

'This country is punching far beyond its weight' – Luxembourg, a view from geography

by Markus Hesse

Script of a lecture on the occasion of the 20th anniversary of the University of Luxembourg, held on Thursday, 23rd October 2023, at Campus Belval. The text has largely remained in the form of its oral presentation, aiming to provide an overview for the interested reader and the general public.(1)

Abstract:

The quote in the title comes from an expert interview in recent research. It illustrates the foundational fact that Luxembourg has considerably more economic power and dynamism than its size and institutional setup would allow it to accommodate. This is the basic problem that runs through all development and planning conflicts, reinforced by institutional and procedural complexity and inertia. Appropriate strategies need to be structural. However, current practice consists of micromanagement rather than strategy. It thus reveals three different sorts of illusion: a growth illusion; a steering illusion; and a sustainability illusion. The lecture will close by reflecting upon some thoughts on how to address structural challenges.

What is this “view from geography” about? As geographers, we are used to looking at development across space. This includes the associated changes of that process over time. Finally, we shed light on the ways in which politics, planning, and governance aim to influence all that. My agenda could be assumed as a menu composed of four courses: The *'amuse geule'* includes a short note on where I obtained the knowledge that substantiates my argument (aka my lenses). The *'entrée'* refers to the work others have done on related subject matters in most general terms (aka theory). Section three may comprise the *main course*: the specificities of Luxembourg's development trajectory, the downside of being small-but-global, and the governance illusions that seem pertinent when it comes to policy and planning discourses. As to the *dessert*: I may not finish this exercise without addressing what could, or should, be done in order to improve the real-world situation. However, I remain cautious, and won't present solutions. Instead, I address a few requirements that need to be set in place, before one may think about means that promise to resolve the underlying issues.

Amuse geule

My aim is to present a structural view of the big picture of Luxembourg's development and to link various fields of knowledge together.(2) It is based on 15+ years of research in Luxembourg and a related “thick description” by various means, i.e. the conduct of four major projects funded by the Fonds National de la Recherche (FNR), most recently FINCITY. Needless to say, all this is not my outcome but follows close collaboration within and beyond the Dept of Geography & Spatial Planning, including colleagues from the 5th Floor (LISER) and even reaching out as far as Australia (see e.g. Wong et al. 2022, Dörry & Hesse 2022). Apart from research, teaching is an enormously important source of knowledge, so I am happy to see students from *MaGeo* here as well. Last but not least, there is interaction with practice, coined by some contemporaries as the “third mission” of the university. In this respect, small

size turns out to be as ambivalent as in many other regards: on the one hand, you have direct access to all parties involved, not only as a member of the government’s advisory board on spatial planning (CSAT) but in most general terms; on the other hand, it may take years to fully understand the ‘elegant secrecy’ with which the small state is governed. Equally unusual, as far as I would guess, is the reluctance on the part of official authorities to accept conflict in the subject matters, and to properly deal with critical commentary. This could be considered a part of the problem.

Entrée (aka theory)

The theories and research concepts that provide inspiration for my argument, first and foremost, deal with the subject of global cities and their historical roots. Peter Rimmer and Howard Dick (2013) mention four properties that characterise a city as a global or world city: i) demographic size, ii) economic role, iii) geographic reach, and iv) cultural diversity. The case presented here has all these properties but one, which is “size”. It has, nevertheless, illustrated that geographical reach provides a means to compensate for specific limitations in terms of population or territory, as it has demonstrated a remarkable ability to “extract streams of profit from an *extraterritorial* terrain” (Olds & Yeung 2004, 492). This evokes previous conceptualisations such as Alonso’s (1973) notion of “borrowed size”, which he had applied to the Low Countries (Belgium, Netherlands, Luxembourg). My main contention is that small size on the one hand, and huge economic power and wealth on the other, are a combination that makes urban development rather critical. This applies to “Luxembourg” as a mélange of both state and capital city. We see the two blended in what we call “city-state formation” – given the extraordinarily small size of the country and the presence of the state in almost all municipal affairs as well.

Relationality is the term that seems useful as an organising metaphor for discussing this type of city-state formation. In line with recent geographical thought, city-regions are no longer analysed and explained as fixed, bounded territories, primarily based on agglomeration, but as subjects in a system of wider networks and relations (Allen et al. 2012). These places are situated between different international systems and mediate between different scales: global and regional. Essential is their ability to attract, manage and valorise flows of all kinds. The main building blocks are global positionality, the successful management of flows, and related governance, which happens against the background of rather specific historical framework conditions – that is, this pattern is volatile, but it can’t be easily copied by others (see Figure 1).

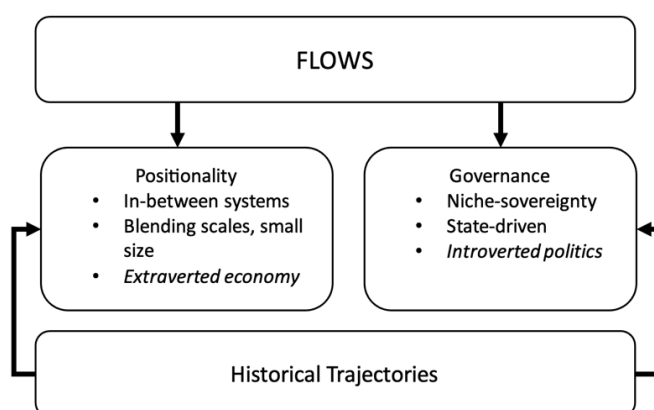


Figure 1: The building blocks of relationality (modified after Wong et al., 2022)

Main course: the multiple geographies of a global financial centre

The resulting geography of the country is shaped by utterly complex layers of connectivity. It included at least three different levels of scale: local (102 municipalities); “greater regional”—the labour market or commuter zone; and global, based on what was once counted as the financial weight of the country’s economy (measured in FDI). The last one indicates that it punches far beyond material properties such as size, population, and infrastructure.

As one outcome, Luxembourg scores rather highly on the global map of financial centres. Judging from GFC-Index figures, it oscillates in the range of the Top Twenty of the global financial marketplaces and the Top Ten to Fifteen in Europe, respectively. This is astonishing for such a small place. The same applies to the *GaWC Globalisation and World Cities database* which has classified cities based on the range of their business services-connections. Advanced Producer Services are the main indicator here. In *GaWC*, Luxembourg ranks as “*alpha-*” among a range of much bigger metropolitan areas worldwide, such as Lisbon or Vienna in Europe, Montréal in Canada, or Manila in the Philippines. Again, a striking mismatch between size and power.

The main overarching framework condition for Luxembourg’s urban geography and development is the continuous growth of working and residential populations. In recent years, it has become more dynamic from the labour market side. The number of cross-border commuters has been subject to accelerated growth rates over the last two decades. Hence the model – “extracting profit, or wealth, from extra-territorial terrain” (Olds & Yeung 2004) – is exactly based on fostered internationalisation. And this was particularly made possible due to a) the digitalisation of services in general and of currency in particular, and b) thanks to the labour pool that the neighbouring countries provide.

Likewise, the evolution of GDP per capita between 1960 and 2019, based on World Bank data, is characterised by a mere explosion: GDP has grown fourfold between 1985 and 1996, and it has more than doubled between 2001 and 2008. It is now around 110,000 USD/per capita, currently no. 4 of the country rank (after Monaco, Liechtenstein, Bermuda). Btw: Luxembourg scores also highest worldwide in terms of CO₂-emissions per capita.

Effectively, the country has developed a remarkable ability to re-invent itself a couple of times, from a steel-producing locale to becoming the seat of the European Union, followed by the creation of a top-notch financial marketplace. While the initial comparative advantages of a tax haven came into play in the 1980s and 1990s, the financial centre is now subject to enforced specialisation and diversification. At the horizon, we also see further fields of engagement emerging, such as space mining, circular economy, or arts & finance – however, it seems difficult to expect quick returns resulting from these activities.

Contrasting with the extraverted economy – driven by openness, agility, and innovation – governance appears as a rather introverted system. Three points are indicative here: 1) the niche of sovereignty as a small but independent nation-state... -- sovereignty made *the* difference when it all began; 2) developing a system of close political steering and control, particularly exerted by the state, which tends to be almost ubiquitous; 3) mediating but not resolving the diverging interests of state and communes by practicing the French system of députés-maires (double-mandates of mayors & municipal councillors and national chamber members).

(Non-)Regulation has played an essential role then and now. This quote is from a research interview: “Exactly, now it's benefiting from having EU regulation because we had this head start. Luxembourg is the largest investment fund place after the United States [...] And interestingly even gaining market share [...] Service companies [...] created a huge inflow of

foreign money and the money needs to be run, needs to be managed and it's harder and harder to follow the rules and the rules get harder and harder and you need more and more professionals to run the thing according to the rules.” However, adaptive strategies require transparency in the political and planning processes. This is yet highly contested, weighed against the perceived benefits of being introverted. According to a frank statement from the then Prime Minister, it would undermine the country’s business model: “Transparency may pose risks to the attractiveness of the state for corporate investment”.(4)

As a result of the political-economic condition of the country, there are rising degrees of inequality across society, politics, and space. Different from the 2010s, these inequalities are increasingly recognised as problematic and challenging the existing development model (see Table 1). In this respect, the underlying phenomenon is not Luxembourg-specific: It is a settled assumption based on the research literature that you can’t run a global financial centre and have a balanced, equal society simultaneously (Godechot & Woloszko 2022).

<i>Socio-Economic</i>	<i>Political</i>	<i>Spatial</i>
Origin and nationality: autochthone vs. expats (almost 50:50)	Voting rights: communal after 5 years of residence, national only by naturalisation	Intraurban: ‘posh’ vs. less wealthy urban neighbourhoods
Place of residency, often combined with property ownership (rented, inherited, purchased)	Nationals’ privilege to practice a political mandate (communal, national)	Interurban-city regional: capital city vs. suburbs
‘Place’ of work, i.e. public service (state, municipalities) vs. private employment	Nationals’ privilege to direct a state-owned institution, or join a related administrative board	National: “ <u>Agglo-Lux</u> ” vs. periphery (north & south)
Risk of poverty and social deprivation, housing short-age, emerging drug crisis		Greater Region (including Wallonia, Lorraine, <u>Sarre</u> , Rhineland-Palatinate)

Table 1: Cross-sectoral inequalities (own)

Urban-regional implications

Let’s now look at the urban-regional implications of being small-but-global. They are massive: *rapid* development unfolding in urban expansion; the production of territories that are specialised in hosting key institutions and corporate functions; a highly imbalanced ratio between office real estate and housing, in line with a striking imbalance of work occupation and residential population; an increasing pressure, or imperative, of mobility that caters to the demands of the international labour market.

A special thanks goes to Antoine Paccoud from LISER for giving me a yet unpublished synthesis of the housing dilemma that has hit the country severely over half a century: annual housing production on average is increasingly below the growth rate of the number of households arriving and settling in the Grand Duchy. This is one of the most important, longest overlooked, but now probably the most pressing downside of being small but global. A number of factors contribute to this dilemma – we guess it is not only the small size of the country and the limited reserves of developable land but also the specific temporalities of

development (you may guess what I mean); the predominance of the commercial real estate market, notably for office, adds to that. As long as the country aims to remain among the Top Ten financial centres of Europe and the Top Twenty of the world (driven by the AAA rating), there seems to be little exit option to escape from the dilemma.

This leads us to the spatial governance practice in the country. What is it about specifically? First and foremost, it is about providing more land for economic purposes. Due to market changes, this practice is no longer confined to office real estate but includes the luxury apartment sector as well, and it also occurs as an outcome of financialisation (purchase for trade and value, not for use); secondly, a politics of land conversion of old-industrial sites is pursued, most notably through large-scale urban projects; revitalizing existing office towns may soon add to the portfolio; improving the connectivity to localities in the Greater Region, i.e. with Belgian, French and German territories, including the possible installment of combined back offices with P+R-facilities close to their borders (expat workforce being employed on Luxembourg-terrain). As the overarching “governmentality”, that is, the conduct of conduct, we observe a practice of micro-management at all levels, at the expense or absence of broader strategies.

Planning policy and its limitations

A flow diagram provided by the Order of Architects & Engineers (OAI) illustrates the bureaucratic if not technocratic requirements for getting land use or building plans permitted. It also signifies the „*tutelle*“ practiced by the state over communes. While complaints about long procedures are common, we doubt this system is fully understood, nor is it efficient. No doubt however that it is so complex that, in a small setting, it helps facilitate informal regimes of development and decision-making in the politics of property.

Planning policy in Luxembourg is organised at two different levels of scale: local and state. While the former is binding but rather individualistic (mostly pursuing interests of either growth or non-growth), the state-level («Landesplanung») would be the one that takes care of the original task of planning: balancing different needs when it comes to land, spatial organisation, and the associated conflicts. The only remaining problem is that the state lacks legal power in this respect: Effectively, it is hardly relevant, while getting more and more ambitious over time in terms of *steering* development, land use, carbon consumption.

In contrast, the local level is the most powerful in planning terms, due to the binding character of PAG/PAP and a rather individualistic approach that favours both the strong role of mayors and the interest of property owners. The development trajectory of the capital city – and others as well – has increasingly become subject to urbanisation by large-scale projects. These projects follow two functions: a) they provide a bundle of what geography calls “spatial fixes” for the investment and valorisation of capital; b) they help to sort out “unwanted” from “wanted” land uses, provide a sense of order, particularly to the benefit of historical parts of a city. This is how the city’s Mayor once put it: “The City does not wish to further densify its urban fabric”; the commune prefers to concentrate on *major projects* (emphasis added, MH) that it wants to be dense.(5)

The Plateau Kirchberg is the country’s biggest and most important development site. It comprises an area of 365 hectares; offers 42,000+ jobs and is meanwhile occupied by about 4,000 residents. It is yet in the shape of an office town, while the government works hard to urbanise the Plateau further, by injecting more and more housing and public infrastructure into the area. However, future development of office space (current figures foresee roughly 50% growth by the end of this decade!) illustrates the rather narrow corridor within

which the Plateau can develop. The predominance of commercial real estate is attributed to the role of the Kirchberg as the economic heartland of the country’s financial centre.

Our research revealed that the experience in planning the Kirchberg for ‘Global Luxembourg’, by implanting a large-scale office town under state control, was used as a template for subsequent projects as well. The new Belval district is only one case here of more to come. My argument was that a certain “Kirchberg-Syndrome” (Hesse 2013) would apply here, consisting of a more or less unrelated mélange of solitary buildings, while office space still being the predominant land use. This argument was already questioned by the developer in charge of creating the much blamed Cloche d’Or, which now sits as a massive building block in the southern suburbs of the capital city. Time does not allow us to get deeper into this. However, there are a number of challenges created by large projects, one is that they are usually over time and budget (“over and over again”, B. Flyvbjerg); the other is that with rising size, they challenge the idea of urban integration. This is the case with many realized projects, and it remains to be seen whether coming projects will perform better.

A judgment: three policy illusions

How can we judge these policies? At the risk of simplification, current discourses have easily and elegantly adapted the notion of change, ‘transition’, and transformation. However, in the light of this analysis and the persistent challenge of growth, they are confronted with, or better, the product of, a range of illusions (see Table 2). We can identify at least three of them: first a growth illusion that insinuates that the current addition of jobs and residents could be easily accomplished in the foreseeable future and the economic framework conditions would allow for doing so; perhaps it *must* be accomplished because the state’s budget is in a straitjacket. Second, a steering illusion suggests the recently adopted planning frameworks could ensure that growth could be directed to where it is foreseen by the plans – while both market dynamics and municipalities’ sense of autonomy would give reason to doubt. Thirdly, at least some discourses make us believe that even under current growth conditions (and without putting consumption in question) sustainable development would be realistic to achieve. This might be equally illusionary. Having said that, one could assume that, in rather illusionary contexts, planning is set in place not necessarily as a tool or steering device but can be considered a “technology of hope” (Inch et al. 2023).

GROWTH ILLUSION	STEERING ILLUSION	SUSTAINABILITY ILLUSION
Extrapolation of recent growth rates into the future – radically changing framework conditions remain un-considered. (“In growth we trust”?)	Spatial outcomes of future growth can’t be steered locally, as causes are outside of the political action space (relationality dilemma)	Extrapolating highest per capita consumption to an even larger crowd makes sustainability goals largely inconsistent and unrealistic
Hardly any robust alternative accounts/Plan B available or consistently worked out	Also, existing means of inter-urban policy – based on voluntary action – are insufficient / lack a legal basis	No effective mechanisms available for dealing with trade-offs between the three sustainability dimensions
Inevitable nature of growth leads to the inherent need to plan for 1m people (‘development trap’)	Implementation of any measure takes time for implementation and tends to lag behind the mere speed of growth	The small state is too small for self-subsistence, but too rich for fast adaptation of SDGs
Ceteris-paribus conditions of current path remain in place, i.e. the role of private interest and private actors	Existing means applied abroad (‘best practice’) won’t suit for implementation in the case of Luxembourg	‘Green finance’ as a vehicle of ...?

Table 2: The three illusions of change when everything actually needs to remain as is (own)

This leads us to assess the overall pattern of development: If the property of being “small-but-global” is inscribed in any broader and local development issue in every detail (that is, rising demand for office space, infrastructure, circulation), then the country’s development path may end up in a trap. In the context of what colleagues have called “places left behind” (usually referring to regions that lack dynamism and prosperity, see Rodriguez-Pose 2018), structural challenges and their societal ramifications were interpreted as resulting from a “development trap”. In the case of Luxembourg, we may see some indication for the opposite and hence turn the perspective towards the wealth-based development trap. It points at the structural challenges that have emerged from an initially successful development path – one that turned out not only to be sort of hegemonic, or monopolistic, but also reinforces dependence. It is based on prosperity that is a) accompanied by a number of negative externalities, and b) is increasingly running out of strategic alternatives. A golden cage of over-development, if you want.

Dessert: some conclusions on the ‘à priori’ of practice

I am coming to my conclusions. Finishing this exploration into, or view from, geography has three different ends: first to integrate the spaces and times of development, including the historical trajectories of our subject matter; second to analyse interdependencies and outcomes critically, rather than trust official rhetoric or the shiny sales-brochures of the real estate industry with its green roofs; third, our claim is to accept conflict, contradiction, and tension as part of open societies. This is also part of the DNA of planning. That view most likely collides with the positivistic approach practiced by politics in this country, where everything is under control, all problems are about to be resolved, and if this is not yet the case now, then it will be done by the *next* coming project.

What could be appropriate ramifications for research and practice? Most models of governance have in common that they are challenged by tension, by particular interest, and by the contradictions between what you are and what you would like to be (including the delicate issue of identity). Such conflicts, which may have a stronger presence in rapidly changing small-but-global than elsewhere, should be actively approached, rather than ignored. Can research play a role here? I still assume that the institutions of practice would profit from a closer exchange. If the country’s planning malaise is caused by the combination of growth at almost any cost, micromanagement, and ‘omerta’ (the imperative not to speak openly ...), then the ingredients of renewal would, almost logically, be a critical reflection of growth leading to a strategy that includes alternatives (Plan B), instead of micro-management. Also, transparency and open speech would be required, rather than exclusively focusing on what common sense and official rhetoric allow to articulate. A package composed of these items may lead the way out of the development trap.

At the municipal level, urban planning practice would deserve innovation as well. While this proposal may look as exotic and as ambitious as illusionary: My sympathy is with the introduction of a “*Stadtbaumeisterin*” (like in Flanders or Germany) in the larger communes – a politically elected expert that enjoys both topical expertise and political backing, whose combination of knowledge and intellectual independence could bring the politics of planning forward. Of course, in line with the structural, system-wide “view from geography” I apply here, such idea requires that the individuals and parties leading the communes would provide the politico-administrative framework conditions that make this reasonably effective (that is, share or divert power). These conditions may include a broader municipal

reform and also an improved institutional, if not constitutional arrangement of the relationship between state and local levels.

Last but not least, such changes may also be relevant for knowledge production in general, and for making the best out of the relationship between the now-adult University and the bodies in charge of planning and spatial governance. But that is a different story that may be good for another lecture ...(6).

Notes

- 1) Thank you to Sara Bencekovic for reading and commenting on a draft version.
- 2) This “structural view” of the big picture aims to be comprehensive as to the contradiction between strong economic power and small size; it is nevertheless selective as certain parts of the big picture are excluded simply for capacity reasons (see the whole story in Hesse 2016, or Wong et al. 2022). The ecological and climate change-dimensions of the small-but-global model of (over-) development are emphasized elsewhere, likewise the mobility and transport issues associated with the practice of making gains from ‘extraterritorial terrain’.
- 3) As to the underlying research projects and publications, there are plenty of sources that can be found on our repository <orbilu.uni.lu>, searchable by subject matter or name of author/s. This refers to some key academic papers mentioned in the references list below, but also to opinion pieces that speak to the general public.
- 4) *Luxemburger Wort*, 3rd February 2021.
- 5) Bernard Thomas, *Lëtzebuenger Land*, 24th Feb 2023.
- 6) Markus Hesse, “Das Nicht-Sagbare thematisieren. Schnittstelle Wissenschaft und Politik: eine delikate Angelegenheit.” *Lëtzebuenger Land*, 19th Nov 2019.

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