

Luxembourg: cannons, beams and rulings

Cannons:

Luxembourg owes its independence to cannons.

When, in 963, Siegfried, an obscure count of the Ardennes acquired by exchange with the Abbaye of Saint Maximin in Trier the Bock, a sizeable piece of rock jutting out of the Alzette Valley at the junction of former Roman highways to thereupon build his castle, he could not know that in fact he laid the cornerstone of the birthplace of a dynasty which, in the course of the 14th century was to give 4 Emperors to the Holy Roman Empire of the Germanic Nation, ruling most of Europe from Hungary to the North Sea and from the Baltic to Italy. The most famous among these Emperors were Henry VII who marched his army into Rome to be crowned there and Charles IV who founded the University of Prague in 1348 and who gave his name to the most famous bridge of that splendid city. Not to forget the father of Charles IV, John the Blind whose feathers were borrowed by the Welsh - hopefully to bring them luck on the battlefield of Lyon as we speak.

When this dynasty died out in the middle of the 15th century the fortress was occupied in turn by the Burgundians, the Spanish and Austrian Habsbourgs before finally being taken after a memorable siege by Louis XIV to remain French until the demise of Napoleon. Each new occupant of course improved and amplified the fortifications, last but not least Vauban and the fortress in the end was rightly referred to as the Gibraltar of the North - the remainder of the country being just as appropriately called the Department des Forêts.

After Napoleon's final defeat at Waterloo, the problem was: what to do with this gigantic fortress? there was of course no way to leave it with the French. Germany did not yet exist. And so, between two waltzes the Congress of Vienne, in 1815 decided to resurrect the Duchy of Luxembourg as a personal possession of the King of the Netherlands. The Dutch King accepted rather reluctantly and only after achieving superior status for his new possession which was henceforth known as the Grand-Duchy of Luxembourg. But since the Great Powers of the day did not really trust the Dutch King's determination of even capability of ever defending the fortress, they, for good measure installed a Prussian garrison in the fortress. And it is thanks to this Prussian garrison that the Dutch King was able to retain Luxembourg when, fifteen years later the Belgians successfully reclaimed their

country, although he had to give up what is today the Belgian Province of Luxembourg, a chunk of territory larger than the remaining “Grand”-Duchy.

Thus, just over 200 years ago, a country was quite artificially reborn whose population was never submitted to the stress of a referendum and whose elite definitely would not have minded to become Belgian - at the time!

Beams:

The steel industry gives Luxembourg a raison d'être.

In the middle of the 19th century, Luxembourg is still the fortress: full stop! A small bourgeoisie, commerce and trade in the City prosper thanks to the Prussian garrison. In the rest of the country, with very few exceptions, poor peasants live a life of mere subsistence. Not very fertile ground for patriotic feelings.

But things are moving in our neighbourhood: Bismarck is busy piecing together what will eventually be the united Germany that we know today. And Napoleon III is not amused and he is looking for compensations. Bismarck flatly refuses his demand for the Left Bank of the Rhine - very German Lands after all. The British block any ambition towards Belgium - enough French coast the other side of Dover. So, what about Luxembourg? Ah, says Bismarck, that is a personal possession of the King of the Netherlands, go talk to His Majesty. A deal gets under way, a price is tentatively agreed, but the King's brother, Prince Henry gets in the way. He is Governor of Luxembourg and so his job is on the line. His wife, the Russian Princess Amalia gets the Tsar excited, the affair becomes complicated and so, in 1867, in London, the Great Powers of the day agree on a drastic solution: confirm the Grand-Duchy as an independent, neutral country, but dismantle the fortress. Needless to say that nobody thought about asking the Luxembourgers their opinion. They received the news from London with shock: the departure of the Prussian garrison would surely wipe out whatever little economic activity there had been.

In fact, things turned out quite differently. Three things happened almost simultaneously: just as the City freed itself from the physical and military constraints of the fortress, the first railways reached Luxembourg and opened up the country to its future trading partners and, most importantly, some clever Luxembourgish engineers managed to get hold of the Thomas-Gilchrist process of making steel out of the phosphorous iron ore we share with the Lorraine. Its was the birth of the

Luxembourg steel industry which was to be the engine of our economic, social and even political development for more than a century.

Economic development: steel production hit its maximum in 1974 with 6,7 million tons, representing 25% of GDP and 70% of exports. More than a quarter of total employment in the country was concentrated in the steel industry, a good portion of the remainder in companies working on the periphery of the steel industry. ARBED was created in 1911 and immediately embarked on a strategy of worldwide expansion and integration, with iron ore mines in Brasil, coal mines in Germany and in the States and production facilities in Belgium, France and as far away as Korea, not to mention the hundreds of outside suppliers and transformers thriving off the steel industry in Luxembourg and in the Greater Region. Many of these companies have survived the restructuring of the steel industry in the 80's and are today the backbone of Luxembourg's industrial landscape which is more diversified than ever, even though it has been dwarfed by the explosion of the services sector. After absorbing Usinor in France and Aceralia in Spain to form Arcelor, the latter was finally taken over by Mittal to form the world's largest steel producer, headquartered in Luxembourg. On the industrial side, Arcelor Mittal successfully managed the transition from the traditional blast furnace to the ecologically much more virtuous electric arc technology, recycling scrap metal to produce high quality goods, such as the uniquely large beams and sheaths which support the world's largest bridges and skyscrapers - like the Freedom tower in New York - and are in particular demand in countries where the earth has the unfortunate habit of shaking occasionally. Last but not least, the legal and financial needs of this vibrant industrial economy encouraged successive governments to enact a legal and regulatory framework capable of attracting foreign investment.

Social development: it was within the steel industry that the first social services were provided - housing aid, sickness and retirement benefits. It is there that the trade unions gradually emerged as an important and constructive partner in the social dialogue - the so called Luxembourg model - which has largely contributed to allow this country to manage successive economic downturns, including the steel industry's dramatic restructuring with a minimum of disruption. And so the steel industry, in a fundamental way, has contributed to give Luxembourgers a *raison d'être*, a reason to be proud of what we can achieve if we work hard and are attentive to quality. But the steel industry has also taught us that, while even a small country can have ambitions and dreams, we must look elsewhere for what we are lacking : capital, competences, human resources, markets. And we must be watchful to maintain a climate of openness and a competitive environment. That

Luxembourgers should today live without apparent major problems in a country where more than 40% of their neighbours have a different passport is no doubt due to the fact that we have for generations now understood that integration can succeed and that the overture of the country to immigrants as well as to crossborder commuters is both a necessity and a challenge, but also a great opportunity.

Political developments: the Dynasty of the Luxembourgers in the XIV century was an important actor of European politics at that time. The fortress, as we have seen, became over time an embarrassing object. With steel, Luxembourg became an actor again of European politics. Not surprisingly the Six founding members of what is today the European Union chose coal and steel in 1952 as the first de facto solidarities to launch the process of European integration. After all, coal and steel production were not only traditional measures of a country's economic strength, they had also been major causes of the wars and rivalries of the past of which Luxembourg had usually be a victim. And so, when the time came for franco-german reconciliation and aided by the fact that Robert Schuman, then the French Foreign Minister was born in Luxembourg, Joseph Bech, our own very pragmatic elder statesman was able to get the first European Institutions to, as he said, "start working in Luxembourg" . And thus was created the birthright which until this day enables Luxembourg to claim to be one and at that the first of the three European Union capitals with special vocation to host Europe's judicial and financial institutions.

And now on to Rulings:

Could it be that the Good Lord is a Luxembourger?

After the miraculous resurrection at the Congress of Vienna, after the lucky coincidence of the dismantling of the fortress, the arrival of the railroads and the emergence of the steel industry, here come the financial services in the 70's to take up the slack left by the foundering steel industry. The timing, a miracle? Be that as it may, in just over a generation the country has shifted from an essentially industrial

to a service economy gravitating largely, but no exclusively around the financial sector.

In absolute terms, the industrial sector has been stable:: 3242 industrial companies with 43900 employees in 1958, 3123 companies and 38600 employees in 2010.

Considering that during that time, and in particular between 1975 and 1985, employment in the steel industry plunged from nearly 30000 to some 6000, the restructuring of the industrial sector in Luxembourg has been a success, both in terms of new investment attracted from abroad and in terms of internal innovation. Luxembourg industry today is pretty diversified around a number of clusters and above all in high tech and high quality manufacturing. Luxembourg companies are often world leaders in their field, like ArcelorMittal in oversized beams rolled in Differdange, IEE in automobile electronics, Ceratizit in finest mechanics, Hitec in spatial communications etc. They are innovative and spend more on R&D than the European average. Several like Good Year have concentrated their European research facilities in Luxembourg. The University of Luxembourg with its own research laboratories is fast creating a much needed background of fundamental research and a host of private and public incubators provide launching pads for a growing number of start ups, again originating from both Luxembourg and from sometimes far afield. That being said, from 48% of GDP in the early 60's, industry's relative contribution to the national wealth has shrunk to less than 10%

Services altogether then count for over 85%. They are themselves a very diversified sector. Services ancillary to the finance sector - lawyers, accountants, consultants, architects, engineers, informaticians, communicators account for 23% of GDP. Certain of these activities have in the meantime reached a critical mass enabling them to function as European centres of excellence within their groups, serving a clientele which vastly exceeds Luxembourg based financial services.

A high-performance ITC infrastructure and a favourable fiscal environment have encouraged the development of electronic commerce activities. It is reassuring that some of the most important companies like Amazon, which were initially attracted primarily by fiscal advantages have since decided to not only maintain, but even increase their activities in Luxembourg, the excellent competence/infrastructure combination finally outweighing the temporary tax advantage.

Plus we have in the service sector of the economy some world leaders, like the CLT group, present in Luxembourg since the 1920's and which is today Europe's largest media empire with 54 TV and 29 Radio stations in 10 countries, or SES, the world's biggest commercial communication satellite operator with presently 53 deployed satellites capable of reaching 99% of the world's population.

And finally the financial services sector itself: banks, insurance and other financial services companies which account by themselves for some 28% of GDP. Originally

many of these actors came to Luxembourg as a reaction to decisions taken in their home countries - such as the American interest equalisation tax, the Belgian précompte on dividends, the German Bardepot ... and, who knows, tomorrow Brexit. They found in Luxembourg a largely business friendly legal and regulatory framework, easy access to political decision makers who themselves were eager to be first in implementing European and international regulations as, gradually, a more level playing field was taking shape. And so there was time enough for these actors to move from eroding sovereignty niches to quality niches in insurance, fund management, corporate finance and wealth management.

But what does all this mean for the Luxembourgers? I said a while ago that the steel industry had finally provided us with a tangible raison d'être, even as it meant opening up to foreign capital and migrant workers and accepting the constraints of the German Zollverein first, then economic and monetary union with Belgium and finally the Common Market and the European Union. But steel was manufactured in Luxembourg. You could touch it. In every Luxembourg family, someone was working in or for the steel industry. By contrast, the service economy of today is flooding the country with a wealth of revenues stemming from interest rate differentials, margins and commissions on deals which for the most part have very little to do with this country.

Add to that that in order for this economy to function we aborigines not only share our living space with more than 240000 carriers of foreign passports - that is more than 45% of the total population - around 70% in the capital city! - but also welcome more than 150000 cross border commuters every single morning, French, Belgian, German. Is it a miracle or unconsciousness that this chemistry largely seems to work so harmoniously?

The fact is that the radical change in the structure of our economy has led to a major disconnect of the Luxembourgers from their economy. For them, for us the safe public service jobs. Up to the others to take up the entrepreneurial challenge and the job insecurity in an ever more competitive economy. In the long term, surely this "colony at home" mentality is not sustainable. But what's the remedy?

With a couple of friends, but also with the government, with one exception all political parties, the unions, the Church, a host of non governmental organisations, I pleaded some time ago for giving non nationals the right to vote in national elections. That referendum, as you know, ended in a disaster - not even a close vote. So much for referenda!

The question, I think, is indeed one about identity. What does it mean today, in 2016 and beyond to be a Luxembourger? When I was Mayor of Luxembourg City, I had commissioned the University of Luxembourg to do a study on the identity of the City. After much research and a lot of interviews, the University told us that in the eyes of both Luxembourgers and non-Luxembourgers the identity of the City was overwhelmingly characterised as its diversity. We promptly decided on “MultipliCity” as the City’s new brand. And perhaps it is in this direction that we should be looking for answers: we all have our roots somewhere, geographically and culturally, inherited and nurtured by the previous generations. That is so to say our parenthood and, for most of us it is also our nationality. And then there is where we live, where we work, where we share. That is the space of our lives. It should come with the citizenship which should entitle us, in fact commit us to participate in making the big choices which affect the society that we live in. In that sense, my being a European citizen does not prevent me from being a Luxembourg national and the other way around. Easier perhaps said in a small country in the heart of continental Europe. But consider the consequences if we start, again, believing the reverse: that only nationals are entitled to be citizens with full rights to move, to work - and to share. What a throwback to times we should not want to return, but which so many seem to have forgotten. You do not have to be hooligans to wave your flag and cheer your team when in fact you are playing the same game under the same rules wherever the stadium.

And now the Good Lord in all of this? Let us put the Congress of Vienna on the account of creative diplomacy and the lucky coincidences of the 19th century on that of the fast development of industrial technologies at the time. After that, a sovereignty more and more assumed and better and better used by clever statesmen attracted successful entrepreneurs who then, together, quickly seized opportunities as they arose. The sovereign right to mining our iron ore was conceded initially to German, the sovereign right to exploit our hertzian frequencies to French and Belgian investors - prevented from operating commercial radio in their own countries - the sovereign right to exploit our orbital positions to American first, then European investors. And we have also seen that the financial centre has blossomed initially on the fertile ground of legislation favourable to savings and investments while countries elsewhere were busy doing the opposite. We have also however seen that Luxembourg was quick to see that these sovereign niches were fast eroding and that, while obviously biding for time, we should work for a level playing field. And we have done exactly that in trying to be first in enacting into

national law those European and International directives and regulations which define the functioning of financial services in the future.

So, Luxembourg is not a miracle, neither it is a mirage. It is rather a country which, perhaps because of its geographical location between the great European cultures, certainly because of the agility and necessary openness required by its small size, because of the cleverness of its decision makers, public and private, and the quality of its work force has been able to successfully meet challenges which might have seemed to dwarf it.