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The Luxembourg Social Model: Quo vadis?

It has not been since the 2008 economic crisis that Luxembourg's long-standing governance mode generally portrayed as 'Luxembourg Social Model' with *tripartite* concertation and a search for consensus on most important socio-economic matters has come under serious threat. This paper attempts to reveal its malfunctions and their causes. It argues that unless a less exclusive governance strategy is envisaged, Luxembourg will unlikely be able to continue excelling in the future.

I will break down the argument into four parts. Before defining in more detail the 'Luxembourg Social Model' I will first elucidate and identify obstacles of a lagging mind-set to change inherent in Luxembourg having reached a status of wealth unprecedented in history and based on the principle of converting sovereignty into money. Next I will shed light on the influence of neo-corporatist heritage on Luxembourg's governance and will question whether the encompassing character of corporatist governance has lost ground. I will then trace its inferences on democracy and in particular on the culture of transparency and on social versus political participation, questioning whether inclusion strategies are not excessively linked to an 'old school'-model of interest mediation. The last line of reasoning will dwell on Luxembourg's small state characteristics arguing that the fast and sustained development of social interactions is increasingly unable to cope with Luxembourg's organisational behaviour of society as a very small state. To show a way forward I will at the end confront Luxembourg's governance model with more inclusive models of associative democracy reorienting the 'ideology of social partnership' around post-materialist values.

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Methodology

This paper attempts to shed light on Luxembourg's governance in a comparative political economy perspective with its facets of politics, economy and sociology sharing the body of thought of New Institutionalism.

Collection of data has been focused at both national and international backgrounds. Relevant sources of information have been exploited with a preference to qualitative data. Quantitative data has been used for comparative purposes. Interviews were guided to complement data and to close minor information gaps. Following attributes have chosen interviewee partners:

- Long-term horizon respectively historical interest;
and/or
- Representing an 'outsider' position in the analysed structure, i.e. corporatism;
and/or
- Multidisciplinary approach (socio-economic, socio-cultural, socio-political).

Following interviewee partners have been chosen:

Dr Serge Allegrezza as a former president of the *Social and Economic Council* (a constituent neo-corporatist body), director of the Luxembourg statistical office (*Statec*) and renowned for having an approach to the subject by far exceeding the economic field he is home to;

Mr Paul Zahlen as a historian and renowned for his multidisciplinary publications on the subject;

Ms Blanche Weber as president of the Luxembourg environmental NGO *Mouvement Ecologique* and representing as such the 'outsiders' of corporatist intermediation.

As for politics, I was limited to interview one person. To make the right choice, I reverted to the degree of trust of different party constituencies into corporatist institutions. According to Dumont et al. (2010:256-257), political parties can be subdivided into three groups:

- Those with a majority trusting corporatist institutions (here: *tripartite*): coalition partners: *CSV, LSAP*;
- Those with a majority not trusting corporatist institutions: *BL, ADR, DP, Déi Lénk and KPL*;

- Those which are indifferent: *Déi Gréng*.

Members with a neutral position towards *tripartite* peak within *Déi Gréng* while in all other parties either the 'pros' or the 'cons' are in the majority. Hence it follows that a partner from *Déi Gréng* has been chosen, Mr François Bausch, member of parliament and the party's executive committee. Noteworthy as well is following: Green Party members who trust corporatist institutions are by far exceeding those who do not consider them trustworthy.

All literature and all interviews have been translated into English. It has been considered as unmanageable not to do so since raw data has been collected in four languages (English, French, German and Luxembourgish).

Definitions: The Luxembourg Social Model

Many definitions exist of the 'Luxembourg Social Model' or in short, 'Luxembourg Model' (e.g. Allegrezza et al., 2003, Clement, 2008). In this paper I do not delineate the model as an inventory of institutions accumulated over time but as a discourse whose aspects have best been described by Peter J. Katzenstein (1985) in his concept of an 'ideology of social partnership'. It serves as an instrument for small states to cope with unavoidable structural change. Allegrezza (2010) underlines that this model is more than the mere aggregation of its institutional constituents but connotes a "search for consensus on the most important questions by social dialogue among major economic and social actors in order to keep Luxembourg at the high level achieved". Its path dependency has been highlighted by Hirsch (2007) matching the model to "the tradition of some 60 years of consensual negotiation and dialogue with a high level of social stability".

Its main components are the consensual political negotiation mode of neo-corporatism, the notion of 'flexible adaptation' (Katzenstein, 1985) and inextricably the characteristic of Luxembourg as a very small state if not to say microstate.

Corporatism, or more precisely neo-corporatism, is an ambiguous concept. Despite its lack of conceptual clarity and being a 'rather elastic concept with a somewhat uncertain central core' (Williamson, 1989:5), it has had a significant influence on the

study of interest group politics (Downes, 1996). The predominant focus of corporatist literature derives from Philippe Schmitter's narrower definition of the concept as a form of interest intermediation. He defines neo-corporatism as:

“a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports” (1974: 93-94).

Chapter 1

The sociology of wealth

Towards a sovereignty-based economy

Norbert von Kunitzki (1991:9) draws up the spatial context in a narrative of alien visitors. He assumes Martians to approach the area now called the ‘Greater Region’ and in particular Luxembourg. Arriving from any direction, they will either find frustrated people in a depopulating Saarland, abandoned villages and factories in Lorraine or sleepy towns and tree-covered valleys in the Belgian province of Luxembourg, deeming ever closer to arrive in an economic desert ... before one step further entering Luxembourg. A small country with the highest income of Europe opens up in the middle of these needy regions, an oasis of social and economic well-being, the land of milk and honey. The aliens investigating on the reasons for this surprising wealth will not be able to map it out: not alone that neither natural resources nor industrial infrastructure can be held responsible for this extraordinary affluence, also the inhabitants’ human capital cannot account for it and has barely progressed beyond average.

At this juncture von Kunitzki draws the success of Luxembourg’s economic development to a number of foreign initiatives which all the more came across rather by coincidence than by the artifice of its inhabitants. While purchasing power of Luxembourg steel workers was highest all over Europe (Kunitzki, 2003:128),

comparative advantages linked to Luxembourg being an autonomous microstate started to buttress the expansion of the economy. Based on the principle of merchandising sovereignty (Kunitzki, 1991:20) i.e. converting sovereignty into money (Reinesch, 1987:18), legislative-based comparative advantages could increasingly be exploited. This has been an option to a small state such as Luxembourg whose fully-fledged sovereignty has not been any longer under threat. While in a globalised world most disadvantages accruing by smallness, i.e. diseconomies of scale in the provision of public goods, become less important (Simon, 2006:33) sovereignty and/or law-making authority seem to play an important role in enabling VSC (very small countries) to achieve high levels of wealth (Kocher, 2003:178). Such trade-off policies will however only be tolerated by larger countries as long as disadvantages accrued to them will be judged as insignificant, or as Warrington (1994:8) put it, by small countries “skilfully manipulating the delicate balance between autonomy and dependence”.

In Luxembourg the discourse about such policies tends to be concealed by referring to ‘niche policies’. Niche policies do not imply per se ‘merchandising sovereignty’, e.g. marketing a natural resource such as a warm, windy and dry location with stunning scenery to attract paragliders. Nonetheless, in the context of small states ‘niche policies’ are basically nothing else than free rider policies at the expense of larger states. Circumscribing this fact seems to be related to “the denegation efforts of political discourse which tries to push aside the fact that the Luxembourg economy lives on making sovereignty into money” (Fehlen, 1997:2-3).

It is true that Luxembourg also knew times of sluggish growth. The *trente glorieuses* (‘glorious thirty’) were not splendid when Luxembourg had the slowest growth rate of the six original EEC countries (Hirsch, 1983:131). But as Hirsch implies, this fact might have used to count on a certain indulgence of its trading partners: “A small country has not very many alternatives to assure its survival. For better or for worse it has to stay with the loopholes it can exploit. The damage inflicted upon its partners is anyway limited” (1983:131).

Since the 1980s policies based on legislative-based comparative advantages and particularly finance sector based law-making authority have made Luxembourg’s

economy grow much more rapidly than those of neighbouring countries. The booming service sectors have produced large increases in income, a phenomenon which has jeopardised the industrial sector. It has caught a banking-based 'Dutch disease' as the price competitiveness of Luxembourg's manufactured goods cannot match the banking sector. However, as Schuller (2002:19) points out, the EU integration process and the liberalisation and deregulation phenomenon keeps reducing manoeuvring margins of 'niche policies' and accordingly sovereignty. Hence the *Luxembourg State Council* (Conseil d'Etat, 2008:11) having doubts about whether sovereignty-based strategies are able to continue functioning in the light of an increasingly integrated Europe invites the government to take into account alternative scenarios based on economic growth figures closer to that of its main economic partners.

A virtuous or vicious spiral?

At a colloquium on the 'Luxembourg Social Model' Schuller argued (2002:17) that Luxembourg's economy was generating a 'virtuous spiral' and that "for countries in a virtuous upward spiral, success breeds better government, which breeds yet more success" (Wolf, 2002). He alluded to challenging established niche policy fields: "as far as 'sovereignty niches' are meant to disappear, distinctive niches (*créneaux de spécificité*) will have to be unleashed making up the new comparative advantages" (2002:23). This laudable strategy had in mind to create niches of a specific constellation of knowledge that Luxembourg already disposes of: a long-lasting experience in the service sector and a small-state environment at the confluence of two important European cultures paired with a firm and explicit stance towards European integration. Steinmetz and Wivel (2010:219-220) have reiterated the claim while referring to 'smart states': "by pursuing a strategy, which focuses resources on carving out political niches where the small state may make a difference by acting as a mediator".

It is questionable whether Luxembourg has reached such a virtuous stage of development. Schuller rather seemed to underestimate the magnitude of obstacles involved in curtailing policies based on legislative-based comparative advantages. Admittedly, some actors have already made vital investments into physical

infrastructure in the service sector in terms of a competitive 'Luxembourg Model' (e.g. the IT sector with ultra-fast broad-band internet services). When however socio-cultural traits come into play, evidence comes across rather meagre.

An unexploited trump

The ease to use foreign languages has been one of the 'new' comparative advantages Luxembourg could bring into play to a larger extent. Schuller (2002:22) argued that multilingual Luxembourg citizens situated at the confluence of two cultures could well put their linguistic comparative advantages more to the fore than they did hitherto, referring to Jacques Rigaud who maintains that *despite their unjustified complexes* (emphasis by myself), Luxembourgers would do better to be more active in matters of cultural dialogue. Be those complexes justified or not, it is telling that such socio-cultural traits are said to be idiosyncratic to Luxembourg citizens representing a long-standing obstacle. At a recent conference entitled 'Transatlantic Dialogue' on common cultural grounds at a global scale and organised by the University of Luxembourg an analogous account was given. Following truism came to the fore: most (young) participants were amazed about the international environment in Luxembourg but considered that nationals do not appreciate their precious human capital adequately. It was rather incomprehensible for international participants that Luxembourgers do not better bring into play their multilingual skills and hardly have in mind 'to dip deeper' into an international ambience. „This colloquium“, so the person in charge „reflects the experiences all through my life“ (Houtsch, 2011).

In the early 20th century Nicolas Ries highlighted in his essay on national identity Luxembourgers' role as mediators (Ries in Horner, 2007:368): "We do not merely form a bridge between the French and the German spirit but a lively synthesis of two civilisations, and in learning both languages we acquire the possibility to rejoice in benefiting two cultures" (Ries, 144-145). Yet he pointed to Luxembourgers being easily embarrassed when they assume to be incorrect in foreign language use (1920:163)".

I do not pretend to be able to identify the roots of this phenomenon. Nevertheless I aim to figure out links to possible shortcomings inherent in the so-called 'Luxembourg Model', an arrangement that seems to freeze or at least slow down a rejuvenation of socio-cultural patterns that go beyond mere educational issues. More in this regard will be said in later chapters.

Why Change a Winning Team?

A swift change away from legislative-based comparative advantages turns out to be unrealistic. While the 'Luxembourg Model' has become strained by recurrent disagreements among its institutionalised members, the so-called social partners, it appears that on the one hand a pressing need to shift away from windfall gains has been recognised but on the other hand the need to fill budget holes has pushed such a course of action indefinitely into the future. What is more, the long-term reliance on economic strategies related to sovereignty paired with an economic well-being generally exceeding the levels of neighbouring countries has created a lagging mindset to change among Luxembourg citizens that is kind of puzzling. It has been striking how 'insulated' political actors, the media and civil society have been against critical evaluative connotations of particularly multinational bodies. When Lionel Fontagné presented his findings on the national economy in 2004, he concluded that in Luxembourg, "the feeling prevails to be independent from international constraints" (in Siweck, 2004). He continued: "What Luxembourg always succeeded was to identify and exploit at a maximum specific advantages such as mining, banking regulations and decisional short cuts by means of public authorities". Finally he presaged of less candid secrets of the grand-ducal success: "Even that the general fiscal level is rather high, particular favours are being allocated in certain strategic domains which are compensated thanks to the large activity volume of these sectors" (in Siweck, 2004).

An apparent virtuous spiral might thus turn rather swiftly into a vicious one. If the activity volume of a large service sector, say, banking strongly contracts or even collapses during times of economic downturn, state proceeds are all the more dependent on those revenues from legislative-based advantages. What is more, the

vulnerability of the economy is amplified by its small-scale attribute and lack of sectoral spread.

Michael Porter, US star economist, put it bluntly when he asserted: “Luxembourg is living on borrowed time” (Carey, 2005). He pointed to the urgent necessity for Luxembourg to develop an economic strategy that deserves its name. “There is little evidence of systematic cluster building”, Porter reminded policy makers of shifting responsibilities for economic development. It is not anymore given that the “government is alone able to drive economic development through policy decisions and incentives but it has become increasingly a collaborative process involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration” (Porter, 2005). It is questionable whether such processes have sufficiently been stimulated all the more that a broad societal dialogue is required. Without doubt, some initiatives were taken but “it can take 10 years to make a university work, 20 to 30 years to really reap its academic harvest” (Porter in Carey, 2005).

It is telling that a group of industry professionals assembled for a one-day brainstorming session with the goal to assess Luxembourg as if it were a company advocated to enhance its competitive environment by more ‘political leadership’ instead of the currently practised ‘political management’ (Carey, 2006). Leadership is scarce in Luxembourg’s consensual corporatist system particularly when the ‘Luxembourg Model’ is doomed to failure by antagonistic social partners. When more than a decade ago Guy Schuller drew attention to the necessary shift of resource factors generating a comparative advantage from sovereignty to know-how, it may well have been that such course of action was considered essential by some leaders at the head of the state. Due to a missing mainstream and an inability to expect finding a common course in consensual decision-making however, it has never been put across intelligibly to a general public.

As Hirsch (2002) asserts, it is all the more crucial “that the fundamentals of small-state existence – the high degree of consensualism – shaping public life could easily get out of hand and the common destiny discourse, not only summoned by the ruling class but as such perceived by a majority of citizens, rests on hollow ground; notably

at this point in time when niche policy dividends fail to realise and the small state is being hindered by foreign leverage to duly assume its identity creating role of generating steady growth” (Hirsch, 2002:71).

Decreasing dividends of niche policies have come more rapid to the fore than even Hirsch might have imagined. Yet the political discourse has not moved far from relying overtly on ‘economics of sovereignty’ (Kocher, 2003). In a country where “the success of the past has created a socio-political context ill-disposed towards reforms” (Fontagné in Siweck, 2004) and where satisfaction with the political system is extraordinary high (cf. chapter 3), issues of change have continuously ranked low on the political agenda. If this is the case, another question comes to the fore: Who is liable for this inertia, inactive politicians or an unaware electorate? Thus far, a majority of Luxembourg citizens’ attention might have been drawn elsewhere. “What is celebrated in a culture? This is a litmus test that can give you a pretty good idea of how competitive an economy is.” Putting this question to the reporters at the *Dexia (Luxembourg)* press conference, few gave Michael Porter an answer. “Conspicuous consumption was the first thing that popped to mind” (Carey, 2005).

The labour view

Interest groups of wage earners do not agree with those gloomy forecasts. Sheer profit maximisation accounts for such conduct. While employers point out strong relative wage increases of Luxembourg labour over the last decade, the *Employee Chamber* (Chambre des Salariés, 2009) underlines that despite cyclical rising unit wage costs during the recent economic slump, these would remain at a particularly low and business-friendly level in a European perspective. Both productivity and unit wage costs are reflected in high profit margins of Luxembourg industry. The public service sector union (*CGFP*) argues that the considerable reservoir of manpower in cross border regions represents a significant check of wage increases (2005:18). It is rather fiscal fraud that has to be fought effectively. With an alarming decrease of economic activity, unemployment has become the main problem to be tackled. Furthermore, the Chamber does not commend any social aid reductions under the pretext of raising the economy’s competitiveness, arguing that social spending takes over the role of shock absorber in times of recession (2009). Summing up, the labour

view on factual competitiveness is contrary to the employers' perception and the latter are being incriminated of realising excessive profits. Keynesian economics is being advocated to stave off the effects of unemployment in times of recession.

Chapter 2

The neo-corporatist legacy

The formation of neo-corporatism in Luxembourg has been described elsewhere (Wey, 2003a, Trausch, 2008, Cames, 2010). In this chapter I will first dwell on whether corporatist interest mediation has remained 'encompassing' in Luxembourg before addressing trade union agendas and the continued existence of neo-corporatism at a wider scale. I will further examine whether the Luxembourg corporatist model can be termed 'competitive' or whether its high degree of institutionalisation has foreclosed a reshaping to more loosely-knit conventions. Finally, the prospects of a continued existence of corporatist intermediation will be analysed from an economic perspective.

Still encompassing?

An often-quoted economist and social scientist, Mancur Olson argued (1986:187) that large, "encompassing neo-corporatist interest groups should not have nearly such strong incentives to engage in antisocial action as narrow distributional coalitions". Based on the logic of collective action (Olson, 1965), large and encompassing groups have more inclination for redistribution and making their society prosperous than more narrowly based organisations. Reiterating Olson (1982), Hassel (2003:708-709) argued, "Wage restraint has been a function of encompassing trade unions, which had to internalise negative externalities of wage bargaining. Fragmented and weakly organized trade unions should not be able to successfully negotiate voluntary wage restraint, but would face competitive wage pressure". It is based on the Calmfors and Driffil (1988) inverted-U-shaped curve according to which unemployment is related to the degree of centralisation of wage bargaining. Low unemployment would only be achievable with either decentralised bargaining or centralised bargaining while an intermediate position of bargaining at the sectoral level would induce negative externalities harming other sectors of the

economy and thus leading to higher unemployment. Olson went one step further when he put up his implication number 2 on a proliferation of interest groups with disproportionate organisational power for collective action: "Stable societies with unchanged boundaries tend to accumulate more collusions and organizations for collective action over time" (1982:41). A corollary of this implication results in smaller, less encompassing and thus more narrowly focused interest groups over time. Olson added: "If encompassing behaviour by neo-corporatist interest groups does not last indefinitely, there may be no institutional gimmicks that can reverse the process of 'institutional sclerosis'" (Olson, 1986:187).

Applying such a mind-set to the development of neo-corporatism in Luxembourg over the last 35 years, i.e. since the establishment of tripartite negotiations among employers, trade unions and the government (*Comité de coordination tripartite*, in short *tripartite*), I attempt to explore the encompassingness of labour representation over time. Evidence is hard to come by though since 'encompassingness' is meant to embrace apart from solely quantitative indicators (as e.g. incidence of interest groups, their density, i.e. here: trade union membership as a percentage of all employees in dependent employment) also qualitative evaluation variables of interest groups' concern for the well-being of overall society. The encompassingness of employer groups will not be analysed here. Within employer groups, tensions persist between industry and crafts. Yet it cannot be overlooked that employers represent society far less than labour representations.

To gauge encompassingness, I will focus on two indicators over time at my disposal, that is, first, the sectoral shift in employment and second, wage moderation. Since the 1970s a dramatic sectoral shift away from industry to services has occurred. According to figures from the *Chamber of Commerce*, the weight of the steel industry decreased from 28% in 1970 to 2% in 2009 while in the same period the financial sector grew from 4% to 26% (Chambre de Commerce, 2011b:13). Corporatist actors have subsequently become less encompassing because the *tripartite* board largely represents the industrial sector as yet. Crouch (2006:55-56) asserts that "the principal change involved in loss of encompassingness is the shift in economies from the manufacturing base in which most industrial relations systems are rooted (...) to the services sector orientation of the early twenty-first century". Closely related to this

adjustment is a gender issue: whereas manufacturing employment with associated industrial relations systems have been primarily male affairs, generally female employees in so-called 'social and community services' have outpaced manufacturing in job growth (2006:56). Thill and Thomas note that "even that it is difficult to get to know more about the precise composition of the *tripartite* coordination committee and its possible evolution, the question raises nonetheless to know in how far *tripartite* composition is still representative of the Luxembourg economy with its strong orientation towards the service sector" (2009:10). It is puzzling that *CGFP* enjoys sectoral representation as a union and thus participates at *tripartite* meetings while the union *ALEBA* representing finance and insurance sector employees does not participate even that it enjoys sectoral representation in a vital sector of Luxembourg economy (Thill and Thomas, 2009:10). *ALEBA* thus denounces the institution of *tripartite* as undemocratic (Aleba, 2008). This blatant discrimination has been going on for at least one decade and what Hirsch put up in 2000 could well be reiterated: "No one seems to take offence at the state as an employer exclusively dealing with the dominating *CGFP* in wage bargaining and even concluding collective agreements, a union about as strong in its sector as *ALEBA* in the finance sector, even if it commands even less of national representativeness than *ALEBA* does" (Hirsch, 2000).

As statistical data of real wage development and labour productivity reveal, wage moderation unambiguously occurred from the onset of *tripartite* bargaining in the late 1970s (Zahlen, 2003a:37). A more mitigated recent development was accounted for by Walch (2001:55) who pointed out that while in the past a high degree of coordination characterised the national wage bargaining process, wage moderation may give rise to concern with non-co-operative behaviour of trade unions without a high degree of national responsibility. His concern was confirmed by the European Commission's Recommendation on the National Reform Programme 2011 of Luxembourg, stating that "over the period 2000-2010, unit labour costs rose about one and a half times faster in Luxembourg than on average in the EU-15, and more than five times faster than in Germany (2011:4). Indeed, the *Chamber of Commerce* pointed out recently that since 2000 the nominal unit wage cost have risen 37% in Luxembourg while comparative figures in Germany were 8%, France 23% and Belgium 25% (2011a:25). Despite the fact that the loss in competitiveness is partly

due to the above-mentioned banking-based 'Dutch disease', it cannot be dismissed that organisations for collective action, say, trade unions have become more fragmented and thus less inclined to accept wage moderation. Some authors point to potential drawbacks such as an apparent collusive sectoral confederation of state employees (Zahlen, 2003a:60 and Hirsch, 1993:9). Allegrezza deems that a weaker trade union environment goes hand in hand with an excessively large number of unions beleaguering wage earners. "Increasingly the system of industrial relations is going to be alike the French system instead of the German or Scandinavian one" (Allegrezza, 2003:179 and 2011b). Yet Walch (2001:55) was slightly more optimistic considering that "the wide coverage of the two largest trade unions could help to avoid inappropriately high wage increases".

A growing fragmentation of the economic sphere can however also be read in sociology. Even that trade union density in Luxembourg has remained stable or may even have increased slightly to 46% in 2004 (Eurofound, 2009, figure from European Social Survey) and is situated well above the EU average, the number of people feeling attached or belonging to interest groups of professional relations is astoundingly low. As Serge Allegrezza in his function as director of *Statec* (2011a:9) purports at a colloquium on social dialogue in February 2011, only 17.6% of residents attest their attachment to trade unions whereas 12.4% do so to an employers' group (survey by European Values Study, 2008 and edited by *Statec*). When asked about the correlation between these figures and union density, Allegrezza admits that he was himself perplexed and initially thought the figures might be wrong (2011b). Needless to say, they shed a dim light on the effective inclusiveness of the 'Luxembourg Social Model'.

These surprisingly low figures of felt affiliation might just hint social change. Armingeon (2007:315) points out that societal modernisation processes and globalisation put pressure on consensus democracies: "Societal modernisation disintegrates attachments of individuals to their respective social class, which used to be represented in top level concertation by their elites. The decline of citizens' party affiliation is indicative. Elite agreements negotiated behind closed doors and without loss of face have much less legitimacy in a societal system where citizens feel less and less represented by class-specific elites". This has been true for Luxembourg at

least as much as for other Western societies, if not more. As early as 1999, the European Values study confirmed a large “loss of ethical reference” of Luxembourg society (Zahlen, 2003c:44). Referring to Ronald Inglehart, Poirier (2004) argues that a cultural change which is gradually transforming political, economic and social life has spawned “new terms of political participation founded on democracy and direct intervention”. Luxembourg as well would have gone through a ‘Silent Revolution’ referring here to Inglehart’s influential book. This transformation would have been at the origin of new cleavages between so-called ‘post-materialist’ parties (Green parties and the ‘New Right’ in an Anglo-Saxon sense) and their ‘materialist’ counterparts (Christian Democrats and socialists). It suggests that even without any recorded decline of formal representation of neo-corporatist coalitions per se, the ‘Luxembourg Model’ becomes less encompassing relatively to societal development.

Logics of trade unions

Possible explanations for the gap between stated and felt membership rates can as well be mapped in trade unions’ strategies. Social partners being legally entitled to be nationally representative within corporatist bodies are encouraged to boost their strength by maximising their memberships. Not the militancy of union members is of prime importance in corporatist bargaining – rather the contrary is true – it is the sheer number of members that will be decisive for its representative weight in a corporatist body. This is why trade unions are keen to offer various ancillary services such as e.g. preferential savings accounts, legal aid, etc. in order to attract and nurture a loyal membership. As a consequence, it seems intelligible that actual and felt memberships do not coincide.

Militancy or the threat to disrupt the industrial production process remains on the unions’ agenda, yet it is more often than not a mere media event, as Armingeon (2005:145) invokes. At the cutting edge of both membership and influence logic, militancy is often displayed in meaningless round table talks that ought to generate media attention and signal action to its members. In a comparative study of unions’ militancy and redistributive ambitions, Armingeon argues that both features are generally scarce. Referring to data from World Values Survey, he puts forward that except for some outliers (France, Spain, Greece), a majority of union members would

never participate in occupying factories or buildings (2005:149). Luxembourg figures are in line. Dumont and Poirier report that during violent demonstrations in April 2004 organised by Belgian, French and German trade unions in front of the seat of a multinational company in Luxembourg-City, Luxembourgish trade unions refused to participate: “They considered that such demonstrations did not respect Luxembourg’s neo-corporatist social model” (2004:1072). Whether union members go more up against wage inequalities than non-members, Armingeon found a negative correlation: on the contrary, European labour union members are in favour of a larger income spread (2005:151). Luxembourg union members are even stronger opposed to income redistribution than their Western European neighbours. Actually, their support of income inequality is largest in EU-15 (World Values Survey, time span 1999-2001 in Armingeon, 2005:152). François Bausch thinks that labour union movements forfeited the values of international solidarity after World War II: “They have become extremely conservative. It is shocking to see that trade unions do not bother much whether young people tomorrow are able to find a job. They are only worried about securing wages of those working today”. He adds: “Sometimes I have fewer problems to discuss with employers than with union representatives” (2011).

Neo-corporatism, quo vadis?

The issue here will be to scrutinise a governance mode and its perspectives which as Wolfgang Streeck puts it, was “constituted around organized classes and that might deal with class conflict in ways profoundly different from the USA but still compatible with liberal democracy”, a system that was “taming class conflict by institutionalizing class relations in a ‘second tier of government’ composed of a system of intermediary organizations” coexistent with parliamentary democracy. Moreover, what more liberal systems seemed unable to generate, benefits accrued to governability and economic performance (2006:12).

Unmistakably the practice of corporatist governance imbedded in the framework of the ‘Luxembourg Social Model’ has spawned overall success. According to Katzenstein (1985), particularly small states fare well with such ideology of social partnership expressed at the national level in a relatively centralised and concentrated system of interest groups and voluntary coordination of conflicting

objectives through continuous bargaining between major national stakeholders. As such, neo-corporatist discourse has not been questioned in Luxembourg except for the political Left. Analogous to Panitch (1979) who dubbed corporatism “an instrument of the ‘capitalist state’ to domesticate a potentially revolutionary trade union movement”, André Hoffmann argued that during the steel crisis of the late 1970s and early 1980s, the Luxembourg Model doubtlessly enabled to avoid substantial dismissals in the steel industry, yet this instrument relied on the faculty of a small country to convert sovereignty into money and consist as such of anaesthesia preventing a rapid structural change or, put it otherwise, was an artificial trump at risk to go up in smoke someday (1996:39f).

At the fringe of political discourse, such voicing rather bypassed an overwhelmingly favourable attitude to the believed-to-be miraculous instrument of neo-corporatism, a term which itself has been persistently concealed in order not to pull out any association to the authoritarian strand of corporatism which surfaced in the crisis-ridden 1930s. Discourse has rather focused at a national model of social dialogue committed to consensual harmony of national uniqueness. Sure enough, occasionally critical voices could be heard as that of Mario Hirsch who has consistently warned from inherent dangers of double standard governance. So did a survey by the *Cercle Joseph Bech*, a think tank said to be close to the conservative wing of the Christian-Social Party (CSV). A criticism which made Prime Minister Juncker insinuate that “the *tripartite* belongs to the indispensable inventory of grand-ducal governance” (in Hirsch, 2005:5). Yet, no matter what, any critics have remained within academia and the national “coordinative discourse of epistemic communities” (Schmidt, 2003:136f). It was only Hirsch’s outcry of an ‘emasculatation of parliament’ (1993:10; 2008:206) that drew some attention: an institution assiduously ignored during social partners’ negotiations and only required to rubber-stamp the final outcome. He also pointed to consensualism and corporatism being a tightrope walk: “In general, a government wishing to excel in consensualism cannot settle for merely seeking consent in a parliament majority. It has to go further and endeavour to win consent both of parliamentarian opposition as well as of social partners which may only result in a balancing act crippling public dialogue” (2002:72). This made Hirsch dub the *tripartite* a fair weather model maintained for convenience after the economic recession years of the early 1980s had ended. “As long as the state was prosperous,

consensualism was a welcoming by-product”, once however the economy overshadowed as happened in the last decade, the *tripartite* was overburdened with an extensive reform agenda (2008:201-2). This is to say that the small country’s reactive instruments of swift change to deal with a very open economy as implied by Katzenstein (1985) – domestic compensation – have not been utilised to compensate for a loss of competitiveness due to fast structural change but on the other hand unstable short-term windfall gains have been utilised during a flourishing business cycle to cushion ever-increasing consumptive and social sector demands. In the context of urban governance, Jon Pierre puts forward that corporatism is a political system historically characterised by a strong etatist tradition that manifests itself in a large public sector, redistributive policies, comprehensive welfare state service provisions and a high degree of political involvement. He asserts that fiscal discipline is an indigenous problem in corporatist governance since compromises that are acceptable to all major represented interests are attained by distributive compensatory policies. He also points to corporatist governance being a fair weather model of collective political choice: “in times of extensive cutbacks in expenditures, the incentives for organised interests to participate have decreased dramatically” (1999: 380-381). This amounts to the paradoxical consequence that “corporatist mechanisms of concertation just regress at that point in time and make way for strictly pluralistic partisan strategies when rationality of such mechanisms of concertation are the most desperately needed” (Offe, 1984:249).

These days, neo-corporatism is in retreat. As announced repeatedly and possibly prematurely in literature on corporatism over the last decades has definitely materialised. Globalisation of the capitalist economy and ensuing neo-liberalism with the victorious advance of monetarism have disturbed once stable post-war employment-friendly and protective labour market regulations, active industrial policies and generous social security systems. On top of that, a departure from obsolete post-war settlements was triggered off by severe budget constraints in many countries. As Streeck narrates, the gap then began to widen between a changing real world and the neo-corporatist ideal type by the fact that business increasingly refused to play its role in the neo-corporatist game (2006:20). Such strength has not been welcomed by organised labour. As the *CGFP* voices disapprovingly (2005:3),

“employers’ propaganda is responsible for intoxicating dialogue right from the start and attempting to obstruct any loopholes of concertation before it even started”.

The paradigm shift “was soon discovered to offer a unique opportunity for redressing the power balance within national political economies at the expense of the winner of the battles of the late 1960s, organized labour. That discovery was made, not just by business, but also by national governments who, sometimes inspired by their countries’ business associations, learned to use international organizations, in particular the European Union, to secure for themselves binding external mandates for opening up and thereby liberalizing their more and more politicized and politically increasingly unmanageable domestic economies” (Streeck, 2006:20-21 quoting Moravcsik, 1998).

These events may as well be attributed to Luxembourg circumstances, yet with a manifest time lag. The described swift and lucrative structural change from the industrial to the service sector initially concealed major shifts. Thus a tendency towards questioning established forms of corporatism has not been observed until the 2008 financial crisis and the ensuing recession. Henceforth discourse was increasingly channelled away from welfare state oriented concerns to competitiveness in a globalised market environment. Yet this occurred without questioning the very concept of neo-corporatism itself, as yet.

Thill and Thomas (2009:10) question whether today’s *tripartite* is still going to be representative of Luxembourg society and economy in a post-industrial age. Even so, neo-corporatist structures will probably continue to be called upon the more that concertation and *la paix sociale* [social harmony] have become appreciative arguments in favour of the Luxembourg business location. They identify long term challenges of the ‘Luxembourg Model’ largely to the internationalisation of the Luxembourg labour market and to the high number of transnational companies with a different culture of dialogue and having their headquarters abroad (Thill and Thomas, 2011). Léonard and Dion (2003) examined what happens to the national industrial relations’ systems confronted to globalisation and in particular to the Belgian case. Apparently, systems keep their national specificity. They face external pressures but react with their own dynamics. The industrial relations system does not copy a

foreign model, on the contrary, it remains characterised by a high level of institutionalisation, a high degree of internal coordination and a significant rate of union affiliation. Hence it keeps its characteristics while integrating cross-national movements (2003:59). Such conduct may easily be associated to Belgium's and also Luxembourg's consensual way of coping with change and coming across as an empathetic small country trait. Critics might however just as well dub this model as 'muddling through' and running gradually into problems when attempting to keep up with top economic players.

Streeck claims that "much of the recent literature on corporatism seems bent on demonstrating at almost all costs that corporatism is not dead, however dead it may appear, and indeed will never die. Both economic and political reasons are offered concerning why corporatism will and must eventually survive the onslaught of liberalization. Upon closer inspection, however, one would probably want to be a little less sanguine. Organized and indeed institutionalized political collectivism did not at once disappear with the monetarist explosion of the corporatist core of the de facto constitution of European post-war democratic capitalism. But rather than simply the old in new guise, what is now observed may be better conceived as a collection of fragments, structural and functional, of the old corporatist construction – fragments that continue to be used, like the ruins of ancient monuments, by being converted to new, less grandiose purposes" (2006:24).

Institutionalised neo-corporatism has been far from withdrawing from Luxembourg public discourse. Recent breakdowns of *tripartite* panels of social partners have been looked upon as a fatality. The sole question raised has been how to rekindle the model. The *Chamber of Commerce* recently published a rather gloomy report on Luxembourg's economic prospects unless substantial structural reforms are going to be tackled. Those in charge of bringing about change are not *the government* but *le Gouvernement et les forces vives de la nation* (2011a:13) [the government and national key stakeholders], i.e. circumscribing that government cum its corporatist allies are required to address the issue. Understandably a corporatist body is not going to put into question its own existence as a professional chamber. Yet the injudicious use of such notations is emblematic in a political environment that depends on such lofty discourses as the 'Luxembourg Social Model'. It is met by

appeals to reinforce concerted action and a commitment to the traditions of common ground: consensualism and social dialogue. As against such attributes any opposition seems futile. Who can be against social dialogue and who would not want to be consensual? Public discourse hardly takes into account that the practised social dialogue might exclude certain groups of the population. Rather it argues in a somewhat paternalistic way that its proceeds benefit the entire population.

Competitive corporatism?

Some of the corporatist fragments Streeck alludes to above have resurfaced in a construct with numerous names. What Rhodes (1998) originally termed 'competitive corporatism' and 'social pacts', Siegel (2005:108) christened 'competitive concertation', Traxler (2001) 'lean' or 'supply-side corporatism' while Tupone ironically highlights the ever changing notion by his reference to 'neo-neo-corporatism' (2008).

Rhodes (1998) defines its logic as rather different from traditional forms of corporatism. Referring to 'competitive corporatism' as an apparent oxymoron, he argues that its logic is "less routinised with partners institutionally weaker and exit costs lower" (Rhodes, 2001:1,13). A rich literature of the last decade points to a success of this type of neo-corporatist model able to reinsert a certain dynamics in the economic process. It emphasises an upgrade of the concept of social partnership, yet with a neo-liberal touch and a priority of the employers' main agenda of competition. "In the context of 'institutionalized monetarism' (Traxler, 2003), corporatism has proved an adaptable method, older forms of (neo)corporatism have been 'adapted, rather than abandoned' and 'were clearly surviving and adjusting, not collapsing'" (Molina and Rhodes, 2002:309, 312 in Siegel, 2005:108).

So did the discourse of neo-corporatism in Luxembourg. It moved away from Keynesian concertation to a supply-side reform agenda such as securing or regaining competitiveness. Mario Hirsch (2010) asserts "that the Luxembourg case provides a good illustration of the evolution from corporatist arrangements to what Martin Rhodes has termed 'competitive corporatism'. He draws this to the shift from revenue and salary based negotiations to the need to preserve the economic competitiveness

with the expected support of trade unions in particular. Thill and Thomas put forward that the consequences of the 2008-09 economic crisis favour the strengthening of social pacts and 'competitive corporatism' arrangements (2009:10). Zahlen (2011a) refers as well to the notion of 'competitive corporatism' suggesting that Luxembourg industrial relations have been competitive at an early stage. He points out that as early as during a steel industry labour conflict in 1959 mediation was based on competitiveness grounds.

I do not question that any corporatist model, including Luxembourg's, has to be and actually has been adjusted in this regard. Beyond any doubt and particularly since the Euro precludes any national monetary policy, an open economy such as Luxembourg's could not escape the shift from Keynesian policies towards securing or regaining 'competitiveness'. Yet the shift to a competitive mode of corporatist interest mediation implies more elements of change than some might expect. Siegel (2005:114) points out that empirical surveys on the comparative advantage of social pacts mainly focus on institutional arrangements, their initiation and consolidation, and the underlying motivations of governments, employers' associations and trade unions in engaging in these new forms of macro-concertation. He asserts that those "processes were not necessarily based on firmly institutionalised corporatist interest mediation or policy-making. Rather, they involved a large variety of forms and practices of more or (often) less firmly institutionalised concertation; some of the social pacts of the 1980s and 1990s were crisis-induced processes with a comparatively low degree of institutionalisation" (2005:108). Likewise, Molina and Rhodes refer to the "less formal, less institutionalized, and less predictable nature of the new types of corporatist concertation" (2002:326).

In terms the constituents featuring an apparent shift away from rigid institutionalisation, Siegel (2005:111) presents an excellent ideal-typical comparison. I will confine myself here to his comparison of the interest group system, the role of government and the logic of exchange. As for the first, within 'old-type' concertation, interest groups are centralised, internally coordinated and encompassing and as such unions and employers' associations are a necessary precondition of concertation. Within social pacts, the relevance of interest groups is more uncertain. As for the role of government within Keynesian concertation, it acts as a moderator

and broker with direct side-payments (extension of social/employment rights, fiscal compensation). 'Competitive corporatism' rather suggests a 'shadow of hierarchy' (Scharpf in Siegel, 2005:111) or as Rhodes (2001:13) puts it, "the presence of the state is much more strongly felt, either as a coercive force or provider of incentives". No direct fiscal compensation is envisaged and as such compensation is just 'participatory' with integration of interest groups into the policy-making process. As for the logic of exchange, it is thus more hierarchical with asymmetric negotiation (primacy of the state) leaving more room for manoeuvre. The main trait of 'old-style' Keynesian negotiation is a flat hierarchy making positive sum games possible through externalisation of compensation costs as unintended but accepted consequences.

Analysing hereafter the institutional setting of Luxembourg corporatist coordination according these characteristics, the portrayal does not come out 'competitive'.

Interest group system: Even if I assume that interest groups – and here I have predominantly unions in mind – are less encompassing than they used to be, centralisation and internal coordination of social partners have not been threatened. This can be drawn to their strength and relies on both the high trade union density and the high degree of institutionalisation agreed by national representativeness. In addition, Luxembourg's corporatist structures are deeply rooted in the history of industrial relations (Cames, 2010). Their emphasis on continuity through path-dependency clearly is at odds with social pacts in Southern European countries or Ireland where a prior history of consensual intermediation hardly existed.

Role of government and logic of exchange: Katzenstein's (1985:57) 'instruments of domestic compensation' with direct side-payments still play a major role. At a conference on social dialogue early 2011, Labour Minister Nicolas Schmit asserted that "the government needs to put a cheque on the table" in order to make social partners agree. This high degree of anticipation towards a government compensating and externalising costs as "an unintended but accepted consequence" (Siegel, 2005:111) makes social partners not quit their status-quo positions. Even though the government has attempted over the last years to switch its role in concertation from a mere moderator to a 'shadow of hierarchy'-approach by a more directive style of

governance (setting up of *bipartites*), the institutional bottleneck has hardly been tackled. I argue here that negotiations are as yet characterised by flat hierarchy. In the next chapter I will further investigate on this issue. Concertation has remained the 'old-style' and "concentrated in the hands of top level leadership, a sort of interlocking directorate of the competing groups" (Lehmbruch, 1974:7) in order to make positive sum games possible through externalisation of compensation costs as an accepted consequence.

Summing up, what I have tried to show is that the shift from Keynesian to 'competitive' concertation as argued by some Luxembourg-based authors has only half-heartedly been put into practice since the lack of institutional change of Luxembourg corporatist bodies has not been taken into account.

Myopic view?

It has already been pointed out that the faith in corporatist governance style is close to sacrosanct in Luxembourg. Any questioning of its continued existence is outstanding. Allegrezza wonders why during times of economic downturn the newly built-up university environment has been mute on future governance prospects in Luxembourg. A proposal might come up though, yet has not been developed (2010, 2011b). In his survey on the scientific landscape in Luxembourg, Meyer (2008) argues that "a narrow economic thinking seems to have colonised science policy" with a requirement of research to be "economically profitable, utilitarian, applied". Yet another characteristic brought forward by Meyer remains worrisome. He "clearly had the sense that the distance between researchers and science policy is particularly small in Luxembourg". A worst-case scenario would thus imply that science has to fit in a precast structure set up by governmental bodies with more critical and disloyal research approaches in social science in a hard position.

In 2000 the advisory board of the German Federal Ministry of Economy and Technology issued a critical report on corporatism (BMWl, 2000). Zahlen recurred to the report a few years later: "According to the board, interest groups' outmost interest would consist in securing the status-quo. *Tripartite* corporatism would offer an ideal platform to achieve this goal and to escape from market-driven reforms". He does not

agree: “Reality seems to prove these authors wrong. In countries where social concertation is most developed – the Netherlands, Ireland, Luxembourg – market-driven developments seem well to exist. Social moderation is at its base” (2003a:57).

Zahlen has maintained his position on neo-corporatism’s risk potential since (2011b). He argues that the system keeps developing. Public discourse would reveal a rapprochement albeit a timid one among the union close to social democracy (*OGBL*) and environmental pressure groups. In general, he does not consider encompassingness to be seriously jeopardised.

The assessment on whether or to what degree Luxembourg neo-corporatist concertation is encompassing and its evolution over time is anything but clear. This makes subsequent rather touchy Olsonian issues anything but unanimous the German board came up particularly in regard to a post-2008 Luxembourg:

The corporatist institution favours a tendency to cement existing relations with long-term effects of lower economic growth and unemployment. The board stresses that the interest group’s attempt to fend off short-time risks enlarges those of longer term. Solutions offering short-term success notwithstanding their long-term consequences are characteristic of corporatist bodies. To design long-term reforms by corporatist bodies seems thus rather improbable. Deals that externalise compensation costs are particularly likely (Neumann, 2000:540).

Streeck (2006:29) claims that “today those theorists or practitioners of economic policy are rare who are convinced that the social and economic problems of the age are best addressed by political concertation of organized interests”. Yet, as he continues: “Even after the monetarist ‘big bang’, pragmatism may still advise inviting organized labour into national pacts and may caution against formally abolishing collective bargaining or worker participation on the shopfloor and in the enterprise”.

Is it such pragmatism – as well a component of the ‘Luxembourg Model’ to cope with structural change – paired with yet enough leeway enabled by financial reserves that reduces any critics of the model to silence?

Zahlen (2011a) brings into play the 'Varieties of Capitalism' (VOC) concept established by Peter A. Hall and David Soskice about a decade ago. It is a politico-economic approach built up on neo-corporatism and neo-institutionalism attempting to pin down the different strands of modern capitalism. Yet, apart from a 'competitive corporatism' scenario, this model alike allows refraining from further scrutinising Luxembourg governance. As Streeck argues,

"Rather than worldwide convergence on neoliberal 'best practice' under pressure of international competition, the 'varieties of capitalism' literature predicts continuing diversity, offering reassurance to those who for whatever reason favour a more regulated and politically coordinated version of capitalism governed by collective decision-making over one ruled by self-regulating markets. (...) The lesson the theory draws from this, which it offers to the economically declining 'coordinated' political economies of the European Continent, is that salvation lies in internal coherence, and rather than trying to get rid of their political and economic collectivism and become like their temporarily more successful competition, Continental-European political-economic systems would be better off sticking to their inherited principles of organization. (...) [This] theory of non-convergence seems to have replaced, in the spirit of the age, political activism as a source of diversity with institutional inertia, or 'path dependency', and political choice with economic constraint. Whether institutional inertia and economic constraint will be enough to preserve the 'European social model' only time will tell" (Streeck, 2006:36, 37).

Needless to say, it is legitimate for governments to follow a deliberate course of non-action despite any economic constraints. Conceding the supremacy of politics to act on its own, stepping back can prove to be a honourable, wise and in the end fruitful experience. Yet distributional issues involved could render such a move a predominant feature of social and political crisis, turmoil or war. It is however questionable whether Europeans, and in this regard, even more so Luxembourg citizens, can afford over a longer term to have one's cake and eat it, too. It seems rather that in the long run people from this part of the world have been that accustomed to being better off than many others generated by the path dependency of an economic system they invented, capitalism, and its ensuing successors, territorial and economic colonialism. It might be the irony of history that proliferating

capitalism and resulting globalisation have put the screws on its very own cradle. Be it BRIC or BRICS countries, it has become clear that in order for nations to become wealthy from an economic perspective, they have to watch their factor endowments extremely carefully in order to build up clusters of excellence. And the significance whether those are located in Europe or not fades little by little. Agents of labour interest groups might be morally and factually 'right' to claim that capital increasingly appropriates the surplus generated by both capital and labour, yet due to globalisation and its free flow of capital (and not labour), employers may just quit and go where productivity is 'even better than good'.

Chapter 3

The Luxembourg Social Model and equality

In this chapter I will investigate on the correlation between the 'Luxembourg Social Model' and the quality of democracy. The 'Luxembourg Model' will be broken down into its characteristics of neo-corporatism and of a very small state while the quality of democracy will be limited to the angle of equality with its two components of transparency and participation. The implications of neo-corporatist interest mediation as a 'second tier of government' on the quality of democracy have been much less the focus of research than have been its inferences on economic effectiveness. As such I will have to move on thinner ice when addressing this matter especially in the small-state context of Luxembourg often skipped by research in international comparative studies and neglected by those focusing on Luxembourg. Yet several authors have confirmed an impact of corporatist governance on equality in political systems. At first I will more generally assess the linkages between neo-corporatism and democracy admirably pinned down in Colin Crouch's contribution on the subject. I will then attempt to show that an apparent lack of culture of transparency in Luxembourg is linked to a lack of political participation. Social participation, on the other hand, has been largely secured by the association of neo-corporatism to the subsidiarity principle put into practice in state-funded non-governmental social service organisations. At last, I will map the ramifications of both small country characteristics and neo-corporatist intermediation on the functioning of public administration.

Neo-corporatism and democracy

Tensions between corporatism in its various forms and democracy have well been recognised. Yet, as Crouch argues, they are “far less important than the support that neo-corporatist arrangements offer to effective democracy”, asserting that the relationship between neo-corporatism and formal democracy is ‘mainly orthogonal’ (2006:46-47). Some of the necessary infrastructure of effective neo-corporatism has decayed due to socio-economic change eroding the encompassing character of organizational system. Crouch argues that the problem is not the neo-corporatist system as such but those sectoral changes have triggered a vicious circle: “once a neo-corporatist system has begun to protect insiders only and has no capacity for self-extension to new sectors and types of worker, it is likely that only threatened marginalization could provide its internal actors with changed incentives”. These incentives are however “asymmetrical in that unions require an institutionalized industrial relations system if they are to have any serious role, while employers do not. Firms can bargain and lobby governments without the intermediary role of associations if necessary” (2006:59).

In his comparison of corporatism and formal democracy, Crouch points to neo-corporatism at one level being “somehow part of the same family as something far more authoritarian; at another, it has been part of the development of democracy” (2006:60) the latter implying its proximity to the concept of associative democracy. Yet neo-corporatism has the shortcoming of only being able to represent existing producer interests while formal democracy is subject to no such constraints: “New issues, interests and identities may emerge at any time within its more fluid structures” (2006:60). However, despite parliamentary democracy’s great merits, its “current democratic practice is vulnerable to criticisms as withering as those to which neo-corporatism is becoming subject (2006:62): “Exactly the same difficulties that beset corporatism in terms of entry barriers blocking access to resources and capacity to be heard apply to the system of lobbies which is endemic – possibly necessary – to the democratic political process, even if it finds no place in formal democratic theory. In fact, the more a system of interest representation departs from a neo-corporatist form, the worse such distortions become” (2006:64). Thus, as Crouch insists: “An abolition of neo-corporatism (...) is frequently and openly

advocated. But similar arguments apply: interest organizations, at least of business, will always exist in a democratic capitalist society. Removing their neo-corporatist base simply legitimates the exclusion of the less powerful interests: in present economic conditions, those of labour” (2006:68).

Yet how can we deal with Crouch’s implications: if pluralism is not the way out as Olson (1982) drafted it, where is it to find? Tensions between equality and democracy can be drawn to the occurrence of vices operating within *both* corporatist governance *and* pluralist systems. Collusive neo-corporatism is just as unsatisfactory as entrenched lobbyism. As for the electoral representation, formal democracy has shortcomings in Luxembourg. Political participation of the resident population is meagre since 44% of inhabitants are not Luxembourg citizens and thus excluded from the electoral process (Fehlen et al., 2011:8). Corporatist interest mediation mitigates this bias. It does not discriminate foreign against Luxembourg nationals but includes instead all those with a functional relationship to the production process.

Subsequently, I will attempt to pin down the political and socio-cultural repercussions of the ‘Luxembourg Social Model’ on both transparency and participation. I will use the conceptual framework of the *Democracy Barometer* (University of Zurich) measuring the quality of established democracies (Bühlmann et al., 2011a). Its “stepwise theoretical deduction of fundamental elements of democracy” conducts to three fundamental principles. These are ‘freedom’, ‘control’ and ‘equality’. Here I will confine myself to the latter principle presuming it to be dependent upon the style of governance. ‘Equality’ is then broken down into three functions: ‘transparency’, ‘participation’ and ‘representation’. I will explore the first two functions which again I presume to be related to corporatist interest mediation. Furthermore, I will resort to various qualitative assessments at my disposal.

Transparency

Hereafter I will argue that the level of transparency in the political process, in particular barriers for access to official information, is negatively correlated to the degree of corporatist-style interest mediation. Vivien A. Schmidt argues that discourse often is the missing factor in explanations of policy adjustment. She

distinguishes between coordinative and communicative discourse. While during coordinative discourse 'epistemic communities' such as those represented in *tripartite* construct a proposed policy programme in a rather secluded forum, during communicative stage of discourse by contrast, key interlocutors such as spokespersons present those programmes for discussion and deliberation with the public. She argues that most small states under most circumstances tend to privilege the coordinative discourse over the communicative. In multi-actor constellations – such as Luxembourg's *tripartite* forum – debate and deliberation over major policy initiatives tends to go on mainly behind closed doors. The communicative discourse, as a result, tends to be much thinner than the coordinative, which leaves the public with little significant orienting or legitimising information (2003:137-138).

It has been telling that members of the ruling social-democratic party (*LSAP*) line up with such assessment, albeit from rank and file. Dan Kersch objects that party rank and file members do not share the information flow of the party's top leadership. When major party decisions are coming up, these are taken in the very small circle of the 'pre-council' instead of the party's democratic forum (2011).

It is the culture of transparency which is at stake. I do not imply that a lack of transparency would necessarily tempt governments to become corrupt and exploit this margin to the advantage of some. Following assessments, spotlights I must agree, attempt to reveal in a comparative way that the culture of transparency is less established in corporatist systems. Societies with a governance structure involving interest groups appear to be more 'associative' than formal parliamentary-based democracies. The discriminative means of governmental partner selection however makes transparency suffer. Those selected by the government (generally employers and trade unions) enjoy a permanent edge on information that will be defended towards outsiders of corporatist mediation. Fehlen et al. may well put forward that "the small size of the government administration fosters a high level of transparency without the necessity of explicit monitoring tools" (2011:33). Yet unlike pluralist systems, corporatist governance implies an institutionalised preferential treatment per se of those represented in its bodies. Outsiders may well have access to information in a pragmatic and informal fashion. Yet any disclosure is all the more inaccessible the more the applicant is not familiar with common social habits and practices.

One major indicator of 'transparency' has been the setting up of 'Freedom of Information' (FOI) legislations. Or, except for Malta and Cyprus, Luxembourg is the only European country where freedom of information is not embodied in law. The obvious linkage of being a small state to the absence of FOI legislation made Caregari (2009) title: "Among small (states)". "Freedom will be bereft of all effectiveness if the people have no access to information. Access to information is basic to the democratic way of life. The tendency to withhold information from the people at large is therefore to be strongly checked", the UN Special Rapporteur on Freedom of Opinion and Expression claimed in 1995. Yet so far, the Prime Minister does not consider this freedom as an imperative. "Premier Juncker keeps blocking information access", the journalist union titled early this year pointing out that despite his promise dating back to 2003, Luxembourg citizens still do not enjoy access to information by law. A crude preliminary draft was withdrawn after the Press Council intervened in 2008. Henceforth Juncker put forward that he would not yet have met a suitable model (Syndicat des Journalistes, 2011).

Fehlen et al. suggest that "at the absence of a freedom of information act, (...) the most effective way to get hold of governmental information is the so-called parliamentary query" which the government is required to answer within a month or even a week, in case of urgency. Another means open to the public is to activate the support of the ombudsperson, albeit only in administrative matters (2011:10). Yet selective methods do not make up for an effective freedom of information legislation alternative. Even if this legislation might be at times hard to enforce – as the case of the 'Aarhus legislation' in the environmental field reveals – it offers a sound and legal foundation for official records to become accessible.

A simplified access to government data could however compromise interactions between a government and its 'second tier of government'. More often than not these have only been possible for their diligent confidentiality. As such, a more transparent style of governance could jeopardise corporatist relationships. Meddling into carefully-induced governmentally-supported package deals between employers and unions might just reveal those externalised compensations referred to above, at the cost of those not represented, the outsiders.

Keeping Colin Crouch's implications at the back of mind, opacity is prevalent too within lobbyist-infiltrated pluralist systems. Yet in corporatist systems it is the state itself being active in negating information disclosure and "master in dark corridor deals, late night compromises and procedural ambushes" (The Economist on Jean-Claude Juncker, 2009). The realm of opacity with its impenetrable networks unveiled by corporatism is incommensurable with pluralist systems where the communicative discourse is stronger and thus curbing the government's potential to negotiate behind closed doors.

Mario Hirsch has claimed that corporatism leverages a decline of classical intermediary structures such as parliament and political parties at the benefit of other deliberative forums. As far as these structures of political representation do not assure the same level of transparency as the parliamentary framework, public debate unavoidably becomes occulted (1995:71). Claus Offe argues that those who commend a corporatist mode of decision-making sometimes praise its ability to solve regulation problems without having to resort to excessive state patronizing and juridification. Such advantage would however be acquired by a substantial loss of information and communication opportunities, i.e. liberal publicness (1984:251).

Reporting on the process of coalition formation in Luxembourg, Dumont and De Winter (2000:431) purport that "increasingly comprehensive and detailed coalition agreements" are only known to cabinet members and party leaders, "for these texts are kept secret". During the entire lifetime of a cabinet, each coalition party is "bound from top to bottom to the joint programme". The party rank and file who are to endorse the agreements by party congresses are in fact depending on information by their respective party leaders. This is somewhat puzzling. If a country's general culture of transparency is assessed by the willingness of office-holders to openly communicate and justify their decisions, the concealment of a joint government programme at the very start of a legislature even to the demos of rank and file represents a harsh measure of foreclosure.

As for policy communication, the government's main information channels are weekly press briefings held by the prime minister. "Revealing any dissent in the government

or between coalition parties would go against the deeply rooted consensus tradition and is rare” (Fehlen et al., 2011:32). This unanimity has however been threatened since the *tripartite* negotiations in 2010. Prime Minister Juncker promptly announced to reform *tripartite* meetings which are to be held henceforth “among a tighter, i.e. more efficient and thus more confidential framework of only a few top-level leaders” (Hilgert, 2011).

The *Democracy Barometer*, measuring “the subtle differences in the quality of established democracies” (Bühlmann et al., 2011a) ranked Luxembourg 9th out of 30 developed countries in the overall score (Bühlmann et al., 2011b:44). With regard to transparency however, Luxembourg only ranks 23rd (2011b:37, mean value of 1995 and 2005). Those in oppositional politics and outsiders of closed circles in Luxembourg have tried not always in vain to voice their reluctance of a lack of transparency and to affect change. The Green Party undertook several campaigns in that regard: in June 2011 it requested parliament members to disclose their professional activities and memberships within company management boards while in 2009 it demanded that the transcripts of parliamentary commissions were to become public. That is what happened from early 2010 on and the president of Parliament, Laurent Mosar (Christian Social Party) stated that he was dedicated on making the parliament more transparent during his presidency. He did not miss to add though: “Parliament is not a secret chamber nor is it a supermarket where just anybody may collect information” (Luxemburger Wort, 2010). Blanche Weber, president of the environmental NGO *Mouvement Ecologique* reports: “Transcripts are well available now, but do not include anymore records containing the identity of the person being transcribed. Before we were able to get information underhand and we could at least understand ...” (Weber, 2011). On the other hand, as Allegrezza in his function as director of *Statec*, emphasises, the quality and quantity of raw data has increased very much: “Budget debates used to be in vain since there was so little data and if there was, it was absolutely uninteresting and of little use. Since ‘Maastricht’, since the Euro, a hundred thousand statistics are produced and made available to the public.” He considers transparency of data to have leapfrogged. “Yet the competence of intellectuals, of citizens and of the media to understand and to analyse data is wanting” (2011b).

Some journalists do not agree. Raw data production and disclosure might well have mushroomed but it cannot substitute an active right to information. All the more that Allegrezza is rather referring to quantitative data. Qualitative data, or simply 'information', the kind Weber refers to, seems scarce as ever. As Kurschat, president of the journalist union insinuates, the urge having to rely permanently on informal sources and the implications on social relations particularly in very small states have possibly had an impact on journalism: "The lack of a right to information might explain the strange indifference of many journalists in this country" (2011:37). A pull factor emerging from Luxembourg citizens has as well been largely absent since they "stoically endure such indifference anyway not accustomed to being well fed with information by their government" (Kurschat, 2011:35).

Transparency is a prerequisite for involving the public into the political process. Hence linkages to the degree of political participation are obvious. In some countries socio-cultural changes have spurred the functional state not to be merely looked upon as a top-down law-and-order entity but increasingly as an empowering body with mutual exchange between state and citizen. A UNESCO Experts Group Meeting stated: "Where information flows freely, democratic and sustainable development is facilitated" (2008). Political participation is at stake. Whether a shift to more participative governance has been set in motion in Luxembourg will be the issue in the next section.

Participation

In this section, participation will be approached from two perspectives. These are first, the implications of power relations within the corporatist bargaining process – with a focus on political participation – and second, the effects of a basic tenet of corporatism, subsidiarity – with a focus on social participation. Gerhard Lehbruch, like Philippe Schmitter a pioneer in working out the concept of corporatism in the 1970s, defined the mechanisms of corporatism and of the 'consociational' democracy as follows: "Bargaining power is concentrated in the hands of top level leadership, a sort of interlocking directorate of the competing groups. While pragmatic consensus among elites is rather highly developed, there is little communication among lower levels of the groups. An essential condition is strong vertical integration of each group.

The resulting latitude of action by its top leadership is necessary for a smooth functioning of the bargaining process. This means, in the case of liberal corporatism, that trade unions as well as employer organizations must be strongly centralized” (1974:7). I do not make a difference here between ‘corporatism’ and ‘consociationalism’ and follow Lijphart’s reasoning who acknowledged their differences, but considers “that it is still reasonable to see them as a syndrome of closely related traits” (Lijphart, 2002:108).

Since I have argued that neo-corporatism in Luxembourg has not been subject to much institutional change, Lehbruch and Schmitter sum up fairly well the functioning of *tripartite* relations even these days. I do not dispute that these foundations have been shaken over the last years but as yet the corporatist work mode has remained intact in Luxembourg.

Rarely addressed in comparative studies, yet of great importance for Luxembourg are following implications on hierarchy. They are all the more incisive that the country is small. In the corporatist process of concertation, coordinated interest groups are a necessary precondition. Lehbruch’s condition of a “strong vertical integration of each group” is met by the ‘logic of influence’: In order to build lasting relations of political exchange with their interlocutors and thereby enhancing their own stability and security, neo-corporatist interest organisations exchange member discipline for organisational privileges under the logic of influence (Streeck and Kenworthy, 2005:451-52). In ‘old-type’ though not necessarily Keynesian (cf. chapter 2) concertation as prevailing in Luxembourg, such negotiation is characterised by a ‘flat hierarchy’ (Siegel, 2005:111) required for a smooth functioning of the bargaining process, albeit only among its top leadership. There is little communication among lower levels of the groups (Lehbruch, *ibid*). Horizontal integration is rare. With a strong vertical integration of each group, concertation is actually a strongly hierarchical process except for those directly involved, the top-level leadership. What is more, socio-cultural repercussions of small state characteristics tend to reinforce this assumption.

I assume that such configuration of power relations looms large in the Luxembourg social order. It transcends the sphere of corporatist governance and can be seen

observed at a wider scale of interpersonal relations. It can be traced down particularly well inside the civil service, as I will argue in the next section. Allegranza agrees that those hierarchical structures, which have their origin in history of industrial society, have been taken over by state institutions and bureaucracy (2011b). More empirical research will however be needed to harden such deduction. I may just specify indicators here. Let me start with a historical, path dependent account.

In the second half of the nineteenth century, Luxembourg knew a rapid and sustained industrial development. Starting off as a poor and backward territory, nationhood could consolidate with the proceeds of the industrialisation process. More than that, during the politically more stable decades after Luxembourg's neutrality was ensured, the state could trim down its military expenses more drastically than large states and was able to allocate more financial resources for infrastructure projects in a comparative perspective. In a rather paternalistic mindset nationhood was built up as a 'resource community' (Franz, 2011). Von Kunitzki points out that when the monetary union with the German Empire broke up at the end of World War I, per capita assets were 11600 francs as compared to 7200 in Belgium, 5900 in France and 4700 francs in Germany (2007:60). The advance of democracy did not match this scenario. Luxembourg was not a particular case, yet it is puzzling that while for instance Belgium adopted universal male suffrage by 1893 (Katzenstein, 1985:155) Luxembourg only did so in 1919 with unisex universal suffrage. To sum up, I embrace the premise that in a comparative perspective there has been a stronger focus on welfare than on democracy in the first decades of Luxembourg nation building. Judging from what Ries (1920) wrote in those years about common Luxembourg character traits, citizens did not reveal much interest in public affairs, in advocating a specific cause nor to speak in public (in Hirsch, 1995:70). Far from being political mature (1920:256), he stamped his countrymen as sceptical individualists without much respect of hierarchy (1920:235, 238). Hirsch misses the term of 'consensus' in Ries' script (1995:70) even that the account was given about a largely rural farming community at a time prior to any political bargaining in a consensual way. Ries gives us a brief insight into a politically inexperienced population with rather mild class cleavages and a barely developed urban bourgeoisie (Note: Most of Ries' account has been written around 1910 and as such intense industrial worker riots and strikes ten years later could not have influenced

his writings). It might however be that the comparatively high level of welfare achieved by Luxembourg citizens dampened any potential of more zealous political commitment that would otherwise have been more present.

Contemporaneously with Ries' account, corporatist bodies of thought started to bloom as I have described earlier (Cames, 2010). Paternalistic welfare politics merged with a 'politically immature' people, or to say at least, with people who had so far only associated politics with single men and where party politics and its tenets were unknown or rather unrespectable. Under the auspices of the Party of the Right and a growing political Catholicism, governmental policies aimed at what the British would call 'home rule' which, according to the principle of 'subsidiarity', outsourced those parts of the governmental machinery that for their somewhat technical characteristics were more efficient to be held by smaller, lower or less centralised authorities. Luxembourg civil society has been built up on subsidiarity: "Associational legitimacy is the stronger as the Luxembourg government has always avoided to be too deeply involved into the social service field" (Zahlen, 2001:23), yet as contemporary problems reveal and acknowledged by an informal paper on political Catholicism back in 1992: Volunteerism plays an increasingly minor role and bodies of the 'secteur conventionné' ('Quangos', non-governmental public bodies) are more often than not virtually created by the government (CSV, 1992). A left wing view insinuates that those quangos delegated to deal with numerous social and educative missions are subsequently "insufficiently staffed and subsidised" (Hoffmann, 1996:51).

Subsidiarity raises the question of participation versus efficiency. Do governments want to imply associations to become more participative or do they just consider efficiency? Zimmer and Speth argue that it depends on the point of view: "Looking from 'below', participation is made possible by associations. Looking from 'above', associations make governments more effective. The latter is the primary concern of neo-corporatism" (2009:281).

This "ideal-typical institutional arrangement for linking the associationally organized interests of civil society with the decisional structures of the state" (Schmitter, 1974:86) in order to increase 'governability' is the more helpful and indispensable the

smaller states are. Very small states such as Luxembourg whose “state apparatus lacks the critical mass to have an authoritative and competent policy advising capacity” (Fehlen et al., 2011:27) rely on it. Claude Wey quotes from a report on the creation of professional chambers in 1923: “A favourable circumstance (...) will be to discharge legislative and administrative powers from a bulk of assignments whose prompt and rational settlement is often hampered by both a lack of competence and leisure” (2003a:11).

Despite that “associations and associations’ democratic role are highly fashionable topics” in public discourse, different highly incompatible accounts of a presumed democratic function of associations collide (Roßteutscher, 1999:1). Concepts of ,strong‘ participatory democracy and neo-corporatism may well agree in a common claim for an associative revival of modern democracy. However, “most theories concentrate upon single functions in a very selective manner, pluralist and corporatist macro theories being exclusively concerned about associations’ impact on interest mediation and representation, whilst micro theories of trust and civicness emphasis individual, almost (socio-) psychological effects of associability” (1999:3,5).

Thus protagonists of ‘social capital’ and ‘civil society’ “claim that active participation in associations contributes to the acquisition of democratic skills and virtues, being thus a necessary pre-condition for political activity while pluralist theory assumes that the contrary is true: integration in organisations providing social peace and political demobilisation” (Roßteutscher, 1999:6).

In Kornhauser’s seminal work on the politics of mass society (1959), “associations are indeed a necessary guarantee of modern democracy’s stability and efficiency. Only through integration of previously isolated individuals into basically apolitical communities, low levels of mass politicisation and mobilisation can be assured: “Where people are not securely related to a plurality of independent groups, they are available for all kinds of adventures and ‘activist modes of intervention’ in the larger society” (1959:37 in Roßteutscher, 1999:6).

Thus “social participation is a preferable substitute for political participation, and associational activity is expected to contribute to social integration and feelings of

community without having the potential risks of political mobilisation. In short, a socially active but politically 'pacified' society is preferred" (Roßteutscher, 1999:8).

It remains open to questioning whether social participation leading to democratic stability via political passivity has been a prominent feature of the Luxembourg democratic system. Equating social participation with integration, integration with trust, and trust, finally, with political participation (Putnam, 1995) however seems to be less akin to Luxembourg reality when observing following indicators. This is not to say that a 'pacified' society has been 'engineered' to prevent it from being a school of democracy. It only hints to a possibly welcome by-product of neo-corporatist subsidiarity devolutions which has done well to a majority's satisfaction at least until recently.

In Luxembourg, Putnam's concept of 'social capital' is dealt with primarily by referring to 'social cohesion'. Chan et al. (2006) defines social cohesion as follows: "[S]ocial cohesion is a state of affairs concerning both the vertical and the horizontal interactions among members of a society, as characterized by a set of attitudes and norms that include trust, a sense of belonging, and the willingness to participate and help, as well as their behavioural manifestations" (Chan et al. 2006: 290 in Acket et al., 2011:4). Acket et al. attest to Luxembourg for both, socio-cultural and political participation fairly high values in comparison to other European countries (Valcos index). Unfortunately last year's report on the associative sector in Luxembourg (Blond-Hanten et al., 2010) does not yield much data on the share of Luxembourg citizens volunteering in NGOs, The minister of family Jacobs speaks about a quarter doing so: "This is a high percentage" (Forum, 2007:33).

Evaluating whether social participation has been a preferable substitute for political participation, high involvement in social volunteering should match low political participation. The European Values Survey (EVS) 2008 data show both a rather politically and socio-culturally participative Luxembourg. This would discard a politically 'pacified' society hypothesis (in Hausman and Zahlen, 2010 and Acket et al., 2011). Nonetheless, relying on one single survey undertaken in 2008 does not seem to be robust to reflect a long-term, even historical development. Moreover, I am apprehensive as for the explanatory power of the European Values Study data of

2008 on Luxembourg. Since data has been collected between 3rd of May and 15th of December 2008 (EVS, 2010), the last three months fall within the turbulent days of the outbreak of the banking crisis with large Luxembourg banks to be saved overnight. Particularly on issues of trust and political participation, a survey undertaken during these days could be questionable.

Relying on slightly older data from different sources, Luxembourg citizens are not very interested in politics in a comparative perspective (European Social Survey 2004 and World Values Surveys 1999-2001 in Armingeon, 2007:310). Also, EVS data on political participation from 1999 reveal scores of nearly 10% below the 2008 figures. Referring to this data set, Zahlen (2003b:36) points out that few Luxembourg citizens think of politics as an important matter whereas many have a great deal of trust into political parties.

The OECD Better Life Index reports in its section on Luxembourg governance that 73% of citizens trust their political institutions, higher than the OECD average of 56% and one of the highest rates in the OECD (2011). When it comes to interpersonal trust on the other hand, Luxembourg fares rather mediocre. Luxembourg being historically a Catholic society, cultural heritage might explain some of the aloofness. Most historically Protestant societies rank comparatively higher on interpersonal trust (Inglehart and Baker in Zahlen, 2003b:40-41).

Data on public involvement also point to a mediocre level of political participation. An INTERREG report on advocacy and participation concludes that “experience with public involvement techniques is very limited in Luxembourg” (Warburton, 2007). The OECD attests Luxembourg “a generally successful tradition of seeking consensus which is adapted to the country and which generally functions well”, yet even the administration is readily accessible, “private citizens are less likely than businesses to take an active part in the development of regulations”. On the whole, “the general public is informed rather than consulted”. Nevertheless, the OECD considers this lack in part offset by the ease of access to government (2010:51-52).

Small is beautiful?

This section will focus on the impact of small state characteristics on participation particularly in the state bureaucracy. It will be analysed whether smallness, i.e. the ensuing informality of the decision-making process corresponds to the equality facet in neo-corporatist concertation, i.e. privileging a flat hierarchy at a high executive level while marginalising all others. The above-mentioned OECD report acknowledges involvement of the general public, yet occurring more “downstream than at the upstream stage of drafting”. Some public service interviewees suggest the need to increase participation of the general public: “It would be useful, indeed essential, at this stage to strengthen links to the citizens in advance of a decision” (OECD, 2010:51-52).

Danielle Bossaert considers the ‘manageability of relations’ as “perhaps the most striking characteristic of political life in Luxembourg”. She considers that “the small size of the country’s administration with its highly informal communication structures and the predominance of generalists rather than specialists has until now had many advantages” (2003a). An almost daily and direct contact based on compromise would be advantageous “insofar as the degree of bureaucratisation in the coordination of the various ministries is much lower than in the larger states and in that the flow of paperwork stays within reasonable limits. For instance, the result of these simplified channels of communication is that Luxembourg has relatively few permanent and regularly meeting coordination structures. And where such inter-ministerial bodies do exist, they are characterised particularly by the fact that they are linked to a direct interest (...) and that they are usually only of a temporary nature” (2003a). That is why the number of senior officials among the public service should not exceed if possible hundred people in order to enable decision-making processes to be taken in an ‘intimate’ working climate (Bossaert, 2008:135). Joanne A. K. Hey believes bureaucratic and government communities in Luxembourg to be a “tightly knit group of people who typically have known each other for years” (2003:88).

Organisational structures relying on informality that served well in the past might not continue to do so in the future. So does Bossaert acknowledge: “[D]ue to the increasing complexity and specialisation of the working areas, it is very difficult to

make prognoses for the future. In this context and without questioning the strategy of flexible and pragmatic adaptation, we can only conclude in a very general way that Luxembourg is increasingly becoming aware of the need for better coordination and communication structures” (2003a). Fehlen argues that the much praised ‘short paths’ of decision-making are thwarted by legitimacy deficits resulting from a lack of hierarchical structures: “In case of doubt, (...) (nearly) everyone is expert resulting to decisions being discussed to death in endless consensus building processes” (2009:16).

François Bausch (2011) points to the absence of a culture of political counselling. Political cabinets representing a body of high-ranking members of the executive to act as official advisers would be downright rejected in the Luxembourg political class. “Yet cabinets could create a counterbalance”. Referring to the narrow executive level invoked by Bossaert (2008:135), he argues: “Just those hundred senior officials are largely against the ministerial cabinet”.

By and large, critics have not much contributed to a quest for change. Allegrezza (2011b) underlines that Luxembourg’s polity has been Europe’s least reformed: “This is really bad. We are rigid to such an extent that it is hard to believe”. He does not deem useful to extend the state though: “Actually we have a small state which relieves us from the problem to stumble on one another”. Bossaert, too, considers the Luxembourg administration to be extremely resistant against fundamental organisational and procedural restructuring. The institutionalisation of coordinating bodies is far less advanced than elsewhere. She draws this to a pragmatic and flexible management approach primarily target-oriented and less at strict observance of competence fields and application of rules (2003a).

Therefore in a time when a great majority of European public sectors have gone through important human resource management reforms, Luxembourg has stuck to the traditional and rigid approach to career development in the public sector (Bossaert, 2008:137). Recently however, increasing budget constraints have encouraged Luxembourg to follow suit in formulating more flexible and achievement-oriented human resource management policies for the public sector characterised by a stronger consideration of individual competences with an overall goal to increase

performance, quality, efficiency and effectiveness. Notwithstanding such laudable efforts, it is puzzling that the notion of a special working environment of bureaucracy in small states has been absent in Luxembourg political discourse, all the more that the interest of Luxembourg academia in the 'small state' phenomenon has largely focused on international relations (cf. recent publications Majerus, 2007, Frentz, 2010). Sarapuu (2010:31) argues that "the size of states is a rare variable in institutional analysis and comparative public administration, which usually try to find explanatory factors from the political system, the politico-administrative culture, task characteristics or internationally rationalized management recipes". A small size of state limits specialisation and compels public institutions to be multi-functional. There is often no clear-cut division between policy formation and implementation which tends to assign jobs of planning, inspection and guidance to senior officers in a small state organisation. Moving down the hierarchical ladder though, there will be a threshold under which public administration in small states does not differ much from those of larger ones.

As Farrugia (1993:221) points out, it is important to understand that senior officials in small states work under conditions significantly different from those of their colleagues in larger states. 'Weberian-style' bureaucracy offers the advantages of universalistic values to counter the dysfunctional elements of patronage and "develops the more perfectly, the more it is 'dehumanized'" (Max Weber in Randma-Liiv, 2002:381). Randma-Liiv highlights that elements of traditional bureaucracies may not be well suited to the small state context because a higher degree of 'personalism' in small states causes more 'flexible' adoption of administrative rules as opposed to the values of rationality and universality in bureaucratic systems (2002:374). According to her, the challenge which politicians and administrators in small countries face is how to capitalise on the advantages of close personal contacts, few hierarchical boundaries and informal networking and "to find an optimal compromise between classical bureaucratic principles and flexibility stemming from a greater degree of 'personalism'. Smallness cannot become a cheap excuse for introducing patronage, for example, through the politicization of the civil service" (2002:388).

But even though one might agree that the 'Weberian' model is particularly difficult to apply in small countries (Randma-Liiv, 2002:379; Sarapuu, 2010:37), more 'flexible' alternatives are hard to come by. To find an optimal compromise between the 'Weberian' model and a more 'personalised small country model' Randma-Liiv has in mind is easier said than done. The politicization of senior officials is a case in point. Farrugia claims that in small states, senior public officials unobtrusively and therefore more pervasively shape those policies which politicians claim their own (1993:221). In Luxembourg, Bausch draws attention to "a high caste functionaries who have more to say than politics. As a politician, those could bring you down depending on how you take them on" (2011).

Yet there is more. Luxembourg's small state structure devised its legal system rather broadly. Hence, "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" (Fehlen et al., 2011:11). Christian Hunold argues that over the last century, there has been a vast expansion of bureaucratic discretion "fuelled by the rise of vaguely worded framework legislation" (Kerwin, Peters in Hunold, 2001:151). Framework legislation delegates to the public bureaucracy the authority to formulate rules and regulations intended to convert the legislature's will into legally binding decisions. In carrying out this task, administrative agencies routinely make decisions not expressly provided for by statutes. The result – lawmaking by unelected public officials – is one of the great challenges facing democracy today" (2001:151). This is all the more the case for Luxembourg and has increased the might of top-level bureaucracy significantly.

Considering the influence of senior public administrators in state bureaucracy, I deem it legitimate to expand neo-corporatist implications on participation to "strongly seniority-dependent aspects of Luxembourg's public services" (Bossaert, 2003b). The status of the 'top leadership' negotiating within a 'flat hierarchy' in neo-corporatist concertation can be extended to the top-level bureaucracy operating under similar conditions while the 'strong vertical integration' of corporatist 'lower levels' (Lehmbruch, *ibid*) can be put on a par with lower level public officers ordered in a

'Weberian' hierarchical structure. Bureaucrats are divided into separate social ecologies with top-level officers involved in pragmatic consensus within a 'flat hierarchy' and lower level officers being subject to a strong vertical integration. Whereas politicisation in the lower and middle ranks is very low, top civil service appointments and promotions are highly politicised (Dumont and Varone, 2005:68). Even if the avowed intent of governmental policies has been to smoothen career development and give line departments a valuable instrument for making optimal use of human resources, lower and middle career mobility of civil servants is rare and remains effectively checked. "Career 'mandarins' with long experience and well-established personal networks" (Pollitt and Bouckaert, 2000:74) tend to eschew delegation of responsibilities to lower levels for they are used to act in a multifunctional way. Often overstretched, though not willing to give up and delegate some of their field of activity, they have a propensity to instigate efforts of better networking and of increased horizontal coordination of their subordinates. Efforts hinting a high potential of efficiency gains through more routinised and rubberstamped horizontal coordination.

That is why the government might better have second thoughts about relative wage increases of public sector executive staff as intended in its public sector reform bill (Wagner, 2010). This measure would rather reinforce ditches within the public service. On the other hand, an assimilation of bachelor and executive career levels (Ministère de la Fonction publique et de la Réforme administrative, 2010:8) would be able to enlarge decision-making ranks.

Reluctance to change is another outcome of being neo-corporatist and small. Let me first infer from neo-corporatism. The 'Luxembourg Model' is definitely renowned for pragmatic and swift policy decisions. Yet in times of necessary cutbacks in expenditures, the flexibility of this 'instrument to cope with unavoidable structural change' contracts dramatically and incentives for organised interests to participate may just turn into its exact opposite. This was proven true during last years' tripartite when social partners could not even agree on a common reading of the state of the economy (Hirsch, 2010). Inferring from smallness, I refer to Lowenthal's (1987) seminal contribution on social features in small states. He argued that in order to enable the social mechanism to function without undue stress, overt conflict is

minimised or mitigated. Individuals become experts at muting hostility, deferring their own views, containing disagreement, and avoiding dispute in the interests of stability and compromise. He termed such behaviour 'managed intimacy' (1987:38-39). Sarapuu appends: "As the social and economic fabrics of small states tends to be more fragile than in larger states and their inhabitants share a common sense of vulnerability, risky and innovative decisions may meet with profound distrust. That, in combination with the personification of decisions, may lead to the avoidance of decision-making (2010:40). Sultana puts it abundantly clear: "In small states, if you do something wrong, you cannot escape to another place ... You are known, and your reputation remains with you" (2006:39). More questionable, Farrugia's (1993:224) argues that multi-functional senior officials in small states could be "tempted to spend most of their time dealing with more mundane ad hoc chores that have to be resolved 'now' and postpone the more thought-provoking problems to "quieter moments" which never seem to materialize".

Howsoever, hostility is not always mute in small states. "[B]itter and prolonged factionalism occurs and can have devastating effects" (Benedict, 1967 in Lowenthal, 1987:39), worse than in larger countries where those involved find it easier to avoid one another owing to anonymity. Applying this pessimistic scenario to the intersection of bureaucracy and politics is all the more worrisome. Turf battles might have been triggered off in Luxembourg's innovation policy, as Meyer conveys: "According to the OECD, there is 'insufficient collaboration and coordination' between the Ministry of the Economy and Foreign Trade and the Ministry of Culture, Higher Education and Research. The 'weak relationships' between these two ministries tend to create 'policy gaps'" (OECD, 2006:52,54). According to Meyer, the myth of better collaboration in small countries does not always ring true, referring to Thorsteinsdóttir (in Meyer, 2008:367) in her discussion on a co-ordinated science policy: "with limited formal mechanisms for dialogue and co-ordination there is a risk that the system is poorly equipped to manage diversity and foster new opportunities and challenges".

More often than not, meaningful critics of the 'Luxembourg Model' originate from outside of Luxembourg. Well aware that most Luxembourg-based authors derive from networks at the intersection of bureaucracy and politics, it is Lowenthal that

comes to mind: “In discussion, they seldom express opinions dogmatically and are reluctant to voice divergent views” (1987:39).

Chapter 4

On future prospects

In this part, I will attempt to identify potential paths forward before addressing the need to incorporate new actors into the corporatist bargaining process. The implications of such potential inclusions will be dealt with in more detail.

Which way to go?

In this paper, it has been argued that the system of neo-corporatist interest mediation in Luxembourg has become less encompassing. As for potential paths to overcome this dilemma, two scenarios come up: either making corporatist governance more representative while including new interest groups or abolish this ‘second tier of government’ altogether, i.e. resort to a ‘pluralist’ system with hypothetically equal rights of access of all interest groups to government. Analysing both settings, I revert to Mancur Olson’s (1982) model correlating ‘societal productivity’ with the degree of encompassingness of interest organisations in society. Variables are represented at a coordinate system with encompassingness plotted at the horizontal x-axis and productivity at the y-axis. Let us keep in mind that the interest organisation encompassingness is negatively correlated to its incidence, i.e. a society with many (small) interest groups competing for support will not have encompassing organisations while a society with few (large) interest groups produces encompassing organisations (overarching confederations). Starting with the very left part of the coordinate system, we will find a hypothetically innumerable number of interest organisations (or zero) being however rather useless since they have no clout, i.e. the theoretical case of free market society with high efficiency and no market imperfections. Moving towards the middle we attain pluralist systems of diverse competitive special interest organisations, checked by a government attempting to guarantee equal rights of access to all of them. In the middle we find the apparent worst case scenario: still a rather high number of strong and highly competitive special interest organisations and collusions breaking into the core of the state to

defend their prerogatives. The more we move to the right however, an increasingly smaller number of encompassing and monopolistic organisations are getting effective. Productivity is then a U-shaped curve (cf. in Höpner, 2007:318) revealing a correlation between productivity and encompassingness at the right part of the graph. In an empirical analysis of 22 OECD countries stretching over 25 years, Armingeon found evidence that those countries did well which either had a strong majoritarian democracy and allowing for coherent neo-liberal labour market policies or strong corporatism: “The worst of all worlds were the cases in-between, which were neither able to form a coherent liberal policy nor able to efficiently bargain over macro-economic policy” (2002:89). Olson’s model served as a rationale for the above-mentioned Calmfors and Driffil hypothesis. Luxembourg has slipped from the upper right of the curve a certain degree down towards the centre, i.e. losing some competitiveness. How could Luxembourg face this development? Rather move back to where it was, i.e. to strong encompassing interest groups or move towards the left with more free market, rational choice economics and the least possible corporatist interference?

The answer might not be as obvious as it seems. All the more that Crouch (2006:61-62) asks whether it is not time for neo-corporatist institutions “to be consigned to the dustbin of history, along with many other structures which seemed important during the high tide of industrialism, but which are becoming increasingly marginal to a post-industrial society”. The accelerated internationalisation of the capitalist economy with strong business interests and labour unions caught up thinking in national agendas might increasingly leave less leeway to political considerations. Even so, Luxembourg should think twice before turning away from involving associative interests into its governance. The attribute of Luxembourg being a very small country should be clearly kept in mind. First, the implications of Katzenstein are severe (cf. Cames, 2010). Second, for its very small size a limited scope of economic activity is strictly advised all the more that Michael Porter’s (1990) claim of geographic concentration (cluster policies) is crucial even for larger states. Focusing on a limited field of economic activity corresponds to corporatist interest group selection. And last, since Luxembourg as a very small governance unit is not well equipped with technical expertise to deal with business, it is a matter of public interest to rely on the competence of allied corporatist partners.

Incorporating new partners

Over the last years several authors have recurrently claimed to complement Luxembourg corporatist institutions to improve its representativeness (Cercle Joseph Bech, 2005; Hirsch, 2008:206; Thill and Thomas, 2009:10). In consideration of growing contestation of neo-corporatism as the only possible governance option, reforming those structures in order to become more representative of overall society might be vital for its survival. This raises the question whether current neo-corporatist groups should be complemented apart from as yet non-represented interest organisations related to the production process as well by interest groups from civil society. Claude Wey deems that many actors from Luxembourg civil society are rather placed at the margin of consensual networks (2003b:3). François Bausch argues that NGOs are able to break up thought patterns and reinstate a culture of debate (2011). Luxembourg would not pioneer here. In some countries as far back as the 1980s a decline of neo-corporatism triggered off the emergence of new forms of neo-corporatist decision-making involving new actors in the post-industrial policy arenas of education, health care, welfare, and environmentalism (Wiarda in Molina and Rhodes 2002:309).

According to Christian Hunold (2001:159), literature posits an elective affinity between democratic corporatist patterns of interest representation and deliberative democracy. The latter concept – also dubbed ‘discursive democracy’ – has become prominent in the 1980s as a form of democracy in which public deliberation is a major constituent of democratic decision-making. Facets of deliberative democracy are also present in the concept of ‘associative democracy’ where voluntary associations provide concrete arenas of deliberation and in fact, the associative system could be seen as an arena of negotiating, competing and co-operating associations (Perczynski, 1999:13). Cohen and Rogers define the project of associative democracy “by deliberate efforts to encourage a role for secondary associations in economic coordination and in administration and to create arenas of democratic discussions among such associations“ (1994:137). They call for strengthening these associations which are not able to exert any or only limited influence on institutional policies owing to their statute (Zürcher, 2008:80).

Jane Mansbridge (1992:54 in Hunold, 2001:160) believes that a corporatist system of interest representation is fairly consistent with key norms of public deliberation, at least in theory. "Corporatism's contribution to political theory is to have drawn attention to the 'deliberative functions of interest groups and the agreements now made in conjunction with formal lawmaking processes'". Although traditional corporatist arrangements have concentrated on deliberations by elites, she thinks that corporatism can be modified to permit a more democratic process of public deliberation among the public and private sectors.

That is the crux of the matter. Hunold however considers that writers like Mansbridge appear to suggest that political systems with a corporatist political tradition provide a superior setting for public deliberation. Yet, democratic corporatists are the first to admit that traditional corporatist arrangements have severe shortcomings. Typically, "participation in policy deliberations is limited to interest group leaders, who may or may not consult with or be accountable to their membership. Further, participation is limited to business and labor peak associations representing key sectors of the economy. Finally, the negotiations take place behind closed doors and are basically non-public in nature". Hunold deems *tripartite* corporatism as clearly violating the conditions of publicity and inclusiveness. Groups not invited to the bargaining table are often treated as outsiders who lack a legitimate voice in the negotiations (2001:161).

Democratic corporatists such as Claus Offe and Philippe Schmitter suggest that corporatism might well be amenable to ensure that public deliberations meet basic standards of publicity, equality and inclusiveness (Hunold, 2001:161). John Dryzek, known for his contributions to democratic theory and environmental politics, has claimed with Hunold and others that modern states underwent two major transformations that produced first, the liberal capitalist state and second, the welfare state. Each was accompanied by the migration of a previously confrontational movement into the core of the state. First, the liberal capitalist state was created when the bourgeoisie could harmonise with the state's emerging interest in economic growth. Then, more than a century later, the welfare state was born when the organised working class could assist the state's economic interests in legitimating the

political economy by curbing capitalism's instability and inequality. At this juncture, the main state imperative was not economic growth but legitimation. These days, the authors think to account for a third transformation of the state: "The emergence of an environmental conservation imperative would further democratize the state by including environmentalists in the core" (2002:659-664). They come up with a particularly striking example from the US in the early 1970s. Over a period of several years, the pluralist ethos of American politics responding "to actions taken by well-organized, politically knowledgeable, and effectively mobilized groups" was put under serious strain (Camacho in Hunold and Dryzek, 2002:22, also Dryzek et al., 664f). Anti-war and civil rights movements had radicalised vocal and significant segments of the population. Politically motivated violence exacerbated the sense of crisis. "Confronted by a plethora of radical demands, the Nixon administration identified the environmental movement as the least threatening element of the counterculture and environmental degradation as perhaps the least intractable of all the major problems on offer at the time". For those years the interests of environmentalists matched a core need of the state. It was the time when the United States created a federal Environmental Protection Agency, enacted a National Environmental Policy Act, set up a Council on Environmental Quality and passed a host of significant laws such as the Clean Air Act and Water Pollution Control Act (Hunold and Dryzek, 2002:22,23; on these developments cf. also Weider, 2007:665).

This raises the issue of the notion of a 'time window' able to adjust power relations in the core of the state. When being asked whether politicians are stuck in a growth trap, the economist Niko Paech believes: "They are in a waiting position. They wait for an opening up of a time window to implement policies perceived as unreasonable at the moment" (Schlammes, 2011).

Questioning risky and unsustainable policies are here at stake. Even if one might argue that policies of 'merchandising sovereignty' are imposed on microstates for lack of alternatives, their high-risk character could seriously jeopardise the growth paradigm of the 'Luxembourg Model'. A social and economic collapse might induce politicians to opt for policies they would not have dreamt before. Doubtlessly, institutions, corporatist or not, are by their significant path dependency very slow to change. Yet economic, political or social shocks are able to trigger off paradigm shifts.

As Della Porta and Diani (2006:209) put it: “[A] country’s ‘traditions’ are hardly set in stone. The nineteenth-century French elites, for example, were considered open to change, while their German counterparts were hostile to any and every reform”. The picture changed in the second half of the twentieth century. They account this for the existence respectively absence of historical ruptures having an impact on the strategies of labour movement inclusion.

Without shock events hastening paradigm change, possible incorporation of social movements into the core of the state is a long-term process. As Della Porta and Diani (2006:212) invoke, trade unions have often been an important ally for emerging actors, such as the student or the women’s movement. With a wide social base and very often privileged channels of access to institutional decision-makers (both directly through the public administration and indirectly through the political parties), trade unions can increase the mobilisation capacities and chances of success for social movements. However, those social movements do not have the access to highly institutionalised, encompassing arrangements of policy negotiations between the public administration and private interest associations (Kriesi et al., 1995 in Della Porta and Diani).

Recent mobilisations on labour issues in the ‘age of Seattle’ have initiated a trend of research on ‘social movement unions’ (Della Porta and Diani, 2006:213). “Social movements are different from neo-corporatist organizations as far as their modus operandi is concerned: they are mainly pluralistic, loose networks, with little formalized access to decision-makers and, according to most definitions, mainly characterized by their use of protest as a ‘political resource of the powerless’” (Della Porta, 2006:72). In Tilly’s words (in Della Porta, 2006:72), “movements are challengers, while neo-corporatist actors are polity members”. As such, “Schmitter (in Della Porta, 2006:73), demonstrated, neo-corporatism and protest have been inversely correlated – the strongest effects of concertation being to reduce strikes and public-order disturbances”.

The rationale of social movements and neo-corporatist organisations differs greatly. While the political resource of the former is making use of protest – the literal ‘weapon of the weak’ – the latter are “in a position of mutual deterrence, each

sufficiently capable of organised collective action to prevent the other from realising its interests directly through social control and/or economic exploitation” (Schmitter, 1985:36). While mutual deterrence of employers has been enormously aggrandised by a large increase of the flexibility of international capital, labour unions in any case can resort to non-cooperative action, i.e. chiefly to strikes. The unions’ logic of influence in *tripartite* bodies however prohibits an overzealous course of action which has often left them in the described dilemma between corporatist membership and its members. Ensuing decline has been the effect. Rallying with strategic partners, above all social movements excluded from neo-corporatist networks can be a rewarding move allowing unions to become more encompassing and enhance legitimacy in neo-corporatist forums. Yet a gain of encompassingness does not come free of charge: ‘Cosy’ externalisation of compensation costs to fields of interests protected by co-opted social movements will be strongly jeopardised.

Prospects for change in Luxembourg

Evidence among Luxembourg trade unions suggests some interest to intensify the relations to non-governmental organisations. The *Employee Chamber* and *OGBL*, the largest union – both presided by Jean-Claude Reding – have undertaken some albeit timid openings towards environmental groups. *OGBL* kept a clear anti-nuclear stance after the Fukushima accident thus challenging its own French membership base. In order to highlight both the environmental and social effects of insufficient thermal insulation measures, the *Employee Chamber*, *Mouvement Ecologique* and *Caritas Luxembourg* have undertaken a survey on social and environmental housing policies in spring 2011. Besides, Luxembourg trade unions reiterated the discourse on global justice. While at a global scale unions have been very weak to act as a united force against mischief of global capital, the urge to catch up with thriving global social movements has made them to call for more universal solidarity.

On the other hand, ties between trade unions and political parties have become strained. This can be reported at least from the formerly intact party-union nexus between social democrats and *OGBL*. During government formation negotiations in 2009, Reding pointed out that “the Socialist party should know that we do not take into account its participation in government. We will appreciate if the party remains

the ally of the unions and defends the Welfare State. Yet if it is not capable to do so, it better had not to enter the government” (in Thill and Thomas, 2009:9).

Within the social-democratic party, tensions with its Christian-social coalition partner came to the fore recently. While party members Spautz and Kersch from the left fringe of *LSAP* and allies of *OGBL* asserted that their party has “developed into a redundant and exchangeable pendant of *CSV*”, former party president Fayot accused the left-wingers to follow the unions’ logic of “safeguarding vested rights without compromise and expand them as far as possible”. Progressive politics would be more ‘complex’: it has to “find a common denominator for wealth creation and distributional issues” (in Merges and Zeimet, 2011). While those allegations reveal chiefly the dilemma of the present-day socialist body of thought, it has been the left-winger’s claim which has been truly progressive:

“It is high time to develop common positions with our natural ally *OGBL* but also beyond with the entire trade union movement in order to fend off neo-liberal attacks from politics and economy. For us socialists, also civil society, the environmental movement and civic movements are important partners whose interests we must embrace” (Vera Spautz, 2011).

It would be mistaken though to say that the government has turned a blind eye to social movement’s interests. In order to set up an environmental strategy on climatic change and sustainable development, it has launched a quadripartite consultative process called ‘climate partnership’ involving representatives from government, labour unions, employers and NGOs in five sectoral working groups.

In an analogous configuration in Australia in the early 1990s, David Downes (1996) examined the implications of environmental organisations’ participation in a neo-corporatist structure, discussing the tension between neo-corporatist and new social movement theories in Australia. To a Luxembourg setting, his findings could be thought-provoking all the more that this consultative forum resembled a neo-corporatist interest intermediation structure without the extension of policy formulation and implementation. The strategy used by the Australian government aimed to minimise conflict in the environmental field and “to manage the unpredictable

elements of increased environmental concern so as to preserve the maximum continuity of existing economic activity” (McEachern, 1993 in Downes). Therefore interest organisations with a non-functional relationship to the production process had been included in interest mediation since they had a demonstrated potential to disrupt that process. I assume that unsettling effects of Luxembourg social movements on capital might be rather negligible, yet the government, respectively its line minister in charge, Marco Schank, might have intended to test environmentalist participation to empirically assess a future course of action in order to make neo-corporatist bargaining more encompassing. Nevertheless, a neo-corporatist approach to environmental policy poses a predicament for environmental groups, in Australia of the 1990s or in today’s Luxembourg. As Downes argued, “To refuse involvement in the governmental forum would maintain an organisation's independence and integrity, but would also continue the marginalisation of the environment movement from the environmental policy-making process. Conversely, by consenting to participate in a governmental consultation process, environmental organisations would potentially have more (proactive) influence in environmental decision-making, although there is the risk that the organisation will become associated with a less than successful policy outcome” (1996). The risk of potential ‘value co-option’ (Saward in Lindsay, 2000:409) has been exactly the concern expressed by Blanche Weber of *Mouvement Ecologique*: “Apparently in the Netherlands, NGOs managed to become more institutionalised while they remained ‘free’. It probably depends on the culture. Here it would turn out to be ‘Harakiri’” (2011). She identifies environmental organisations merely as non-institutionalised, democratic associations that resist bureaucratic encadrement. Willing to cooperate in consultative forums, the incorporation into neo-corporatist deliberation bodies is not an option. For Weber, the *tripartite* concertation forum remains a crisis instrument: “We do not want to be represented in this body. Where there is no transparency, where information is not been disclosed, where people sit at round tables in the morning, there the future will not be decided and we are of no use” (2011).

Yet even assuming that NGOs representing post-materialist values would be willing to enter into a negotiation forum, neo-corporatist theory's emphasis on economic organisations rather hampers such a route. As Downes (2006) invokes: There appear to be three main reasons for the emphasis on economic actors and the exclusion of

non-economic organisations from neo-corporatist arrangements. At first, only economic organisations have sufficient power to ensure the success or failure of policies in economic policy areas. The second reason is that actors need to be sufficiently organised and hierarchically structured to ensure the compliance of their members to the outcome of any agreement reached. In comparison, non-production-based organisations are characterised as relatively poorly organised and hence unlikely to participate in neo-corporatist arrangements. And last, only economic organisations are in a position to implement and enforce negotiated policies.

Ultimately however, the vigour of NGOs and the 'political context' determine the outcome. In the case of the strong ecological modernisation of neo-corporatist Germany, it has just been the lack of access to the state forcing excluded movement groups to focus their strength on oppositional politics. It made them flourish by mobilising large numbers of activists and build up independent policy institutes. Hence their 'disruptive power' has been effectively boosted turning them into a force to be reckoned with by government (Hunold and Dryzek, 2002). The informal civil society networks in small-structured Luxembourg are here not a case in point.

Conventional neo-corporatist settings and social movements are however able to approach each other if there is a common ground to do so, be it a win-win situation or a potential to disrupt the production process by outsiders. As yet Luxembourg has only experienced the former. The above-mentioned survey on housing policies is here a case in point. Up until now, a social contract on risky and unsustainable sovereignty-based windfall profits could not be negotiated. At stake are chiefly fuel tourism and banking business externalities. As for the latter, when in 2009 the umbrella organisation of development NGOs presented a survey charging Luxembourg of siphoning off considerable financial resources from developing countries through illegal or at least illegitimate means (Fehlen et al., 2011:42), neither the state nor trade unions would enter the debate. The allegation was bitterly refuted by reason of factual errors in the study. Prime Minister Juncker indicted the umbrella organisation that they "better had to support the vitality of Luxembourg instead of disturbing it" (Wagener, 2009). Downright tutorials to follow suit of the 'Luxembourg Model' might however do more harm than good.

It has been a truism that any willingness to debate the Luxembourg sovereignty-based economy has been doomed to failure. Emile Haag, *CGFP* president, knew what he was talking about: “The public and trade unions are aware that we are totally dependent on tax revenues from the business community” (2000 in Hey, 2003:87). NGOs may well argue coherently that the Luxembourg banking business is encouraging capital flight and that it is detrimental to establishing banking systems in southern countries. Yet even their first natural allies, trade unions, which might well join the global justice discourse at a general level, will at the end of the day refrain from calling into question Luxembourg’s banking economy. Their constituencies will not appreciate. As for the recent parliament debate on pension fund investments, François Bausch was bitterly deceived by the unions: “They have a selfish and national position. Their only concern is whether funds are secured. Yet they do not bother how funds are invested in southern countries” (2011). Associations representing post-materialist values will be as far lone advocates at the margin of political discourse. Robert Urbé of *Caritas Luxembourg*, ‘the most progressive social sector lobby group’ (Weber, 2011) has hardly been heard when suggesting: “A sensible path forward cannot be followed without setting ethical standards in the economy. This is all the more true for Luxembourg where ‘niche’ considerations at our neighbours’ expense are not a meaningful alternative” (2009:6).

Chapter 5

Concluding remarks

This paper has dealt with the ‘Luxembourg Model’ and its constituents, among others corporatism. When comparing formal democracy with corporatism, legitimacy problems do not rest alone with the latter. Increasingly, the inability to include large numbers of foreign residents into the decision-making process reveals the weakness of the Luxembourg parliamentary system. Yet, as Crouch invokes, political democracy must “be able to intervene to check the development of exclusionary practices by neo-corporatism”. Strong neo-corporatism again should then be able to limit privileged lobbying” (2006:69). The need for action could thus be mapped well upstream from the shortcomings of corporatist bargaining.

In Luxembourg, neo-corporatist exclusionary practices can be sketched in new cleavages of materialism/post-materialism, in age and in gender terms. Whereas the ratio of youth to adult unemployment is among the highest in OECD comparison (The Economist, 2010), retired people are well off. Indicators point undoubtedly to an inclusion-exclusion dilemma. Admittedly challenging, there is a pressing need for empirical research linking economic parameters to variables of neo-corporatism.

Repercussions of neo-corporatism have trickled down on the ability to debate. When Bausch insists that “reinventing the culture of debate is the most important” (2011), it could just as well have been Prime Minister Juncker to have said so. Yet participation and ‘informed debate’ require transparency and open forums. They require inclusiveness. They require all the more an autonomous and service-minded bureaucracy. According to Mario Hirsch, the deficiencies of the Luxembourg public domain Ries (1920) reported about have even increased: “What counts is the search for consensus at the cost of politics” (1995:72). A deficiency which has contributed to a general level of mediocrity in many spheres, education included. Even if I do not share all of his corrective measures, von Kunitzki (2007) brilliantly turned the focus upon his country folk when pointing to “the deep ditch between the living standards of long-time residents and their intellectual and technological level of education” and like Fontagné (2004) warning of ‘a painful wake up’.

A model having fared so well will not be abandoned. Yet, as Allegrezza (2011b) argues: “We must involve in its questioning and renewal. To date we have not done so. Questioning will imply a critique of its very functioning, what the Model actually represents”. Doing so will spawn wide rewards. Particularly in a post-Fordist society, learning ‘how to compete in a hostile world’ necessitates the ability to critically question, to scrutinise, to get to the bottom of things. Only then we might approach the “kind of Scandinavian” (Allegrezza, 2010), unleash ‘distinctive niches’ (Schuller, 2002) or build the ‘smart state’ (Steinmetz and Wivel, 2010:219). Increasingly embracing a more ‘customised’ field of activity could save Luxembourg from renouncing what it has been accustomed to be – excellent.

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