxembourg’s “social consent society”⁷ was still working perfectly. Now the government was in very bad shape, as it had to find a solution that would take account of the dramatic financial situation of the public treasury and the contradictory demands of its social partners.

The international economic situation, in which the microstate Luxembourg is embedded, declined dramatically with the Greek crisis linked to the Euro crisis. Prime Minister Juncker, in his function of Euro group leader, had to fight on two fronts at the same time: at home with the social partners and on

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the European floor with his Euro country partners and the finance markets. According to Finance Minister Pierre Frieden, state revenues from the financial sector will be in a free fall in the years 2012 and 2013, when the banks are supposed to pay taxes for the years 2008 and 2009, years when they had no profits. Frieden already had to borrow money – an unusual behaviour in Luxembourg – to be able to realise the public investments he had to finance. He intends to bring down public debt again by 2014. It was the ungrateful role passed on to Finance Minister Frieden to present these cruel proposals. According to a gentlemen's agreement, the content of the tripartite negotiations are not to be made public until the very end of the negotiations. This time, the OGBL (the pro-socialist union) communicated the content of the propositions Frieden made in the name of the government to the press. The measures included not only a list of reductions of state aids, but also a raise in taxes and, last but not least, a modulation of the indexation.⁸

This, economically speaking, most difficult situation was topped by the serious political crisis that followed. In an interview, Luxembourg's Socialist Labour Minister Nicolas Schmit, a former career diplomat, declared that the "social cruelties" discussed in the government had been proposed by Finance Minister Luc Frieden and had not been decided by the government as whole.⁹ This PR action seemed to have been a success, since his personal rating in public opinion soared and those of the once very popular Finance Minister were squeezed. The communication policy of the government was "suboptimal", as Juncker himself conceded. After the next tumultuous government council, Schmit had to retract and accept that the propositions made by Frieden were the propositions of the "government as a whole."¹⁰ Leading Christian Democrats called for the resignation of the Socialist Labour Minister.

In order to get out of the stalemate, Juncker made the last compromise propositions to the unions:¹¹ "The unions refused all compromise propositions of the Prime Minister; a disillusioned and angry Jean-Claude Juncker had to acknowledge the failure of the tripartite negotiations."¹² A most recent public opinion survey has suggested a widespread approval of these propositions.¹³

In the meantime, the political crisis has been shifting towards its climax. Socialist Party Chairman Alex Bodry and the leader of the Socialist parliamentary group Lucien Lux had maintained that an extraordinary Socialist Party congress should approve or disapprove the results of tripartite negotiations and the government was to make a decision following these discussions. After a passionate discussion, the Socialist Party congress approved the government decisions on tax raises and lowering state aid programs.¹⁴ The Juncker compromise had been previously withdrawn from the congress' agenda. The influence of the left wing union OGBL among Socialist congress delegates would have been strong enough to veto any decision to "manipulate" the indexation. On the other hand, leading Christian Democrats (party President Michel Wolter and parliamentary group Chairman Jean-Louis Schiltz) reflected in public on plans to change the coalition partner. In the government, the friendly atmosphere among colleagues seemed to have vanished: Minister Frieden had to accept the "dictate" of the OGBL.¹⁵ Would Juncker be ready to cross the Rubicon and put an end to the ruling coalition, eventually leading to new elections?

The state of the nation speech of the Prime Minister on 5 May 2010 was expected with great impatience. Juncker made it very clear to all observers that there was no government crisis in his eyes, because there was no alternative to the coalition in power.¹⁶ In a non-public Chrëschtlech Sozial Vollekspartei (CSV) national committee, the delegates were convinced that new elections could only weaken the CSV, and the Luxembourg Socialist Workers' Party (LSAP) would be the old and the new coalition partner anyway.¹⁷

Juncker's speech was very clear. It put a provisional end to all speculations concerning the possible divorce of the coalition partners, at least until the next fall. Because Juncker handed over the "hot potato" to the Socialist Minister of Economy Jeannot Krecké, known to have more balanced views on indexation, Krecké was given the mission to make new proposals on how to raise the competitiveness of Luxembourg's economy before next fall.

The political, social and economic crisis in the "paradise" is interrupted, but is still awaiting a final solution.

¹ dpa: Aufruhr im Paradies – Krise spaltet Luxemburg, 28 April 2010.

² François Manzari: La crise sidérurgique au Luxembourg 1975-1985, University of Montpellier, Master thesis (unpublished).

³ Onafhängege Gewerkschaftsbond Lëtzebuerg (OGBL): Jean-Claude Reding: Austeritätspolitik und Sozialabbau führen in eine Sackgasse, available at http://www.ogb-l.lu/pdf/publications/aktuell/Aktuell_5_2010.pdf (last access: 19 July 2010);

Lëtzebuenger Chrëschtliche Gewerkschaftsbond (LCGB): Von der Tripartite zur Lage der Nation, Sozialer Fortschritt 4/2010, available at: <http://lcgb.lu/uploads/magazines/4bd85f14c68262e73901e87de1d7676aa8147d25.pdf> (last access: 22 June 2010).

⁴ Government of Luxembourg: Discours de Jeannot Krecké, Ministre de l'économie et du commerce extérieur à l'occasion de l'ouverture de la Foire du Printemps, 1 May 2010, available at: http://www.gouvernement.lu/salle_presse/discours/autres_membres/2010/05-mai/01-kreckeluxexpo/index.html (last access: 19 July 2010).

⁵ Business Federation Luxembourg (Fedil): La Fedil plaide en faveur d'un accord tripartite, Communiqué, 22 April 2010.

⁶ "Furthermore I think Carthage must be destroyed."

⁷ Gilbert Trausch: Discours: De l'Etat à la nation, Luxembourg 1989.

⁸ The government decided on a list of measures to increase the state's fiscal revenues and reduce its spending. See also for details: <http://hello.news352.lu/index.php?p=edito&id=34636> (last access: 14 July 2010).

⁹ Nicolas Schmit Kein Beschluss der Regierung (interview with Minister Schmit), Tageblatt, 16 April 2010.

¹⁰ Luc Frieden: Vorschläge im Namen der Regierung, Tageblatt, 26 April 2010.

¹¹ Juncker's compromise propositions: Alternative 1: exclusion of the evolution of crude oil prices from the panel taken into account for the indexation. This would be compensated by free public transport; or alternative 2: exclusion of the middle and high wage classes from a fully paid indexation of wages. Union leaders refused both propositions right away. Juncker made no effort to hide his disarray and deception.

¹² Le Jeudi: L'échec de Juncker, 29 April 2010.

¹³ Luxemburger Wort: 73% für Index-Deckelung. Die Vorschläge von Premier Juncker stoßen auf breite Zustimmung, 30 April 2010.

¹⁴ Luxemburger Wort: Koalitionsfrieden auf Bewährung. Die Sozialisten segnen Maßnahmenpaket der Regierung zur Sanierung der Finanzen ab. Der Zusammenarbeit von CSV und LSAP stehen stürmische Zeiten bevor, 3 May 2010.

¹⁵ Personal interview with J. Putz, member of the Young Christian Democrats (CSJ) central committee, 6 May 2010.

¹⁶ Chambre des Députés: Discours de Jean-Claude Juncker sur l'Etat de la Nation, 5 May 2010, available at: <http://www.gouvernement.lu/gouvernement/etat-nation/index.html> (last access: 22 June 2010).

¹⁷ Personal interview with J. Putz, member of the Young Christian Democrats (CSJ) central committee, 6 May 2010.

Questionnaire for EU-27 Watch, No. 9

Reporting period December 2009 until May 2010 – Deadline for country reports 21 May

All questions refer to the position/assessment of your country's government, opposition, political parties, civil society organisations, pressure groups, press/media, and public opinion. Please name sources wherever possible!

1. Implementation of the Lisbon Treaty

On the 1 December 2009 the EU-reform ended with the entering into force of the Lisbon Treaty. However, the new treaty provisions still have to be implemented. Some procedures and conditions have to be determined. In other cases, procedures, power relations, and decision-making mechanisms will change due to the new provisions.

- How is the work of the new President of the European Council, Herman Van Rompuy, assessed in your country? Which changes to the role of the rotating council presidency are expected?
- How is the work of the new High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, assessed in your country? Please take into particular consideration both her role within the European Commission and her relationship to the Council of the European Union.
- On 25 March 2010 a "Proposal for a Council Decision establishing the organisation and functioning of the European External Action Service" was presented. How is this concept perceived in your country? Which alternatives are discussed?
- On 31 March 2010 the European Commission presented a proposal defining the rules and procedures for the European Citizens' Initiative (ECI). What are the expectations for the ECI in your country? What are the various positions concerning the rules and procedures?

2. Enlargement and European Neighbourhood Policy

The European Commission has given its opinion on Iceland's application for EU-membership and a decision from the Council is expected before the end of June. Croatia seems to have settled its border dispute with Slovenia. Against this background:

- Which countries does your country expect to become members of the European Union in the next enlargement round? What are the opinions in your country on the membership of these countries?
- How are the membership perspectives of those countries discussed, which are not expected to become a member in the next enlargement round?

The Eastern Partnership and the Union for the Mediterranean were the last major projects dealing with the European neighbourhood:

- How are these projects assessed in your country?

3. European economic policy and the financial and economic crisis

The European Council agreed on 25/26 March on the key elements of the Europe 2020 strategy, the successor of the Lisbon strategy. While not being on the formal agenda the economic and financial situation in Greece was discussed. The European Council agreed on a finance package combining bilateral loans from the eurozone and financing through the International Monetary Fund.

- How is the finance package for Greece assessed in your country? Are there any opinions on the process, how the agreement on the package was reached?
- Which lessons should be drawn from the Greek case for a reform of the Stability and Growth Pact?
- How is the idea of "a strong coordination of economic policies in Europe" perceived in your country? What concepts of an European economic governance are discussed in your country and which role do they assign to the Euro group?
- How is the Europe 2020 strategy discussed in your country? What are the priorities for the Europe 2020 strategy from your country's perspective?

4. Climate and energy policy

The climate conference in Copenhagen took note of the Copenhagen Accord but did not reach a binding agreement. The next conference of the parties (COP 16 & CMP 6) will take place at the end of November 2010.

- How is the Copenhagen conference assessed in your country? Please take into consideration the negotiation strategy of European Union and the results of the conference.
- Does the European Union need to change its own energy and climate policy in order to give a new impulse to the international negotiations?
- Is a global agreement within the UNFCCC the best strategy to fight climate change? If not, which alternative strategy should the European Union follow?
- What is your country's position on financing mitigation and adaptation efforts in developing countries?

5. Current issues and discourses in your country

Which other topics and discourses are highly salient in your country but not covered by this questionnaire?