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Stream 7.1. Economic crisis and social policy reaction

The end of the Luxembourg social model: Chronicle of a death foretold?¹

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Abstract (March 2010)

The economic and financial crisis hit Luxembourg at the end of 2008. Unemployment rate increased from an average of 4.4% in 2008 to a historically high level of 6.5% in February 2010. The industrial sector is undergoing an important reorganization and short-term work is rising up. In January 2010, the Government called in the *Tripartite Coordination Committee* in order to find solutions. Several meetings are taking place until the end of April and they will be followed by changes in the legislation, notably in employment and social security policy. These discussions follow the ongoing social dialogue since 2005/2006, when the public expenditures deteriorated dramatically.

Social dialogue and the *Tripartite Coordination Committee* are at the heart of the Luxembourg social model from the 1970ties on. At that time, Luxembourg had to reorganize its metal and steel sector, a mono industry, and it invented the tripartite approach, which brought together the Government, trade-unions and employers to elaborate consensus. Since this method was successful, the Government institutionalized in 1977 the tripartite approach by creating a 'Tripartite Coordination Committee', called *Tripartite*, as a 'crisis body'. On several occasions, the Government called for consensus. For example, the first National Action Plan on Employment has been elaborated by the *Tripartite* in 1998 (implementation of the European Employment Strategy) and ratified afterwards by the Parliament.

¹ *Cronica de una muerte anunciada* is a novel written by Gabriel GARCIA MARQUEZ in 1981, filmed by Francesco ROSI in 1987, which tells the story of the narrator's return to a Columbian town to resolve the details of a murder twenty years after it had taken place. Would we need 20 years before resolving the details of the 'fate' that led to the failure of the *Tripartite* process in April 2010?

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But the *Tripartite* is not only the search for consensus. It also means *sharing the efforts that have to be done*. Each partner – the State, the representatives of the employers and the representatives of the employees – has to commit itself to make 1/3 of the efforts. In the social security system, the *Tripartite* often becomes a *Quadripartite*, which means that the representatives of the providers have to play a role in sharing the efforts. In 2005, the Government faced the deterioration of the public finances and it called in the *Tripartite*, which had to decide to cut back part of the public expenditure (implementation of the European Stability and Growth Pact), especially in the field of social security. On this occasion, it was difficult to find a consensus, because the subject of the *Tripartite* was the deterioration of public finances, which implied that social partners had to make most of the efforts. For example, trade-unions did not want to cut back unemployment benefits.

Did the global economic and financial crisis affect the *Tripartite* approach? It is difficult to answer this question for the time being, because discussions are still taking place. What is clear is that, since the beginning of the crisis, the Parliament asked for more transparency and the Government committed itself to report the discussions and the outcomes of the *Tripartite* to the Parliament.

Is the global economic and financial crisis changing the Luxembourg Welfare State, which is based on the Bismarckian system? For the last ten years, universal rights have been rising and activation measures have been implemented. Are these changes in line with the normal evolution of the Luxembourg society? Are they related to rapid *Europeanization* of the Luxembourg social policy? Alternatively, are these changes the first signs of a new paradigm under the pressure of the global economic and financial crisis? I would like to address these issues by replacing the recent developments back into the history of the Luxembourg Welfare State since its creation in the early 20th century (ESPAnet Conference Helsinki 2008).

When I sent my abstract to the ESPAnet Conference 2010, the *Tripartite Coordination Committee* had had its second session on 24 March 2010 and more sessions were planned in April 2010 in order to reach consensus and a *Tripartite Agreement* before Summer. But, on the 27th of April, the Prime Minister Jean-Claude JUNCKER announced the failure of the process. This has been the second time since the introduction of the *Tripartite* approach in the 70ties. From that moment on, global economic and financial crisis appeared to me as a threat for the survival of the Luxembourg social model. So I changed the priority of my research and I started to work on the *Tripartite* process more than on the changes of the Welfare State. I want to present some pieces of the puzzle without matching them up and also some directions for future research.

I. The failure of Tripartite 2010

Tripartite 2010 started in March, under the presidency of the Prime Minister, Jean-Claude JUNCKER (CSV). The participants of the Tripartite were:

- the representatives of the Government - the Vice-Prime Minister, Minister of Foreign Affairs (LSAP), the Finance Minister (CSV), the Minister for Economy and Trade (LSAP), the Minister for Labor (LSAP) and the Minister for the Middle Classes and Tourism (CSV)⁴

- the representatives of the trade-unions - OGBL, LCGB, CGFP⁵

- the representatives of the employers - FEDIL, Chambre de l'Agriculture, Fédération des Artisans, Chambre des Métiers, ABBL, Confédération luxembourgeoise du Commerce, HORESCA, Chambre du Commerce, UEL.

Five sessions were organized between 17 March 2010 and 27 April 2010.

During Session 1, on 17 March, the evolution during the last years of the main economic indicators and of the financial situation of the State has been analyzed.

In Session 2, on 24 March, the situation of the labor market has been presented and measures to fight unemployment and to promote vocational training have been discussed.

Session 3, on 10 April, was devoted (1) to the competitiveness of the Luxembourg economy. Proposals were made by the Minister for Economy and Trade with the aim to improve national competitiveness⁶. (2) First proposals to reduce public expenditure and to raise public income were presented by the Finance Minister. Final aim was to reach a balanced State budget in 2014 and to maintain public debt at a sustainable level.

On 13 April, the Finance Minister explained in details, during a Press conference, the different measures⁷ aimed:

⁴ The Government is a coalition between the Christian-Democrats and the Social Democrats. The last elections took place in June 2009.

⁵ ALEBA, the trade-union representing the employees of the banking sector, which is a major sector of the Luxembourg economy - 1/3 of GDP and fiscal revenues of the State - is not part of the *Tripartite*, even though the employers of the banking sector are present.

⁶ *Propositions d'ordre général du Ministre de l'Economie et du Commerce extérieur pour l'amélioration de la compétitivité générale, en vue du Comité de coordination tripartite* (Version du 30 juin 2010): http://www.eco.public.lu/salle_de_presse/com_presse_et_art_actu/2010/04/Propositions_d__ordre_g_n__ral_du_Ministre_de_l__Economie_et_du_Commerce_ext__rieur/Propositions_pour_l__am__lioration_de_la_c omp__titivit__.pdf

⁷ *L'objectif pour 2014: l'équilibre budgétaire*. Note d'information du Ministère des finances. http://www.gouvernement.lu/salle_presse/actualite/2010/04-avril/10-tripartite/background-pdf.pdf

- to reduce public expenditure like setting a ceiling on public investment, reduction (10%) of the State's operating costs, suspension during the next 4 years of the adjustment of the wages in the public sector and cuts in social policy (abolition of the family allowance for young people over 21; reduction of parental leave and child-raising allowance from 6 to 4 months; payment of the 'care allowance', a special pension right financed by the State⁸, at the age of 65 instead of 60; abolition of a State aid for investment in housing; suspension during the next 4 years of adjustment of pensions);

- to increase public income like raising of the highest tax rate from 38 to 39%, creation of a special tax rate at 42% for very high revenues, creation of a special crisis tax, adaptation of the automatic indexation of the wages (see below).

At the beginning of Session 4, on 20 April, something went wrong. After a very short plenary session, the Prime Minister had separate meetings with the representatives of the trade-unions, on one hand, and with the representatives of the employers, on the other hand.

On 21 April, the members of the governmental coalition met the Presidents of the two coalition parties together with the parliamentary groups (deputies) of the two parties. After this meeting, the Prime Minister informed the Grand-Duke on the critical situation of the *Tripartite*. A second meeting of the Government with the Presidents of the two coalition parties took place in the Ministry for Finance on 22 April.

The Prime Minister decided also to consult former politicians, the former leader of the trade-union OGBL and the former President of ARBED, Luxembourg's steel industry, involved in the *Tripartite* during the 70ties, 80ties and 90ties. He searched for advice in a crucial moment for the survival of the *Tripartite* approach.

Two meetings were held with the representatives of the trade-unions and with the representatives of the employers on 24 and 26 April. A special Council of the Government was also held on 26 April.

Session 5 (the last session), on 27 April, ended quickly and the Prime Minister declared in a Press conference that *Tripartite 2010* had failed. He explained that the reform of the automatic indexation of the wages had been the main reason for dissension. He exposed the two proposals that had been made by the Government in order to adapt the existing system. In Proposal 1, oil products would be taken out of the basket of products which are taken into account for the calculation of the price index and, as a counterpart, public transport would be free of charge in Luxembourg. Proposal 2

⁸ Care allowance was introduced by Law 28 June 2002. It is a compensation for care activities for parents, mainly women, who did not work and who did not pay contributions to old age insurance. Two conditions have to be fulfilled: care for a child under the age of 4 and residence in Luxembourg during the care period.

Loi du 28 juin 2002 – 2. portant création d'un forfait éducation, Memorial 2002 A 66 : 1587-1593. <http://www.legilux.public.lu/leg/a/archives/2002/0066/a066.pdf#page=2>

foresaw that, during the crisis period, the automatic indexation would be limited at the level of twice the Minimum Wage. Both proposals were rejected by the representatives of the Trade-Unions⁹.

On 28 and 29 April, deputies of the parties involved in the governmental coalition made alternative proposals. Party conference of the Social-Democrats took place on 30 April and showed a high risk of provoking a crisis in the governmental coalition. Prime Minister made his annual '*Declaration on policy on the State of the Nation for 2010*' on 5 May. OECD published its report 2010 on Luxembourg on 10 May. On 1 July, automatic indexation of wages increased the wages by + 2.5%. First reforms, decided by the Government in order to stabilize public funds, are under way.

II. The origins of the Tripartite.

From the 70ties on, the Luxembourg social model is characterized by the social dialogue and by the participation of the representatives of the trade-unions and the representatives of the employers in the political decision making process (THILL, THOMAS 2009). Its aim is to search for consensus and to save 'industrial peace'.

a) A success story ...

The so-called '*Tripartite*' was introduced in the 70ties, when the iron and steel metallurgy had to be reorganized in Luxembourg and social problems had to be dealt with. By law of 26 July 1975, the Government got permission to take measures in order to prevent mass redundancy and to maintain employment. A tripartite '*Committee on Economic Conditions*', called *Comité de Conjoncture* was created with the mission to present each month a report to the Government on the evolution of the state of the economy. In 1977, the first tripartite Conference was held on the steel crisis and it made a proposal on an action plan. At the end of the year, law of 24 December 1977 institutionalized the '*Tripartite Coordination Committee*', called *Comité de coordination tripartite*, which would be convened in case of a major economic, financial and social crisis. The *Steel Tripartite Conference* is part of the *Tripartite Coordination Committee*. The first Tripartite Agreement on the reorganization and modernizing of the steel industry has been concluded in March 1979. Until today (2010), *Steel Tripartite* is considered as a great success. It prevented thousands of steel workers from redundancy, made the steel industry fit for the global economy and introduced social policy measures with the aim to keep unemployment rate very low.

But the Government did not only use the *Tripartite* approach in case of emergency. In health policy, *Tripartite* became a *Quadripartite*, when the health providers met with the representatives of the

⁹ On 28 April 2010, the national Comity of the most important trade-union, OGBL, rejected unanimously Government's proposal.

Government, the trade-unions and the employers. *Health Quadripartite* is not only searching for consensus, but also for sharing the efforts that have to be done, in order to reach a balanced health insurance budget. Usually, each partner - the State, the employers, the employees and the providers - has to commit itself to make 1/4 of the efforts.

At the end of the '1990s', the Government used the *Tripartite*, in the employment policy, in order to implement the European Employment Strategy (EES). Under the auspices of the *Tripartite Coordination Committee*, the first national action plan on employment has been elaborated with the social partners. Sharing of the costs (1/3 for each partner) has been on the table for discussion. 11 sessions were held between February and April 1998. The national action plan for employment (NAPE) has been adopted by the *Tripartite* on 18 April 1998 and forwarded to the Parliament, which 'translated' it into the law of 12 February 1999¹⁰.

b) ...with notable exceptions

Silence on the first failure of the *Tripartite* has been broken recently. In 1982, the Prime Minister Pierre Werner (CSV) made a proposal on modulation of the automatic indexation of the wages, which was rejected immediately by the trade-unions. *The same proposal, made 30 years after, had the same consequences.* Trade-unions organized a strike, but, despite of the 'no' from the workers, the Government decided to modulate the automatic indexation of the wages. And the *Tripartite* went on...

In 2005, the breaking off of the talks in the *Tripartite* seemed already inevitable. The Government had to face a deterioration of public finances and decided to use once more the *Tripartite*. The procedure was the following. In October, the Prime Minister made a general policy statement at the Parliament, presented his diagnosis and provided 'food for thought'. Between October 2005 and April 2006, the Government discussed the different options with the representatives of the trade-unions and of the employers. The results of these discussions were written down in an '*Advice from the Tripartite Coordination Committee*'. This advice formed the basis of the Government's program for the reforms. A first law has been adopted in June 2006. It changed temporally the automatic indexation of the wages and the pensions. Wages and pensions were adjusted at 3 fixed dates (1 December 2006, 1 January 2008 and 1 January 2009) instead of an automatic adjustment (when the index of the consumer prices increased by 2.5%) The same law abandoned automatic indexation of family benefits. From this moment on, a political decision was necessary to define the new amounts

¹⁰ Loi du 12 février 1999 concernant la mise en œuvre du plan national d'action en faveur de l'emploi 1998, Memorial 13 23/02/999 p. 190, <http://www.legilux.public.lu/leg/a/archives/1999/0013/a013.pdf#page=2>

of these benefits. A second bill including employment and social security measures has been adopted in December 2006. First, activation measures have been introduced for the unemployed with a new definition of their rights and their duties (*contractualism* approach). Secondly, pension funds had to cover costs, which were previously paid by the State budget, like *baby years* granted to parents, who left employment in order to care for their children. The contribution of the State in the long-term care insurance was also frozen at 45% of the expenditure and, as a consequence, the contribution levied on the income of the insured persons has been increased from 1% to 1.4%. *Tripartite* 2006 has been interpreted as the first step of a major reform of the Luxembourg Welfare system (KERSCHEN 2009).

III. Questions for Research.

Two theoretical frameworks could help us raise questions: the corporatist or neo-corporatist approach and the 'small country' approach. We will also look at different working hypothesis we could put forward in order to analyze the failure of the *Tripartite* 2010. Our research will not only focus on the impact on the political system, but also on Welfare State changes.

1. Two theoretical frame-works.

1.1. The corporatist or neo-corporatist approach

What is the Luxembourg tripartite model of governance? How does it work? What are the other tripartite organs? What are the links between them? Why is the '*Tripartite Coordination Committee*', considered as the 'Tripartite', the main organ?

Where comes it from? What are its aims? What may we learn from a historical perspective, including the period before the 70ties?

Why has it been so successful? Why is it now under pressure? Does the explanation of a shift from corporatist arrangements to 'competitive corporatism' (RHODES 2001) fit the Luxembourg model?

What may we learn from the first failure of the *Tripartite* in 1982? Does the difference in the composition of the governmental coalition - Christian Democrats and Liberals in 1982, Christian-Democrats and Social-Democrats in 2010 - change the deal?

1.2. The 'small country' approach

What is the link between the special context of Luxembourg and the tripartite model of governance? How must we take into account this special context?

Luxembourg is a very small country (450.000 inhabitants), with a wide open economy, with a predominant international financial sector, with low compulsory contributions (in comparison with other EU Member States), with an important foreign and cross-border labor force (more than half of the workers).

Does the perception of the vulnerability of the Luxembourg economy produce an ideology in favor of social partnership? Does Tripartite strengthen trust? What gives Luxembourg this exceptional capacity for adaptation praised by experts (*'Luxembourg always tried to adapt to international competition and to the fluctuations of the labor market'*)?

3. Moreover, what kind of **hypothesis** could we put forward in our research in order to analyze the failure of the Tripartite 2010?

3.1. Does social partnership depend on the state of the economy (HIRSCH 2010)? In other words, social partnership is in crisis, when adequate redistribution of the fruits of economic growth is no more possible. What are the positions of the different partners around *Tripartite 2010* ? How do the transnational firms, like for example ARCELOR MITTAL, defend their position?

3.2. Does social partnership rely on the unflinching trust between the three partners? But, in *Tripartite 2010*, there was a conflict between partners on both the diagnosis on the state of economy and on the solutions. What role played the pressure from outside, namely International and European recommendations and reports from foreign experts, used by the Government to justify action? Did the Government make a mistake, when it send, in January 2010, the Luxembourg Stability and Growth Pact 2009-2014 to the European Commission without consulting the social partners? Or are trade-unions rejecting the neo-liberal economic model defended by the European Commission and, in consequence, *Europeanization* of the Luxembourg economic and social policy? Labor movement seems to be opposed to the orientations of the European Union since the Referendum 2005 in Luxembourg on the European constitutional Treaty.

3.3. Is the Luxembourg social model based on essential elements, like the automatic indexation of the wages and the very generous Welfare State? Must we consider these elements as the counterparts of the 'industrial peace' and the high level of productivity? In other words, will the Luxembourg social model collapse if the Government decides to remove these elements? Automatic indexation of the wages seems to be a decisive element, because the *Tripartite* failed in 1982 and in 2010, when the Government made proposals to adapt this system. Recently, the trade-union OGBL warned the Government against the overstepping of 'the white line' by making changes in the

automatic indexation system of the wages, in the starting wages for civil servants and in the legal pension age.

4. What is at stake?

4.1. Research mainly focused on the political system.

4.1.1. *Tripartite* challenged democracy from the beginning on. Members of the Parliament complained about the lack of transparency in the *Tripartite* roundtable. Since 2009, the Government informed the Parliament about the ongoing discussions and the results. It asked also the Parliament to produce a report on the crisis measures. What kind of changes are taking place in the relationship between *Tripartite* and the Parliament?

4.1.2. Luxembourg's trade-unions have historical relations with the Parties. OGBL is linked to the Social-Democrats (LSAP) and LCGB to the Christian-Democrats (CSV). While representatives of the LCGB have been elected as deputies on the list of the CSV, OGBL has forbidden multiple functions as deputies, leaders of the Party (LASP) and representatives of the trade-union. OGBL defends an independent position, which makes it free from the Party (LASP) involved in the governmental coalition. What kind of impacts may the trade-unions have on the parties and the parties on the trade-unions?

4.1.3. Will the global economic and financial crisis be an opportunity for the trade-unions to increase their power? In Luxembourg, they are the only representatives of the whole labor force, because non nationals, foreigners and cross-border workers, are more than half of the labor force. What kind of leadership may they develop?

4.1.4. Is the composition of the *Tripartite* no more in accordance with the economic and social evolution? For example, is it necessary to involve ALEBA, the trade-union of the banking sector, in the discussions. What will this change?

4.2. Research will also focus on the Welfare State changes.

4.2.1. The architecture of the Luxembourg Social security system has undergone important changes in order to unite institutions. Social security is no longer fragmented in white collar and blue collar workers. What is the link between this evolution and the *Tripartite*?

4.2.2. Since 2006, several changes reduced family benefits. Is this trend due to a cost explosion caused by the exportation of family benefits abroad (application of the EU coordination regulation on

social security for migrants)? Or is it a shift from the Luxembourg *pro-natalist* and family policy to an employment policy for women in line with the European Employment Strategy (EES)?

4.2.3. Pension reforms have been on the political agenda for more than 30 years in Luxembourg. Parties lost elections, because they had assumed the responsibility for them. Under which conditions could a Government undertake another reform of pensions? Tripartite seems to be the best way for a Government to legitimate its plans.

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