// Competitiveness means cost

Economic crisis has brought the challenges faced by Luxembourg businesses into sharp focus. With the eurozone economy unlikely to return to full health in the near future the Grand Duchy's non-financial businesses will need to be more agile if they are to thrive and the struggle to attract new businesses and investment will intensify. The key to this is "competitiveness"which is largely code for the efforts to keep business costs down, with salary indexation and taxation at the heart of this. Could this crisis offer the clearest argument for reform?


How to make Luxembourg stand out?

When the economy was bowling along with 5% growth, it was politically difficult to explain how some companies were struggling to thrive. Hence, the 2006 tripartite deal was a mild affair which did nothing to address the long term question of how non-financial businesses can prosper in the modern context. However, with the eurozone economy showing only timid signs of life, with companies struggling to maintain their workforces intact and unemployment set to reach 7% next year, reality is more starkly drawn. If salaries increase more quickly than productivity then output, wealth and jobs will be at risk. Rather than being a "social" measure, salary indexation can tend to skew the economy to favour against those less able to add value: the inexperienced and the unskilled.

// Silence on the index

Could the government be willing to act this time? The 132 page coalition agreement lacks any mention of salary indexation, an anomaly in a document that regularly restates its support for existing policies. Most probably this means the issue is just not on the agenda, or maybe it leaves the issue open to be tackled at a later date. The Chamber of Commerce has suggested limiting automatic inflation-linked salary rises to those earning less than 1.5 times the minimum wage: whilst imperfect this would still give businesses greater autonomy. That said, one of the few bright points of Statec's long range economic predictions is that inflation should remain at around 1% over the next five years; although this low, it is the comparison with key markets that will be important in determining whether there will be an erosion of competition.

// Half promises on tax

More important still will be for the coalition to keep business taxes and social charges competitive. Although it might appear to be an attractive idea for all sides of the tripartite to make compromises when faced with budget deficits, such a move would undermine the economy's ability to grow as higher business taxes will discourage private investment. On this issue, the government appears alive to concerns, saying it hopes to keep business charges competitive within the OECD. Specifically, promises have been made that taxes and charges will not rise next year, but no promises were made thereafter. The Chamber of Commerce has warned the government that any so-called solidarity tax on business would be counter productive and that spending should take the strain.

With an attractive cost environment in place, then the second half of a competitiveness strategy should be able to gain traction. Making public administrations better servants of the economy has been identified as a important action point and the experienced François Biltgen has been given the responsibility of leading this across-government effort. Speeding up administrative procedures for start ups and new projects would help, but this is easier said than done given the frequent institutional resistance to change of many administrators. Similarly, the task of turning the employment administration into a useful economic tool will require a substantial change of mind set. Hopefully the feeling of national imperative will ease this process

// Maximum effort

Reform of planning laws would also help, breaking the veto powers of local authorities over economic and social development. However, such is the scale of this challenge that the government has only promised to work towards a major reform in 2017. Until then, they will need to push their hoped-for sectoral plans on economic activity zones, green belts, transport and housing. It would also help if there were greater coherence to idea of a Greater Region market extending into neighbouring countries: with work at EU and regional level. If all of this can be topped-off with a vigorous promotion effort then the Grand Duchy would be doing all it could to exploit new niches.

By Stephen Evans