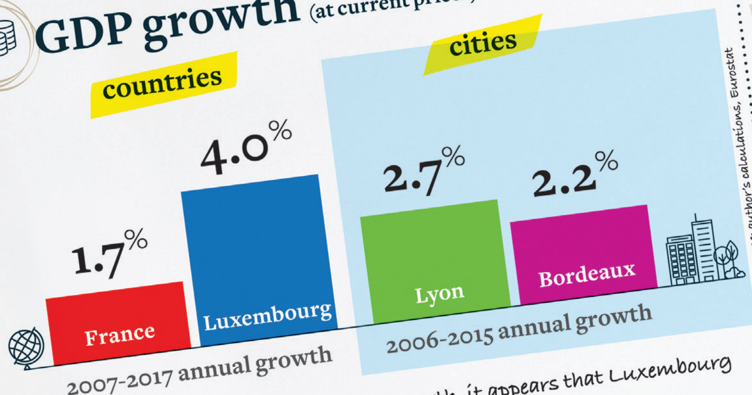
Is Luxembourg so exceptional compared to cities, not to countries?

Fondation idea

GDP growth (at current prices)



When looking at the trend of the GDP growth, it appears that Luxembourg country is an outlier, doing better than countries and cities yet the gap is slightly reduced at the metropolis level.

Scope of the study

Salaried employment

The trend of the salaried employment in Luxembourg is comparable to the one of some german cities when Germany is lagging "behind".

Population

When looking at the population trend, Luxembourg country is doing better than countries and cities yet the gap is much reduced at the metropolis level.

Conclusion

When studying the economy of the Grand Duchy, one must look at both countries and metropolises if one wants a more complete picture in international comparison.

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FARGO

Comparing Luxembourg to small states: does it make any sense?

By Dimitrios Apostolopoulos

There are many reasons to believe that Luxembourg is an "exceptional" country. The numbers are telling. According to Eurostat, for the period 2009-2017 alone, Luxembourg increased its population by a staggering 19.7% –far above the growth experienced by the neighbouring countries, i.e. Germany (a negligible 0.6%), France (4.1%) or Belgium (5.57%). There are other cases where the magnitude of Luxembourg's growth nullifies any rationale for making international comparisons. Our desire to better understand this "exceptionality" of Luxembourg led us to undertake this research. Is Luxembourg's "fate" to remain an outlier in most international comparisons or are there reasons to believe that other, more comparable, cases might emerge if we change the level of the analysis?

The most obvious "change of focus" would be to compare Luxembourg with other small states, instead of big countries. In a collected volume edited by Briguglio, the authors compare the economic structure of nine European small states (Cyprus, Estonia, Lithuania, Luxembourg, Malta, Slovenia, FYROM, and Montenegro). Briguglio (2016)[1] claims that these states share three important similarities that permit us to group them together, namely: (i) a small domestic market, (ii) limited natural resources and (iii) limited economic diversification. As a result, they all depend on international trade and are, consequently, highly exposed to external shocks. We can safely say that all these conditions apply particularly to Luxembourg.

But is this "small countries grouping" a good way of looking at these countries? For Hague and Harrop (2004)[2], authors of one of the most widely used textbooks on comparative politics, the goal of the comparative approach is to "broade[n] our understanding of the political world, leading to improved classifications and giving potential for explanation and even prediction". Based on this definition of the objective of the comparative approach, we will argue that the "small countries grouping" is not just "bad science" but it is also unhelpful (policy-wise) since it confuses more than it clarifies and obscures the very significant divergence and differences within the "group". Even in Briguglio's volume, one can find countries with very different population sizes and densities. No matter the criterion one uses: indebtedness, deficits, GDP growth, wages and competitiveness levels, unemployment levels and the importance of the financial sector or GDP/capita, the result is still the same: the differences are much greater than the similarities. On top of that, the differences on their stages of development, and their social and political governance are too great to ignore.

A national "economy" is a complex phenomenon, especially in an era of globalization and high capital mobility. It is not just about the transactions of economic agents since these transactions do not happen in a vacuum. They take place in a very specific setting that is determined, inter alia, by each nation's institutional arrangements, the prevailing political culture and, as in the case of Luxembourg, the participation in international or regional organizations like the World Trade Organisation and the European Union/Eurozone, and the impact that this participation has on the domestic governance. The "right" grouping of countries is always a highly controversial issue, not only for small states. Given the limited cases available, defining an ideal grouping is like the Quest for the Holy Grail – it may never appear...

Our research, building on studies like the METROBORDER report, attempts a comparison between Luxembourg and European metropolises, instead of states. By using a set of four indicators, namely, population growth, dynamics of job creation and evolution of the GDP and GDP/capita, we aim to uncover some hidden socio-economic dynamics that would help us place Luxembourg's extraordinary performance into perspective.

[1] Briguglio, L. (2016). "Introduction: Small States and the European Union", in L. Briguglio (ed.). Small States and the European Union: Economic Perspectives. London: Routledge.
[2] Hague, R. and Harrop, M. (2004). Comparative Government and Politics: An Introduction. 6th edition. London: Palgrave Macmillan.

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