'No qualms over union' from the Financial Times (4 November 1992)

Caption: On 4 November 1992, the special edition of the British daily newspaper Financial Times on Luxembourg includes an analysis of the impact of the Maastricht Treaty on the Luxembourg economy and public opinion.

Source: Financial Times (4.11.1992), "No qualms over union", Ronald van de Krol, Financial Times Survey Luxembourg, Londres: Pearson PLC, p. 2.

Concerns focus on the location of the European central bank

No qualms over union

UNLIKE SOME people in Britain or Germany, Luxembourgers don't worry about the prospect of giving up their currency for the greater good of European monetary and economic union (Emu).

After all, nobody under the age of 70 can remember the days before Luxembourg entered into a monetary and economic union with neighbouring Belgium in 1922. For nearly three generations, Belgium's central bank has determined Luxembourg's monetary policy. As a result, Belgian francs have become fully interchangeable with Luxembourg francs throughout the Grand Duchy.

When shopping, Luxembourgers do not know or care whether they are paying with Luxembourg or Belgian francs: the two currencies look different but are of equal value.

Still, to many people in Luxembourg, a single European currency is preferable to the link with the Belgian franc. Memories of the Belgian franc's surprise devaluation in 1982 – when Belgium failed to warn the Luxembourgers that their own currency would also be worth 8 per cent less than the day before – have not entirely faded.

"The advantage for us is that we'll have a governor in the new European central bank, and that we'll have a say in policy as well as a stake in its capital," says Mr Jean Asselborn, leader of the Socialists in parliament.

The only element of Emu that does cause excitement in Luxembourg, at least at the higher levels of the financial community and the political élite, is the question of where the European central bank will be located.

Luxembourg has staked its claim, based on a 1965 agreement; but many other European cities have put forward their own candidacies, and Luxembourg's best chance seems to lie in deadlock between the big EC members.

Whatever the location of the European central bank, tiny Luxembourg, with its heavy reliance on foreign workers and foreign exports, has little choice but to look to Europe for its future. "A Luxembourg without Europe or Europeans is not possible," Mr Asselborn says.

Thanks to its externally-orientated economy – exports account for nearly 85 per cent of GDP – Luxembourg will not have to make wrenching changes to prepare for the single European market

Not surprisingly, then, Luxembourg had few fundamental qualms about having ratified the Maastricht Treaty in July, making it the first EC member to do so. Although controversy surrounded the move, the debate concerned procedural matters, focusing on the question of exactly when the Luxembourg constitution must be changed in order to take account of Maastricht, rather than on the merits of greater union in monetary, financial and security matters.

Opposition Liberals argued that elections had to be called before ratification could take place, in line with the normal procedure for any planned change in the constitution.

The government, a coalition of the Christian Social party (comparable with Christian Democrats in other European countries) and the Socialists, said the changes to the constitution could wait until 1994, the date of the next scheduled elections.

This was because the one provision in the treaty requiring a change to the constitution – the right of EC nationals to vote in the local and European elections of EC countries – will not come into force for Luxembourg until at least the second half of the 1990s.

The treaty's granting of voting rights to EC nationals is a sensitive matter in Luxembourg, where more than a third of the population is foreign. In the capital alone, up to 45 per cent of residents are foreign, most of them from elsewhere in the EC.

In a country as small as Luxembourg, local government is just one step below national government, lending much weight and significance to town politics. "The reality behind municipal elections is very different from country to country in the EC," says the mayor of Luxembourg City, Mrs Lydie Wurth-Polfer.

The issue is so contentious in the Grand Duchy that the framers of the Maastricht treaty said postponements would be possible for countries facing special problems. This assurance, drafted specifically for Luxembourg, means that, although foreigners could theoretically be allowed to vote in 1999 (the first local elections after the scheduled change in the constitution), they may not be able to exercise this right until the next poll in 2005.

Similarly, Portuguese, Italians and other non-Luxembourgers from EC states will not be able to vote in elections for the European parliament until 1999 at the earliest.

Thanks to its externally-orientated economy – exports account for nearly 85 per cent of GDP – Luxembourg will not have to make wrenching changes to prepare for the single European market. But it will have to adapt to new challenges, not least the opening up of public procurement tenders to other EC competitors.

In practice, smaller Luxembourg companies, which were used to focusing on their own home market, will probably find greater competition from companies in the "Saar-Lor-Lux" region, which embraces Germany's Saarland and parts of Rheinland-Pfalz, France's Lorraine, the Belgian province of Luxembourg, and Luxembourg itself. In this region of 6m people, Luxembourg not only forms the geographic nucleus but also exerts the greatest economic attraction, because of its prosperity.

Mr Etienne Reuter, the head of operational consultancy at Arthur Andersen in Luxembourg and project manager of a study into medium-sized companies in the Saar-Lor-Lux region, says: "Construction companies in the region find Luxembourg attractive, because of its high purchasing and the government's active investment programme." To compete, Luxembourg builders will have to look beyond their national borders for opportunities in neighbouring regions.

Mr Reuter believes the region holds big economic potential for companies in all four countries, but says "national borders are still a problem for smaller companies." More and better information is needed to help companies throughout the Saar-Lor-Lux to take advantage of the single European market on their doorstep.

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