

**SOCIAL CONTRACTS UNDER SIEGE: NATIONAL RESPONSES TO
GLOBALIZED AND EUROPEANIZED PRODUCTION IN EUROPE**

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Paper prepared for presentation for the conference: “The New Global Division of Labor: Winners and Losers from Offshore Outsourcing.” Center for Global Initiatives, Mt Holyoke College, South Hadley MA (March 3-4, 2006)

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Outsourcing, ‘offshoring,’ ‘delocalization,’ going south. Whatever the words, the issue of jobs moving not just out of firm or out of town but out of country and out of continent is not new. What is new is that ‘offshore outsourcing’ has been affecting not just manufacturing but also, and increasingly, services. This has been a cause for concern because the rise in services has long been seen as compensating for the decline in manufacturing. In Europe, moreover, enlargement to eastern Europe combined with the liberalization related to the Single Market and, most recently, the attempt to extend it to services adds pressures of ‘Europeanization’ to globalization, as jobs move eastward in the EU as much as out of the EU. To worries about ‘nearshore’ outsourcing in the EU, however, have also come those about nearshore ‘insourcing,’ as workers move in from Eastern Europe while jobs move out.

The media blitz has been phenomenal across Europe on the threats to jobs from offshore and nearshore outsourcing, with headlines blaring in particular about major corporations firing thousands of workers in Europe to hire others in Eastern Europe or East Asia. And yet, if one looks closely at the statistics, outsourcing has not—at least as yet—had much real impact on jobs, with losses in industry largely counterbalanced by gains in services, and losses in certain service sectors replaced by gains in others. So the first puzzle is: why such great concern?

Even more surprising, however, is the fact that public responses have been highly varied and are not closely correlated with a country’s high levels of off-shoring or a bad economy. The public in countries that have been the hardest hit by global off-shoring of manufacturing and service jobs as well as by European in-sourcing of workers continue to be some of the most pro-globalization and pro-Europeanization (in this area, at least), as in the case of Britain. Others that have so far been less affected have nevertheless been very anti-globalization and increasingly resistant to Europeanization, like France, worried not just about the globalized offshoring of jobs but also the Europeanized in-sourcing of ‘Polish plumbers’—symbolizing the threat not just to service jobs but to the welfare state as a whole. Other big states sit in between these extremes. Germany is gloomy on the topic of nearshoring of manufacturing and insourcing of East Europeans but remains largely pro-global and pro-European. Italy is much more enthusiastically pro-global and pro-European, despite suffering from the greater economic slowdown. Moreover, small states where one might expect significant concern about global offshoring, whether because of great vulnerability to foreign direct investment, like Ireland, or because of large internationalized firms, like the Netherlands or Sweden, are nevertheless highly pro-global. For Sweden, we could add another potential source of concern which has not materialized: in-roads to its generous welfare provision and high level of social services. The second puzzle, then, is: Why such varied public responses?

A good or bad economic situation and successful or unsuccessful institutional reforms to work and welfare systems explain only part of this: Although Britain in recent years has been buoyed by a vibrant economy, by labor activation policies, and by redistributive social policies, this does not necessarily make up for the tremendous dislocations, loss of wages, and job insecurity. Even though Ireland's miracle transformation to the Celtic Tiger is due in large measure to globalization, it has also suffered economic difficulties of late—so why do the Irish remain even more pro-global than the British? Despite the fact that Germany, France, and Italy are all in the economic doldrums and none of the three has succeeded in reforming the country's work and welfare systems as needed, the French are the only ones who have turned against globalization and become circumspect about Europeanization. Finally, although Sweden and the Netherlands have both engaged in significant liberalizing reforms of their work and welfare systems in response to global pressures, by increasing labor flexibility and partially privatizing pensions, this has only reinforced, rather than diminished, support for globalization in both countries.

To explain such anomalies, we need to add to the economic and institutional factors a consideration of the political discourses of legitimization for globalization and Europeanization. The responses of Britain and Ireland to outsourcing cannot be explained without also taking into account the strong and unified pro-globalization discourses of the 'third-way' developed in both countries since the late 1990s, in which Europeanization played a supporting role. France's response cannot be understood without taking note of the increasingly strong and unified anti-globalization discourse since the mid 1980s, next to which Europeanization was cast in the discourse as playing a counterbalancing role, as a shield against globalization rather than as the conduit some see it as today. Germany's response is best explained by the fact that it has long had a residual but unified pro-global discourse which has only recently become contested, while Italy's results from a default unquestioningly pro-global and pro-European discourse, in which outside pressures have been seen as the only answer to the incapacity of the state. The responses of Sweden and the Netherlands stem from the fact that both have long had unified pro-global discourses as small states with open economies in a global environment.

To proceed, I begin with the portrayal in the media of offshore outsourcing, nearshore outsourcing, and nearshore insourcing across Europe, and then consider public opinion on globalization and Europeanization more generally. I follow with a brief examination of the employment data, first in industry and services generally, and then in specific sectors to test the actual impact of outsourcing on jobs. The data suggests that the impact is overblown in the media, and that the problem is not so much with offshoring *per se* but, rather, with the need to adjust work and welfare systems to rapidly changing needs in a globalized and Europeanized production environment. As a result, the real problem is not so much the economic impact of outsourcing as the institutional adjustments that have or have not occurred and the public discourses that have or have not served to legitimate change. To illustrate, I take a sample of European countries selected on the basis of their representation of different kinds of welfare states (liberal, social-democratic, conservative), country sizes (big or small), economic performance (good or

bad), and attitudes (good or bad). These include the UK, Ireland, Sweden, Germany, the Netherlands, France, and Italy.

I OUTSOURCING IN THE NEWS

Offshore outsourcing, nearshore outsourcing, and nearshore insourcing have clearly come to be perceived as problems in the popular imagination. For a long time now, newspaper headlines have reported on firm after firm transferring manufacturing jobs and plants eastward, either to Eastern Europe or to East Asia, suggesting a hollowing out of industry in Western Europe. Most recently, on top of manufacturing have come reports of services going east as well—call centers, telemarketing, and all manner of back-room services as well as financial services and software. Since 2004, moreover, enlargement to the east has brought stories of east European workers flocking into the west, working for low wages with few benefits, thus threatening not just West European jobs but West European welfare states.

In manufacturing, the biggest news recently has been textiles and shoes from China putting thousands of European factories out of business and European workers out of work, while stop-gap measures from the EU to stem the tide have threatened to leave consumers without bras and underpants or shoes. In France alone, in one year penetration of Chinese pants increased by 712%, sweaters by 656%, and T-shirts by 387%, without much reduction in price.¹ In Italy, the invasion of better quality, cheaper clothes and shoes from the east, whether Eastern Europe or East Asia, threatens the last of the countries to have managed to withstand the competition from cheap textiles and shoes in the 1980s.²

The car industry is an equally important story, given how much national economies have traditionally centered around the manufacture and supply of automobiles. And here, the news has been all about overcapacity and cuts, as VW announces cuts of 20,000 thousand jobs in Europe, and as GM cuts tens of thousands around the world. Offshoring, however, affects not just jobs but also plants, as European manufacturers moved to North America—with BMW in South Carolina, Mercedes-Benz in Alabama, VW in Mexico—and to Eastern Europe—with the Czech Republic home to VW's Skoda and Slovakia the location for SUV production by VW and Porsche. For Porsche in particular, this has engendered a big debate about what 'made in Germany' means when the Cayenne SUV assembled by a small number of workers in the Porsche plant in Leipzig is made up of parts largely manufactured elsewhere, in particular the engines made in Slovakia made on the same platform as the Volkswagen Coyote.

The news reports not just that car, textile, and shoe factories are closing and industrial jobs moving to low wage countries but that highly qualified engineering jobs are going as well. IBM sold its laptop operations to a Chinese firm; the German-based software firm SAP announced that it would add jobs only in India—up to 1300 workers—although it would keep its headquarters near Heidelberg. The Dutch Royal Philips Electronics group announced plans to cut 150 jobs in Ireland in order to transfer them to Poland. But this is

¹ *Le Monde* October 19, 2005.

² *Economist*, February 23, 2006.

nothing compared to the 22,000 jobs Philips eliminated in Western Europe and North America in order to hire in India, China, and Eastern Europe.³ The Finnish mobile phone industry has been moving production to Brazil or China, the case of Nokia. Vodafone has invested in Romania and Bulgaria. The Scandinavians have ‘nearshored’ software production to Estonia, with their most successful venture, Skype, just bought by eBay for \$2.6 billion.⁴ In the Netherlands, of the 25,000 diamond workers active in the 1970s in Antwerp, only 800 were left in 2006, and even these jobs will soon go east, to India, with Indians accounting for two-thirds of Antwerp’s \$26 billion diamond trade.⁵

Even the East Europeans have cause for concern, however, given that off-shoring is also beginning there, such as Hungarian firms to Bulgaria, Polish firms to the Ukraine, and farther east. But even Bulgaria and Romania seem to have gotten the bug: One Bulgarian IT firm that hired an American as CEO decided to outsource to Vietnam, attracted by lower wages and payroll taxes as well as less bureaucracy.⁶

Financial services are equally vulnerable. Business Week reported that Deloitte-Touche estimated that more than 800,000 financial services and high-tech jobs will leave Western Europe for cheaper labor markets, mainly India but also Eastern Europe, China, and elsewhere. Moreover, Deutsche Bank and Société Générale have long had software development operations in India, British Airways and Lufthansa had big customer service centers in India, and Cap Gemini Ernst & Young IT services diverts an increasing number of its jobs to China and India.⁷ In Britain alone, according to the *Financial Times*, 25,000 financial service jobs had been exported as of 2005, with the figure predicted to skyrocket to 180,000 by 2010, as ‘higher value’ in-house jobs leave the country.⁸ To take just one example, the insurance company, Norwich Union, decided to shift 3,700 customer service and back-office jobs to India from the UK.

Insourcing of workers from Eastern Europe has also been an issue across Europe, so much so that only three out of the EU 15 countries allowed Eastern Europeans unrestricted access to their countries for work—the UK, Ireland, and Sweden. Only in Ireland, however, has there been serious backlash—even if the Swedes have been complaining about too many Polish dentists. The biggest incident in Ireland came in December 2005, with major union demonstrations against Estonian workers in the shipping industry, as ferry boat operators fired Irish seamen and hired Estonians for much less money—insisting that they had to do this to remain competitive, that everyone else had already done it. Moreover, in the construction industry, jobs have increasingly gone to East Europeans, with some firms accused of underpaying them.

Elsewhere in Europe, there have also been concerns. In France, a major issue in the referendum on the Constitutional Treaty was the invasion of the imaginary ‘Polish

³ *Business Week*, April 19, 2004.

⁴ *Economist*, 1 December 2005.

⁵ *New York Times*, January 1, 2006.

⁶ *Economist*, 1 December 2005.

⁷ *Business Week*, April 19, 2004.

⁸ *Financial Times*, November 28, 2005.

plumber,’ as the EU’s proposed services directive in March 2005, with its provision allowing ‘home country’ rule, was seen as allowing lower East European home-country social and labor standards to threaten higher host-country standards. In Germany, there was outrage in fall 2004 when 25,000 butchers were replaced with Polish or Czech immigrants willing to work for much less—possible mainly because Germany has neither a minimum wage nor a sectoral minimum wage for slaughter house workers.⁹

Another threat to jobs is simply the threat of offshoring. German firms such as Daimler-Chrysler, Siemens, and Bosch have been able to negotiate reductions in wages and increases in working hours in exchange for maintaining employment in Germany rather than moving east. The result is stagnation in real wages, with unit labour costs back at the level of the mid-1990s. This has in turn exerted competitive pressures on wages in other member-states, such as France and Italy.¹⁰

Offshore outsourcing, nearshore outsourcing, and nearshore insourcing, in short, have become big news in recent years. In the newspapers, a simple key word search in the French conservative newspaper *Le Figaro* showed an exponential increase in articles with ‘*délocalisation*’ in the text. Not much increase from 2000 to 2003, with an already high level of articles: 174 articles in 2000-2001, 207 in 2001-2002, and 238 in 2002-2003. But the number of articles then more than doubled, to 486 in 2003-2004, and 552 in 2004-2005. When ‘labour’ and ‘outsourcing’ were both included in the text, the numbers fell to 210 articles. This is about the same level of the left-leaning British paper, *The Guardian*, which went from 80 articles in 2000-2001 with both words in the text to 217 in 2004-2005. In Germany, the *Süddeutsche Zeitung* also paid attention to the issue, but did not have nearly as many articles on the topic. ‘Outsourcing’¹¹ appeared 98 times in 2000, 121 in 2001, 91 in 2002, 94 in 2003, at its peak with 163 in 2004, and back down to 131 in 2005. *Die Welt*, by contrast, had many more articles on the topic by its peak in 2004 of 235, down to 172 in 2005, although it started lower, with only 35 in 2000.

II PUBLIC OPINION ON GLOBALIZATION AND EUROPEANIZATION

News reports on offshoring and nearshoring make it seem as if all countries have been equally concerned about the issues. But while the media has made the most of the ‘delocalisations,’ public opinion surveys show highly differentiated responses from European countries to the general phenomenon of globalization and to Europeanization’s role within it, even when they see outsourcing as problematic.

Globalization is clearly linked to the phenomenon of ‘outsourcing’ at least in the public imagination. In 2005, the term ‘globalization’ conjured up negative images for close to half of respondents in a Eurobarometer survey of the EU-25 (46% vs. 37% for whom it had a positive image), although ‘protectionism’ had the same negative connotation (46% vs. 33% positive). By contrast, ‘free trade’ conjured up positive images for over two-

⁹ Barysch 2006.

¹⁰ Barysch 2006.

¹¹ Whether in English, Germanified as *outsourcen*, or in the German translation, *auslagerung/auslagern*. The English term was used more frequently as of 2003.

thirds of the EU-25 (70% vs. 20% negative). ‘Social security,’ however, came in even slightly higher (72% vs. 22% negative).¹²

‘Globalization of trade’ in particular is associated more with ‘delocalization,’ or offshore outsourcing, than anything else (such as opportunities for national companies abroad or foreign investment in country). In the same 2005 Eurobarometer poll, one in three Europeans across all 25 member-states made that connection (38%), but one in two in Germany (51%) and Sweden (49%), and even more in Belgium (56%) and France (59%). Only the Dutch (35%) and the Scandinavians (25%) saw globalization as a source of business opportunities (against an EU average of 16%). Most telling, however, is that over three in four across Europe (79% in the EU 25) thought that off-shoring was done in order to increase profits, with only one in five assuming that they had no other choice (21%).¹³

When Europeanization is associated with ‘delocalization,’ similar results obtain. In a 2005 Eurobarometer poll, when Europeans were asked what they fear most in a list of issues related to European integration (which also included such things as loss of language and identity, and of agricultural supports), the transfer of jobs to other member-states where production is cheaper came out on top, with close to two in three worried about this (73%), but nine in ten of the French (89%).¹⁴ Similarly, in a poll by *Der Spiegel* in early 2004, 73 per cent of Germans expected enlargement to threaten their jobs. In an opinion poll conducted by the Irish Times in January 2006, moreover, 78% of respondents were in favor of reintroducing work permits for EU migrants, while 53% believed that migrants made it harder for the Irish to find jobs, despite evidence to the contrary.¹⁵

Even more interesting is the general pattern of responses from different countries with regard to what they see as the effects of globalization, where they see their national economies and the EU in relation to globalization, and what they would like done about it. In a Eurobarometer poll of the EU-15 in 2003, the country responses are revealing of attitudes that fit no generalizable pattern.

Thus, for example, we find highly differentiated responses to questions about whether globalization has a positive or negative effect on growth and employment, constitutes an opportunity for companies or a threat to jobs, and is advantageous or not for ‘you and your family.’ Over one in two across the EU-15 were positive about globalization’s effect on growth (57%), with two in three in Ireland, the UK, and Italy; only in France did a majority anticipate a negative effect. Countries were split in terms of globalization’s effects on employment, with majorities seeing globalization as good for employment only in Ireland, Italy, and the UK, while up to two-thirds in France and Germany saw it as bad for employment. By contrast, close to two-thirds across Europe saw globalization as a good opportunity for companies and a third or fewer saw it as a

¹² Eurobarometer 63 (Spring 2005).

¹³ Eurobarometer 63 (Spring 2005).

¹⁴ Eurobarometer 64, France (Autumn 2005).

¹⁵ Quentin Peel, “Enlargement is a great unsung success story,” *Financial Times* February 9, 2006.

threat to jobs, except for France, where only 2 in five saw it as good for companies and three in five saw it as bad for jobs. Finally, while close to two-thirds in Germany, Britain and Ireland saw the intensification of globalization in the future as personally advantageous, France was again the only country with close to a majority that found it not good for them.

Putting all these together in a bar chart clustering the positive questions about globalization as ‘good for growth, employment, companies, and you’ illustrates clearly France’s pessimism about the effects of globalization by contrast with the general optimism, and in particular that of Ireland and the UK. Clustering the negative questions about globalization as ‘bad for growth, employment, jobs, and you’ reinforces the view of France as the pessimist outlier, with Germany following at a distance, and then the Netherlands. Of our sample countries, the Swedes and Irish see the fewest negative effects from globalization, but the Irish come out ahead of all with regard to seeing only good things from globalization (see Figures 1 and 2).

[Figures 1 and 2 about here]

Importantly, positive or negative assessments of the effects of globalization do not necessarily tally with member-states’ views about how national economic policy fits into the world-wide economy—whether it is too open, too closed, or well-suited to the global economy; whether the EU is too liberal, too protectionist, or just right—and what to do about this—whether to have more global rules and regulations, fewer, or to leave the rules at the current level. Significantly, a plurality in most EU countries tends to see national economies’ degrees of openness as well-suited (41% as opposed to 20% too open, 31% too closed) and their level of liberalism as just right (43% as opposed to 22% too protectionist and 26% too liberal), but a significant majority would like to see more global rules (56% vs. 17% for fewer rules and 20% who see the current level as sufficient).¹⁶ These general numbers hide very revealing differences among our sample countries, however, when it comes to the large number of dissenting minorities.

On whether the economy is too closed, too open, or well-suited, a plurality of Italians are most concerned about the economy being too closed, followed by the British while the Swedes are least concerned about their economy being too open, with only the Dutch having a majority seeing the economy well-suited. On whether the EU is too liberal, too protectionist, or just right, the French and the Germans are most convinced that the EU is too liberal, a plurality of the Dutch see the EU as too protectionist, followed by the British, where only a majority of Italians and Irish see the EU economy as just right. Finally, on whether the global economy needs more rules, fewer rules, or the current level is sufficient, whereas the Dutch are the most interested in having fewer rules, the Italians are by far and away the most intent on having more rules for the global economy, followed close behind by the French and at a distance by the Irish and the British.¹⁷

¹⁶ Eurobarometer Flash EB no 151b, 2003.

¹⁷ Eurobarometer Flash EB no 151b, 2003.

Clustering these various questions together also shows revealing patterns in terms of measures of ‘neo-liberalism’—because the national economy is seen as too closed, the EU too protectionist, and the global economy as needing fewer rules; of ‘regulationism’—because the national economy is seen as too open, the EU too liberal, and the global economy as needing more rules; and ‘satisfaction’—because the national economy is well suited, the EU economy just right, and the global economy has sufficient rules (see Figures 3, 4, and 5). The Netherlands comes out way ahead of all the other countries in terms of neo-liberalism, followed at a distance by Britain, with France the most anti neo-liberal. France also comes out way ahead on the regulationist end, followed at a distance by Italy, Britain, and Germany, all largely clustered together, with Sweden the least regulationist—despite not being very neo-liberal—followed by the Netherlands. Finally, Sweden and Ireland come out ahead on levels of satisfaction, with the UK the only truly dissatisfied, in particular with the national economy and global rules.

[Figures 3, 4, and 5 about here]

How to explain these responses? First, we need to consider the data on the impact of outsourcing on jobs.

III THE DATA ON OUTSOURCING

Despite the anecdotal evidence in the newspapers and the concerns expressed in public opinion polls, it is very hard to pin the current perceived problems of European economies on outsourcing specifically or even globalization and Europeanization more generally. It is true that jobs are being lost. But jobs are also being gained.

Estimates vary greatly, but most suggest that overall job losses due to outsourcing are negligible by comparison with overall employment in the EU.¹⁸ There is no question that jobs in industry have been declining everywhere by similar percentages between 1994 and 2004—around 8% in Germany and Britain, around 5% in France and Italy, as jobs are off-shoring (see Figure 6). But this has been going on for a long time, so what makes it any different now? High-tech jobs are also going eastward. But the software industry is still growing by leaps and bounds, so all the removal to India tells us is that we have continuing growth, we just don’t get all the benefits in jobs. But we do get other benefits, in wealth and expanding markets for other goods and services which could come from Europe.

Moreover, the services industry has been filling in for much of the losses in industry between 1994 and 2004 (see Figure 7). Germany, up by 7.3% in services, is down only 1% in overall employment, Britain, up by 6.3% in services, is down by 1.8% overall, France, up by 3.6% in services, is down by 1.6% overall, and Italy, up by 5.5%, is actually up overall by 1%. The services industry has also been undergoing significant change, however, and is not increasing nearly as rapidly as it once did. But how much is due to off-shoring, and how much to the natural process of rationalization? In banking, for example, the impact of technology through automation has been long delayed in some countries, like Germany, while the ‘rationalization’ of personal banking services and

¹⁸ Kirkegaard 2005.

branch banking has been incredibly slow, and is only beginning now, again in Germany but also France and elsewhere in continental Europe. Technology innovation has much more to do with reduction in jobs across sectors than offshoring.

[Figures 6 and 7 about here]

FDI inflows and outflows also help fill in the picture. EU companies have invested over 150 billion euros in the ten Central and East European countries since the early 1990s. But these are relatively small amounts compared to their investments in Western Europe. In 2004, the EU-15 invested 11 times more in one another's economies than in the new member-states.¹⁹ A glance at FDI outflows shows a tremendous amount of outward investment by EU member-states (see Figure 8). What it doesn't tell one is that other EU member-states have absorbed at least half if not more of that outflow over time, rather than India, China, or North America. A glance at FDI inflows from 1993 to 2004 graphically demonstrates how much more investment, which creates jobs after all, has gone into West European countries than into East European ones such as Poland and the Czech Republic, two of the largest recipients of FDI (see Figure 9). Note that France has done very well both on outflows, coming in second only to the UK—attesting to French firms' highly internationalized profile²⁰—and on inflows, second again only to the UK (if we ignore Germany's one very good year), illustrating how much the French public has misperceived the impact of globalization when it thinks that it is bad for national companies.

It is also important to note that FDI outflows with regard to Eastern Europe are not only focused on saving labor costs. Just as often, it is in order to be close to new markets. And it doesn't lead to nearly as much job loss as one might expect. Thus, for example, although German companies have invested approximately 40 billion euros in Eastern Europe since the mid 1990s, with German companies employing about 900,000 people, only half of the investment was focused on low wage costs, with the other half focused on gaining new markets. Only the former may have affected German employment. But even here, one job lost in Germany is replaced by several in the east, such that estimates suggest that at most 70,000 German job losses were a direct result of nearshoring, which accounts for only 1.5 per cent of Germany's total unemployment of 4.6 million.²¹

[Figures 8 and 9 about here]

To get a better sense of the changes in employment patterns, however, it is useful to take a brief glance at the ILO employment statistics for some sample countries in Western and Eastern Europe—Germany, the UK, Italy, Poland, and Bulgaria—in a few sectors—manufacturing, construction, financial services, and real estate. We find a highly varied pattern, but not much erosion except in predictable areas. Jobs in manufacturing, for example, show a clear erosion in Germany, down by close to a million from 1995, and in Britain, starting at a much lower level of employment, down by more than a million (see

¹⁹ Center for European Reform 2006.

²⁰ Schmidt 1996, 2002.

²¹ Barysch 2006.

Figure 10). But employment in manufacturing is slightly up for Italy, while neither Poland nor Bulgaria seem to have benefited much, suggesting that outsourcing has gone elsewhere in Eastern Europe or off-continent. Importantly, however, there is nothing new about this trend, and it has been quite gradual for Germany, more precipitous for the UK since 2000. So why be upset only now?

In France, the INSEE notes a similar pattern, with employment in manufacturing down from 4.7 million workers in 1990 to 3.9 million in 2005, with a loss of some 300,000 workers since 2000. How much of this is due to off-shoring? Between 1995 to 2001, the data suggests that only about 13,500 jobs per year were lost due to offshore outsourcing of manufacturing industries (excluding energy), meaning 0.35% of total employment in those industries. Moreover, slightly less than half was toward low-wage countries, primarily in clothing and textiles, but also electronics and domestic equipment (mainly China, at 30% of the total 47%) while 53% went to high-wage countries like the US (13%) or other EU member-states (Spain, 16%, Italy, 15%, and Germany, 14%), primarily in motor vehicles, pharmaceuticals, and aeronautics.²²

Jobs in financial services, where the new off-shoring pressures have been reported, show fluctuation over time, but very little serious erosion other than a slight downturn post 2002, understandable given the financial market crash (see Figure 11). Only Britain has experienced a serious decline—proportionately, since here we are talking of 50,000 jobs, 30,000 of which were gains above the 1995 level.

But although hit hardest by outsourcing in IT services and call centers, employment in the UK services industry has nevertheless been growing. Government studies in the UK suggest that offshoring ‘has not hit UK jobs’ despite the fact that the UK is a net exporter of jobs in IT services and call centers and other back-room services to Asia, whether by Lloyds, TSB, HSBC, or Norwich Union. Employment in IT services and call center and customer care related jobs rose 8.8% between 2001 and 2005 compared to a 3.2% rise in overall job growth. From 1992 to 2002, exports of business services consistently ran ahead of imports by a sizeable margin of around 5%, where exports averaged around 21% of total supply of those services whereas imports averaged around 14% of total demand for those services.²³

[Figures 10 and 11 about here]

In truly sheltered sectors, like construction and real estate, we see other patterns (see Figures 12 and 13). Employment in the construction industry is either holding steady or going up in all countries in our sample other than Germany, which is down by a million workers, presumably due to the slowdown after the unification-related boom. Whether Eastern European workers are filling jobs formerly held by Germans is another issue, of course, which may be fueling concerns in a sector already under pressure. But remember that in the mid 1990s, all the complaints were about low-paid British workers in Berlin. Jobs in real estate, by contrast, have increased massively, up by over a million in

²² Aubert and Sillard 2005.

²³ UK Office for National Statistics, Labour Market Trends, September 2005.

Germany, around three-quarters of a million in Britain and Italy, half a million in Poland, attesting to the house-buying boom that is said to buoy the British economy in particular.

Moreover, despite West European fears about in-sourcing from Eastern Europe, the East Europeans hordes have not descended onto Western Europe, not even into the three countries that have allowed them in: Sweden, Britain, and Ireland. In the UK, the number has been estimated at 10,000 a month—not very many for a country of 60 million.²⁴ In Sweden in 2004, the EU Commission estimates that East Europeans constituted no more than 0.1% of the working age population—on the basis of resident/work permits granted. In the UK, it was 0.4%. Ireland was the highest at 1.9%, which perhaps helps to explain their recent response to in-sourcing from the east.²⁵ Unofficially, of course, many more have moved into the other member-states, working in the underground economy or setting up small businesses under EU rules for the ‘freedom of establishment’. Others work on temporary contracts for service companies from their home countries (under the EU’s ‘posted workers directive’)—including the notorious Polish plumbers, of which a report in *Newsweek* found that only 150 were registered in France, at a time when the plumbers’ association had 6,000 vacancies.²⁶

[Figures 12 and 13 about here]

Thus, although outsourcing has been presented in the media as a major threat to Western European jobs and a boon to the East, and the public in a number of countries blame globalization, the statistical evidence does not support the perceptions. What makes it into the news and what doesn’t explains part of the reason for the disconnection between perceptions and statistics. Big firms announcing big job cuts in manufacturing or financial services is headline news, as is hiring East European workers in place of national workers in the ferry business or in construction. Small firms creating small numbers of new jobs does not make the news, whether in software or services, while the exponential job growth in real estate jobs isn’t reported even though the housing boom is. But this alone does not account for why media reports resonate. Something else must be at play.

IV CHALLENGES TO WORK AND WELFARE SYSTEMS

If the statistics don’t show major problems today with offshoring and nearshoring, why is it such an issue? The real problem is not outsourcing *per se* but rather the general need to adjust systems of work and welfare to meet the competitive challenges posed by outsourcing as another aspect of globalization and Europeanization. People feel vulnerable to outsourcing, in other words, even if they are not objectively so, or at least not as yet.

Predictions of where job growth is going in the next few years suggest that greater competitiveness and more job creation in value-added areas is necessary to make up for the losses to offshoring. An Economist Intelligence Unit study for KPMG in 2004

²⁴ Barysch 2006.

²⁵ EU Commission 2006.

²⁶ *Newsweek*, October 17, 2005;

predicted no hollowing out of Europe's industrial base. But it did suggest that firms that moved up the value chain would do better, while countries that did little to improve R&D would fare worse. Moreover, it found that even those firms that outsourced little today were likely to do so in the future, although the overall figures show that whereas the average in-country production was 48.3%, this was expected to drop only by 6 points, to 42% in three years' time. Offshoring destinations, however, were first and foremost other West European countries, followed by China, then Eastern Europe.²⁷

What all studies show is that the key to maintaining future overall competitiveness is investment in knowledge through R&D, software, or higher education. In this, Sweden comes out on top, with close to 7% of GDP invested in these three areas, followed close behind by the US, with Germany way behind at under 4%, but still ahead of France and the UK, which are themselves significantly above Ireland and Italy, both down at around 2.5%.²⁸ In R&D alone, Sweden spent 3.74% of GDP in 2004, Germany 2.49%, France 2.16%, the UK 1.88% (in 2003), the Netherlands 1.77%, Italy 1.14% (in 2003), Ireland 1.20%, and Poland 0.58%.²⁹

It is also clear that because of rapid changes in business needs and the search for competitiveness in the face of globalization, great labor market flexibility is necessary, along with better trained, more highly skilled workers. The mantra in the European Union today is just this: more labor market activation policies and greater labor market flexibility, in particular by having fewer rigid rules with regard to employment protections. The EU's Lisbon Agenda launched in 2000 made this explicit, as did the Report of the Employment Task Force of 2003 chaired by Wim Kok.

Reform of the welfare state is also an issue for most European countries, given demographic pressures related to too many old people and too few young, on top of problems specific to the different kinds of welfare states. The main problem in liberal welfare states, characterized by a low level of benefits and services (with the exception of education and healthcare), is poverty, the case for Britain and Ireland. In social-democratic welfare states, with a very high level of benefits and services, the problem is sustainability at such a high level, the case of Sweden. In conservative welfare states, characterized generally by a reasonably high level of benefits but a low level of services, the problem is unemployment, as in Germany, France (except that it has a high level of services), and Italy (although its benefits and services are so much lower that it is sometimes classified separately as a 'Mediterranean' welfare state), but not so much in the Netherlands, given its work-related reforms.³⁰

All European countries also have difficulties in the work arena, but some more than others, and in some areas rather than others. Liberal welfare states like Britain and Ireland and social-democratic welfare states like Sweden tend to have much higher levels of labor market flexibility than conservative welfare states like Germany, France, and

²⁷ KPMG (European Manufacturing Project, no. 210-250) October 2004.

²⁸ OECD 2005.

²⁹ Eurostat 2005.

³⁰ Scharpf and Schmidt 2000.

Italy—with the exception of the Netherlands, which in this regard is often classified with social-democratic welfare states.³¹ The Netherlands, in fact, has the highest part-time employment as a proportion of total employment in the EU, 35% in 2004, by contrast with the UK's 24%, Germany and Ireland's 19 to 20%, and France, Italy, and Sweden's 13 to 15%. The Dutch, in fact, may have too much flexibility, as evidenced by the comparatively low number of annual hours worked per person, at 1357, by contrast with France and Germany's average of 1442, Sweden and Italy's 1585, the UK and Ireland's average of 1656.³² But this at least ensures the Netherlands a very low rate of unemployment, especially by contrast with Germany, France, and Italy. The latter three countries' lack of flexibility is generally blamed for their higher levels of unemployment over the long term (see Figure 14). The main problem for these countries is that rigid employment protection rules make employers less likely to hire for fear that they can't fire.

[Figure 14 about here]

Labor market reforms have done little to solve this problem, since reforms have left core employment areas alone while making changes on the margins, by creating fixed term contracts for new jobs, special youth employment programs, and the like.³³ These are quick fixes that solve little, since the kinds of temporary jobs created—often call 'defined term contracts' as opposed to 'undefined term contracts'—can be self-perpetuating. They can also lead to two-track employment systems, where core workers are protected while increasing numbers of younger and/or newly hired, previously laid-off workers have more precarious employment, less likelihood for advancement, and fewer benefits. Although recent EU legislation has pushed for greater benefits tied to these jobs, to ensure some level of pension contribution and access to services, it does nothing for job security over the long term. In some cases, moreover, national legislation ensures greater job insecurity, since temporary contracts with 'defined' limits cannot be prolonged indefinitely. And faced with either having to hire on a permanent basis after one or two renewals, employers are more likely to end the contract in order to retain maximum flexibility. Only the Dutch seem to have escaped these problems with 'flexicurity'—by providing regular benefits for temporary and part-time workers and a pension top-up at the end for incomplete work histories.

Countries in which unemployment insurance rather than employment protection rules cover the bulk of the workforce don't suffer as much from these kinds of problems—meaning liberal Anglo-Saxon welfare states and social-democratic Scandinavian welfare states, plus the Netherlands.³⁴ But lower unemployment does not guard against other problems—in particular the constant need to improve skills and to ensure that workers find jobs in flexible markets. The social-democratic welfare states of Scandinavian countries score well in this area too, given high spending on training as well as strong labor market activation policies. Not so liberal welfare states. The figures on public

³¹ Sapir 2005.

³² OECD 2005.

³³ Kirkegaard 2005.

³⁴ Sapir 2005.

expenditure on training as a percentage of GDP are revealing in this regard—especially since private sector expenditure rates in liberal welfare states generally do not make up for the low public expenditures. Whereas the UK spent 0.14% of GDP on training in 2002-2003 and Ireland 0.20% in 2003, Sweden spent close to four times the British amount, at 0.61% of GDP in 2002, as did the Netherlands, at 0.62% in 2003, while Germany spent close to three times the British number, at 0.40% in 2003, and France twice, at 0.31% in 2003—only Italy was on a par with Ireland, at 0.23% in 2003.³⁵

For liberal welfare states, and the UK in particular, given its high exposure to offshoring, skills enhancement is imperative. This is true not just for high-value added jobs but even more importantly for the lower paid service jobs which are currently being offshored in increasing numbers, and for which reemployment rates are also somewhat lower—and poverty therefore a great danger given the low levels of benefits.³⁶ This is why British unions have put pressure on outsourcing companies to retrain British workers when their jobs are offshored, while public sector unions have been trying to get the government to insert in contracts with outsourcing companies that they won't take the jobs overseas.³⁷

Thus, all countries face potentially serious but different challenges from outsourcing. Countries' responses to Eurobarometer polls are therefore all the more interesting when considered in terms of their work and welfare regimes.³⁸ Britain's traditionally ungenerous welfare state and not very supportive labor market activation policies with regard to training might make one wonder about the public's positive views globalization, despite the impressively low unemployment rates and economic dynamism. Ireland's even more pro-global stance might also seem surprising, even if one considers the amazing drop in unemployment rates over the past decade, especially since it has suffered economic problems most recently. Equally unexpected is Sweden's lack of worry about the negative effects of globalization, given globalization's potential challenge to its 'social-democratic' welfare state, even if we acknowledge how well it is positioned with regard to the competitive challenges of globalization. The same can be said for the Netherlands' extreme neo-liberalism, despite its labor flexibility, especially since its economy has been stagnant for a number of years. Moreover, Germany's pro-global stance is hard to explain, given its high rate of unemployment, which makes France's extreme anti-globalism even harder to understand, since it has not felt the effects of outsourcing nearly as much as other, much more pro-global countries. And what can we say about Italy's highly favorable attitudes toward globalization, given great vulnerabilities in terms of work and welfare system as well as high rates of unemployment?

To explain all of this, we need to consider another factor: the legitimizing discourses related to globalization, Europeanization, and the adjustment of national work and welfare systems.

³⁵ OECD Employment Outlook 2005.

³⁶ UK Office for National Statistics, Labour Market Trends, September 2005.

³⁷ *Financial Times*, November 28, 2005.

³⁸ Esping-Andersen 1990.

IV THE SOCIAL CONSTRUCTION OF REALITY: WHY DISCOURSE MATTERS

Change is never easy, especially if it challenges long-established ideas and deep-seated values, let alone entrenched interests. The reform of systems of welfare and work undertaken by most European countries in the 1990s has been especially difficult, especially since this was coming on top of reforms to macroeconomic policies beginning in the mid-1970s and to microeconomic policies in the mid-1980s.³⁹ The difficulties vary across countries, as they have sought to reform at different times in different ways with varying degrees of success as a result of a range of factors. Mostly, attention has focused on the economic vulnerabilities that made reform more or less imperative, the policy legacies that made reform more or less difficult, the policy preferences that made reform more or less welcome, and the political institutional capacity that made reform more or less easy to put through. Often left out are the discourses that made reform more or less palatable to national publics. But discourse is just as important a factor in explaining national reform success or failure because it enhances the capacity to reform by convincing people that vulnerabilities need to be addressed even if this means going against long-standing policy legacies and preferences. A successful discourse is generally one that contains ideas that serve not only to justify reform, by providing cognitive arguments that convince the public of its necessity, but that also serve to legitimate reform, by offering normative arguments that persuade the public of its appropriateness.⁴⁰

Although reforms can of course be instituted in the absence of a sufficiently legitimizing discourse, the presence of such a discourse is often key to understanding why reforms ultimately succeed in being accepted by the public while the absence of discourse, the key to understanding why reforms fail, if they get off the ground in the first place. European countries' experience with reform of the work and welfare arenas demonstrate this quite clearly.⁴¹ Moreover, the success or failure of countries' discourses of legitimization of work and welfare reform—and how these link to ideas about globalization and Europeanization—in turn helps explain the anomalies we have discovered in countries' responses to offshoring and nearshoring.

In Britain, the public has been less bothered by offshoring and globalization largely because leaders have long engaged in a positive discourse about globalization and its linkage to reform of the work and welfare arena. Europeanization, by contrast, has had a more mixed press, in particular under Thatcher. In the 1980s, the Thatcher government's neo-liberal discourse—of which globalization was an integral part, albeit residual—was designed to persuade the public not only that reform of the work arena was necessary, given the economic crisis of the country and 'TINA...there is no alternative', but also that it was appropriate, given Victorian values in which people had a 'right to be unequal' and should 'get on your bikes.' Although the Thatcher government's work-related reforms were far-reaching, its welfare-related ones were not—largely because it was unable to persuade the public of the appropriateness of reform with a discourse that

³⁹ Scharpf 2000.

⁴⁰ Schmidt 2002; and Schmidt and Radaelli 2004.

⁴¹ Schmidt 2000, 2003, 2005.

differentiated the ‘worthy poor’ from the ‘feckless and the idle.’⁴² This had to wait for the Blair government, which effectively completed Thatcher’s revolution with reforms that produced greater labor market flexibility and reformed welfare through welfare-to-work programs.

Globalization has been central to New Labour’s justification of the necessity of work and welfare reform, both as the reason for government policies to keep wages and social benefits down and the rationale for promoting greater flexibility in the labour markets.⁴³ The discourse of the ‘third way’ served to legitimate such reform by arguing that government policies would ‘promote opportunity instead of dependence’ through positive actions (i.e., workfare) rather than negative actions focused on limiting benefits and services (like the conservatives), and by providing ‘not a hammock’ (like ‘Old’ Labor) ‘but a trampoline,’ not ‘a hand out but a hand up.’⁴⁴ Interestingly enough, while all the talk was about work activation, Blair’s welfare policies have actually been reasonably redistributive, although largely instituted ‘by stealth,’⁴⁵ ensuring that while the beneficiaries of redistribution knew who they were and would vote accordingly, those who didn’t benefit didn’t need to know, since they might not approve of it.⁴⁶ More recently, the explicitly ‘third way’ discourse has been replaced by similarly legitimating arguments centered around adopting Swedish labor market activation policies and creating an ‘Anglo-social’ model of welfare state.

Globalization itself has consistently portrayed as circumscribing the parameters of political and economic choice, for the domestic arena as well as for Europe.⁴⁷ Blair’s most recent speech on “The Future of Europe” is emblematic of this view, in which he argued that globalization “is compelling European nations to face up to the true nature of their economic challenge: not within Europe but from outside it, from China, India and the new emerging economies of Asia,” and in which he concluded that “Europe, in short, must be global or fail.”⁴⁸ But whereas globalization represents a constraint for Britain and Europe in the New Labour discourse, Europeanization—when it is discussed—is cast primarily as an opportunity for Britain, but one in which Britain must fight for its interests, creating an ‘us vs. them’ attitude, although not a Euroskeptic one.⁴⁹ But the EU is not often discussed. Instead, the government engages in a constant stream of discourse about the benefits of globalization, with which it explicitly seeks to counter the negative media spin on offshoring while continuing to make the case for reforms of the work and welfare arena against a backdrop of low unemployment and a (so far) good economic environment. In this way, the Blair government seems to have been successful in allaying public fears of offshoring, despite how much more it has been occurring in the UK than anywhere else.

⁴² Schmidt 2000.

⁴³ See Hay 1999; Hay and 2005.

⁴⁴ Schmidt 2000, 2002 chapter 6.

⁴⁵ Rhodes 2000

⁴⁶ Robinson 2005.

⁴⁷ Hay and Smith 2005.

⁴⁸ Tony Blair, Speech on the Future of Europe, Oxford University. Feb 2, 2006. <http://www.number-10.gov.uk/output/Page8893.asp>

⁴⁹ Hay and Smith 2005.

Ireland has also had the equivalent of a ‘third way’ discourse on the reform of work and welfare linked to globalization, although it has not used the exact same terms to make its case. Ireland, a small state that had been very poor and dependent on the UK, but which has had a meteoric rise due largely to FDI and European structural funds, has for obvious reasons been positively inclined toward globalization. Globalization has been presented as the reason for Ireland’s ‘tigerdom,’ and continues to be, despite the country’s economic downturn.⁵⁰ It remains largely uncontested by all the political parties as much as by the press, and generally accepted by the public, as a ‘new reality’—in the words of the Fianna Fail—which presented a ‘unique opportunity’ for Ireland’s development and prosperity.⁵¹ Much like the UK, however, globalization is also presented as a non-negotiable constraint, to ensure wage restraint and to reinforce the corporatist cooperation between labor, management, and government that began in the late 1980s. Europeanization, by contrast, has always been described in much more glowing terms than in the UK, as the reason why Ireland has gotten to where it is today, even though it has also increasingly been seen as a constraint, in particular with regard to European Monetary Union. All in all, however, for the Irish, the overwhelmingly positive discourses about Europeanization as much as globalization has reinforced the public’s positive experience of both forces, helping to explain the public relative lack of concern about offshoring—although not nearshore insourcing, which is more tangible as Estonians take Irish seamen’s jobs!

Sweden and the Netherlands have been similarly positive about globalization, but with a different and much longer history of pro-global discourse and policy. This is mainly because, unlike the long poor and economically dependent Ireland or the bigger and long-global UK, these small states prospered in the postwar period as open economies, in which cooperative, corporatist labor relations were underpinned either by an egalitarian, reasonably generous, conservative welfare state (the Netherlands) or by an egalitarian, highly generous social-democratic welfare state (Sweden).⁵² As a result, globalization, represented by outside competitive forces, has been a *sine qua non* of economic life, and as such does not even seem to bear mentioning in the discourse directed at national publics. In a keyword search of speeches by Swedish government leaders on the main government website, one can find it discussed only in relation to foreign and trade policy, as political leaders seek to convince other countries of the need to ensure egalitarian treatment and global rules for trade.

Sweden has arguably had the least worries with regard to the challenges of globalization. It has been highly economically competitive, largely due to a system of work which has been strong on labor market activation policies, with very high rates of labor force participation, including women due to the high level of public provision of caring services. It even managed to maintain its neo-Keynesian macroeconomic policy long after all other countries had switched to monetarism, abandoning it in the early 1990s as a result of a major economic crisis due not to globalization but to a real estate bubble that

⁵⁰ Hay and Smith 2005.

⁵¹ Antoniadis 2003.

⁵² Katzenstein 1985.

burst. This is when it had to engage in major cuts in its welfare programs. But it did so while doing little to jeopardize the basic postwar commitment to equality and universality of access, maintaining its very high level of benefits and services despite moderate cuts and the introduction of modest user fees.⁵³ Thus, in their discourse, Social-Democratic governments in the 1990s consistently presented themselves as defending basic welfare state values of equality even as they cut benefits in order to ‘save the welfare state.’⁵⁴ This reinforced the public’s long-standing support of an open economy in a global environment, helping to explain why it has been the least concerned about the negative effects of globalization. By contrast, public attitudes toward Europeanization, at least with regard to European Monetary Union, are not nearly so positive. This is mainly due to fears about how its potentially negative impact on the welfare state, and why the referenda on membership in EMU have failed.

The Netherlands’ experience of globalization and Europeanization has been very different. Major reforms in the early 1980s, following continuing economic crisis in the 1970s and the breakdown of corporatism, led to the transformation of the work arena, with the return to cooperative labor management relations, wage restraint, and the beginnings of the highly flexible labor market which, by today, has resulted in a veritable revolution in terms of part-time and temporary work as well as gender relations through the entry of women into the workforce.⁵⁵ This was followed in the 1990s by successful reform of the welfare arena, but not without difficulty.⁵⁶ The initial reforms mooted without much normative legitimization—but with the cognitive justification that theirs was a ‘sick country,’ given the level of number of workers out on disability (one in seven)—led to the massive defeat of the conservative-liberal-left government in 1994. Only when this was remedied by the new left-liberal government—which argued not only that it had ensured a better economy with ‘jobs, jobs, and more jobs’ but that it safeguarded social equity even as its produced liberalizing efficiency, for example, by attacking the inefficient inequities of paying disability to able-bodied individuals⁵⁷--did reform gain public acceptance, as confirmed by the government’s landslide electoral victory in 1998. Since then, governments have continued wide-scale liberalization programs, with the partial privatization of pensions among other things, such that the public has seen economic success as linked to neo-liberal reform—and continue to, despite economic stagnation in recent years. All of this helps explain positive public attitudes toward globalization, in particular why the Dutch seems to be the most neo-liberal, as well as toward Europeanization, about which the Dutch have been much more positive than the Swedes. They have been some of the strongest supporters of EMU—so much so that they have been instrumental in seeking to hold France and Germany to the Stability and Growth Pact.

The contrast between the Netherlands and Germany is most striking with regard to reforms of work and welfare regimes, although not in terms of public attitudes toward

⁵³ Benner and Vad 2000.

⁵⁴ Schmidt 2000, 2003.

⁵⁵ Visser and Hemerijck 1997.

⁵⁶ Hemerijck, Visser, and Unger 2000.

⁵⁷ Levy 1999; Schmidt 2000, 2003.

globalization or Europeanization. As the lead economy in Europe and long a global competitor, given its strong export sector, global competitive pressure did not represent the kind of challenge for Germany that it did for the UK or even the Netherlands. Only in the early and mid-1990s did globalization surface as a problem rather than an opportunity. This is when big business used it as an incitement to change and an excuse for it, pushing for greater labor market flexibility, with little success. By the mid to late 1990s, however, the government also began using globalization to legitimize welfare reform, as Chancellor Kohl argued that Germany must ‘balance anew and secure for the future the relationship between social services and economic productivity under changed global economic and demographic conditions.’⁵⁸ But it was not until the Schröder government that any real reform was attempted, again without much success. This was due to an unconvincing discourse, as Schroeder first sought to borrow from the British discourse of the ‘third-way’ in summer 1999, and then the French socialist discourse in the fall before settling back into the traditional discourse by the end of the year, when he came out swinging against the Mannesmann takeover by Vodafone and tried to save Holzman from bankruptcy—none of which did much for the government’s reform effort or public attitudes toward globalization.⁵⁹ Only with the most recent set of reforms, the Hartz IV reforms on pensions and unemployment compensation, did Schroeder gain in credibility, the reforms in legitimacy, and his rather thin discourse in persuasiveness. But this was mainly because he held to the reform despite battering in Laender elections, weekly Sunday protests, and a massive slide in public opinion. For all this, however, Germany still has a long way to go with regard to reform, and has proven particularly resistant to the move to part-time and temporary jobs and the full integration of women into the workforce, both necessary for the move into services, where growth in employment lies.⁶⁰

Evoking globalization as an external constraint, moreover, has not been as successful in Germany as in Britain. This is because there has been a growing split in the discourse, with the pro-global discourse of the Social-Democratic government countered by the left of its own party, in particular by Oskar Lafontaine, who denied any ‘imperative [*Zwang*] that required the subordination of social security and social justice to globalization,’⁶¹ as well as by the PDS—the Democratic Socialist Party made up of former East German Communists) in the former East German *Länder*, in particular once LaFontaine joined up with the PDS in the 2005 elections. Europeanization, by contrast, retains its positive consensus, despite the fact that an increasingly large majority of the public became hostile to European monetary integration in the run-up to EMU.

France tends to be even more divided on Europeanization of late, and much more opposed to globalization. The problem for France has been that ever since the Mitterrand government abandoned its socialist discourse in the early 1980s when it converted to a neo-liberal policy programme and the right failed to sustain its radical neo-liberal discourse of the mid-1980s in the face of electoral defeat, French policy elites have been

⁵⁸ Speech on 26 April 1996, cited in Banchoff 1999: 20.

⁵⁹ Schmidt 2002, Ch. 6.

⁶⁰ Manow and Seils 2000.

⁶¹ Speech on 28 June 1996, cited in Banchoff 1999: 21.

in search of a new discourse that would serve to legitimize the country's liberalizing economic transformation in a way that would resonate with national values of 'social solidarity.' In its absence, successive governments of the right as much as the left have more often than not justified neo-liberal policy change by reference to the challenges of globalization, while claiming that further Europeanization served as a shield against globalization and that neither liberalization nor Europeanization would do anything to jeopardize 'social solidarity.' Over the course of the 1990s in particular, when reform seemed imperative as a result not only of the crisis of the welfare state but also the need to meet the Maastricht criteria for EMU, the lack of a discourse that spoke to the appropriateness—rather than just the necessity—of reform became more and more problematic. The economic adjustments related to globalization and Europeanization were seen increasingly to conflict with values of social solidarity, given continuing high unemployment, cuts in social programmes, and the efforts to deregulate and even privatise the *services publics*, the public sector infrastructural services and utilities.⁶²

Only with the Socialist government of Lionel Jospin, beginning in 1997, did a discourse appear that served to legitimate reform by balancing cognitive arguments about efficiency with normative arguments about equity, for example, by claiming 'neither to soak the rich nor let them shirk their obligations' with regard to tax reforms.⁶³ But the Socialists did not tackle the major pension problems for fear of protests, although their discourse helped set the stage for public acceptance of the significant reform of public sector pensions by the right-wing government of Raffarin in 2004, despite Raffarin's minimal discourse.⁶⁴ While public attitudes toward welfare reform were improving, however, views of globalization and Europeanization were deteriorating, as governments were increasingly shifting the blame for their policies on these outside forces. Thus, the Socialists' refrain on globalization was 'yes to the market economy but no to the market society' while on Europe they sought to balance the commitment to the EMU with the defence of the 'European social model' against the excesses of 'Anglo-Saxon liberalism' and United States-led globalization.⁶⁵ The right's discourse was not much better.

The French 'no' vote in the referendum on the Constitutional Treaty was not just a comment on Chirac's leadership, it was the public's response to worries about unemployment and a bad economic situation, which it blamed on globalization and Europeanization. President Chirac himself paved the way for this when, in his first television appearance related to the referendum, in response to the expressed concern that the EU was 'too liberal,' instead of challenging the basis presupposition—that liberalism was something imposed by Brussels and bad for France—he claimed that he would protect France by fighting in the EU against "Anglo-Saxon ultra-neo-liberalism" if only the French voted yes on the referendum. Thus, he reinforced the assumption that France was in fact threatened by globalization brought in via Europe rather than telling the truth, that since the mid-1980s France had been liberalizing, privatizing, deregulating, and modernizing the economy in ways that had ensured its continued world competitiveness.

⁶² Schmidt 1996, 2002 Ch. 6.

⁶³ Levy 1999; Schmidt 2000.

⁶⁴ Natali and Rhodes 2004.

⁶⁵ Schmidt 1996; Gordon and Meunier 2001.

It didn't help that the services directive had come up in mid March, just before the referendum campaign, with visions of 'Polish plumbers' who were going to invade France, taking good jobs away from French plumbers while undermining the French welfare state with their lower 'home country' social benefits. For the French, in short, the consistently negative discourse about globalization and Europeanization, especially in the past few years, has ensured that the media's high level of attention to offshore and nearshore outsourcing along with nearshore insourcing would strike a responsive chord.

In Italy, where state paralysis and incompetence throughout the postwar period until the 1990s was such that Europeanization serving as an institutional conduit for globalization was seen as the 'rescue of the nation-state.'⁶⁶ In the 1990s, moreover, Italy was able to muster a highly successful discourse to promote major welfare reforms that had been all but impossible in the 1970s and 1980s. Center left governments' discourse spoke to the cognitive necessity of reform in order to return to financial health and to join the European monetary union at the same time that they made normative appeals to national pride with regard to joining the euro and to social equity—to end unfairness and corruption as well as to give '*piu ai figli, meno ai padri,*' more to the sons, less to the fathers, so as to ensure intergenerational solidarity.⁶⁷ Since 2001 under Berlusconi, however, there has been little reform of either the work or the welfare arena, the result of the failure not just of legitimating discourse capable of ensuring union cooperation but of will—or a leader more interested in passing legislation focused on solving his own legal problems and ensuring his party's political future. Nonetheless, pro-global and pro-European sentiment remains, serving to buoy Italian optimism with regard to globalization and Europeanization, despite the fact that offshoring has taken a major toll on the Italian economy, in particular in the textile and shoe sectors which have been seen as the backbone of the 'third Italy,' and largely responsible for its continued economic health since the 1980s.

CONCLUSION

Discourse, in short, needs to be considered along with the challenges to systems of work and welfare and economic circumstances in order to understand why national publics have responded in the ways they have to the perceived threats of offshore outsourcing, nearshore outsourcing, and nearshore insourcing, despite the fact that their actual impact has been minimal so far. With regard to globalization, where political leaders have engaged in a sustained, unified pro-global discourse, as in Britain and Ireland, where a pro-global attitude has permeated the economic culture, as in Sweden and the Netherlands, or where globalization has been seen as a positive force for change, as in Italy, the chances of national publics resisting the siren songs of the media is better than in countries where the discourse is divided, as in Germany, or where it is unified against globalization. The same could be said for Europeanization, except for the fact that unified discourses of any kind are much harder to come by, especially in recent years, since Europeanization is about a much wider spectrum of issues than globalization, encompassing not only economic pressures but also economic policies, institutional pressures and policies, as well as politics.

⁶⁶ Ferrera and Gualmini 2004.

⁶⁷ Sbragia 2001; Ferrera and Gualmini 2004; Schmidt 2000.



Figure 1: Positive effects of globalization

Source: Eurobarometer 2003 (Flash EB no. 151b)

The questions include: Q7. Could you tell me whether you think that globalisation has a rather positive or rather negative effect on each of the following domains ? a)Economic growth in our country; h)Employment in our country. Q6. Of the following two propositions, which is the one which is closest to your opinion with regard to globalisation ? Globalisation represents a good opportunity for [NATIONALITY] companies thanks to the opening-up of markets / Globalisation represents a threat to employment and companies in our country. Q8. In your opinion, if globalisation intensifies in the future, would you say that overall this would be more or less advantageous for you and your family ?

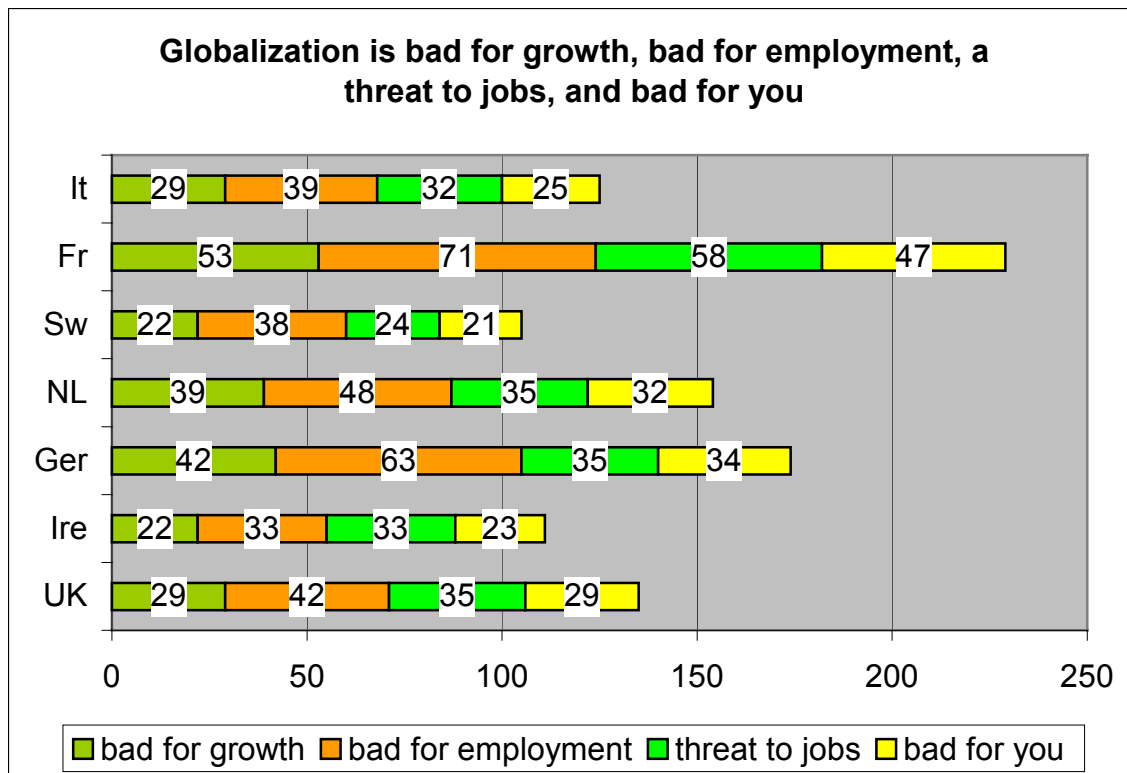


Figure 2: Negative effects of globalization

Source: Eurobarometer 2003 (Flash EB no. 151b)

The questions include: Q7. Could you tell me whether you think that globalisation has a rather positive or rather negative effect on each of the following domains ? a)Economic growth in our country; h)Employment in our country. Q6. Of the following two propositions, which is the one which is closest to your opinion with regard to globalisation ? Globalisation represents a good opportunity for [NATIONALITY] companies thanks to the opening-up of markets / Globalisation represents a threat to employment and companies in our country. Q8. In your opinion, if globalisation intensifies in the future, would you say that overall this would be more or less advantageous for you and your family ?

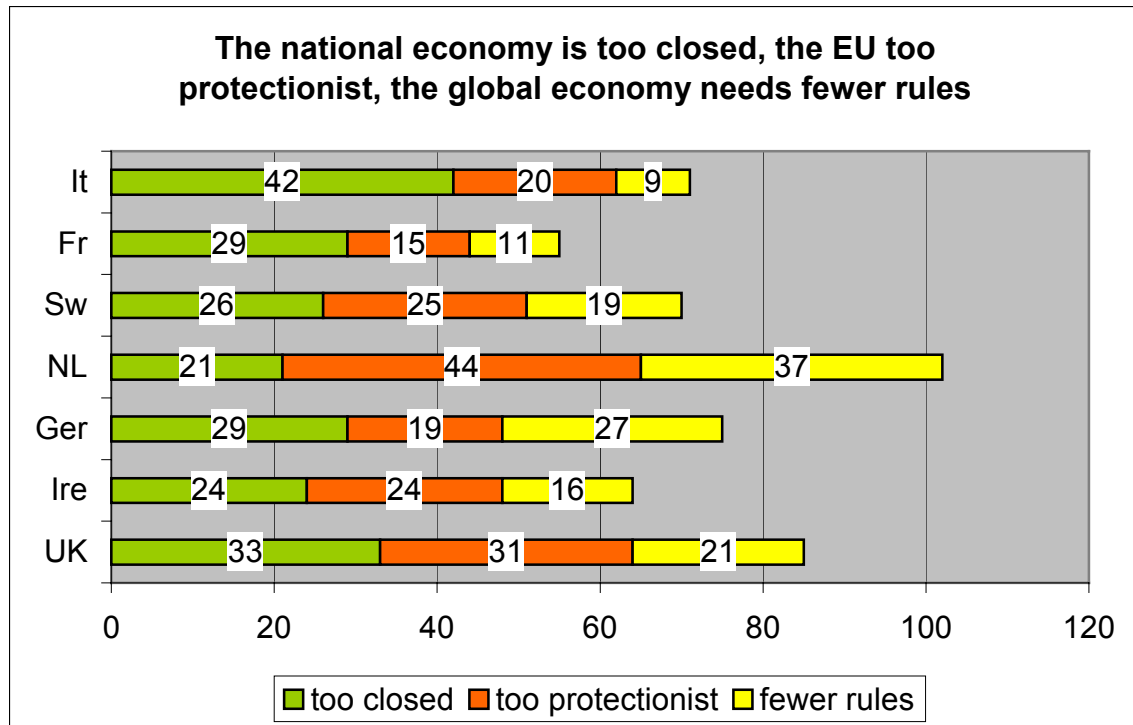


Figure 3: Views of National, EU, and Global Economies as a Measure of ‘Neo-liberalism’

Source: Eurobarometer 2003 (Flash EB no. 151b)

The questions include: Q3. Currently, do you consider that our country's economy is too open, too closed or is suited to the development of the worldwide economy? Q4. And generally speaking, would you say that the European Union is too protectionist or on the contrary too liberal or, neither too protectionist nor too liberal? Q5. Would you say that more regulation or less regulation is needed, or that the current regulation is sufficient in order to monitor the development of globalisation?

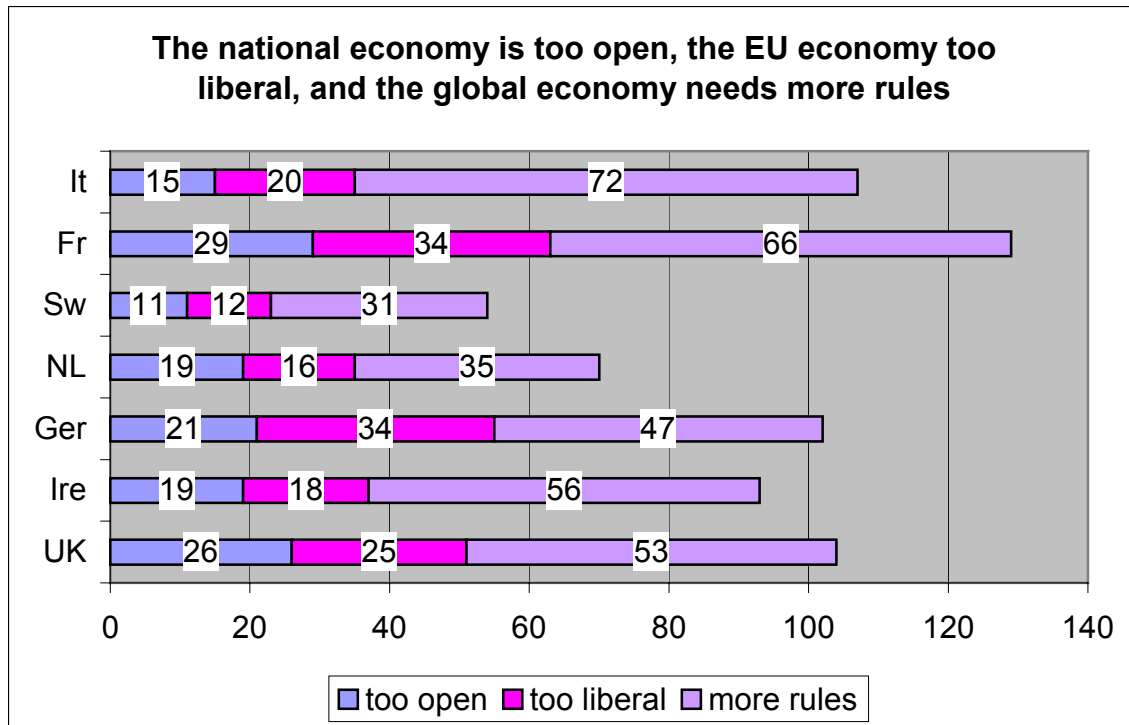


Figure 4: Views of National, EU, and Global Economies as a Measure of ‘Regulationism’

Source: Eurobarometer 2003 (Flash EB no. 151b)

The questions include: Q3. Currently, do you consider that our country's economy is too open, too closed or is suited to the development of the worldwide economy? Q4. And generally speaking, would you say that the European Union is too protectionist or on the contrary too liberal or, neither too protectionist nor too liberal? Q5. Would you say that more regulation or less regulation is needed, or that the current regulation is sufficient in order to monitor the development of globalisation?

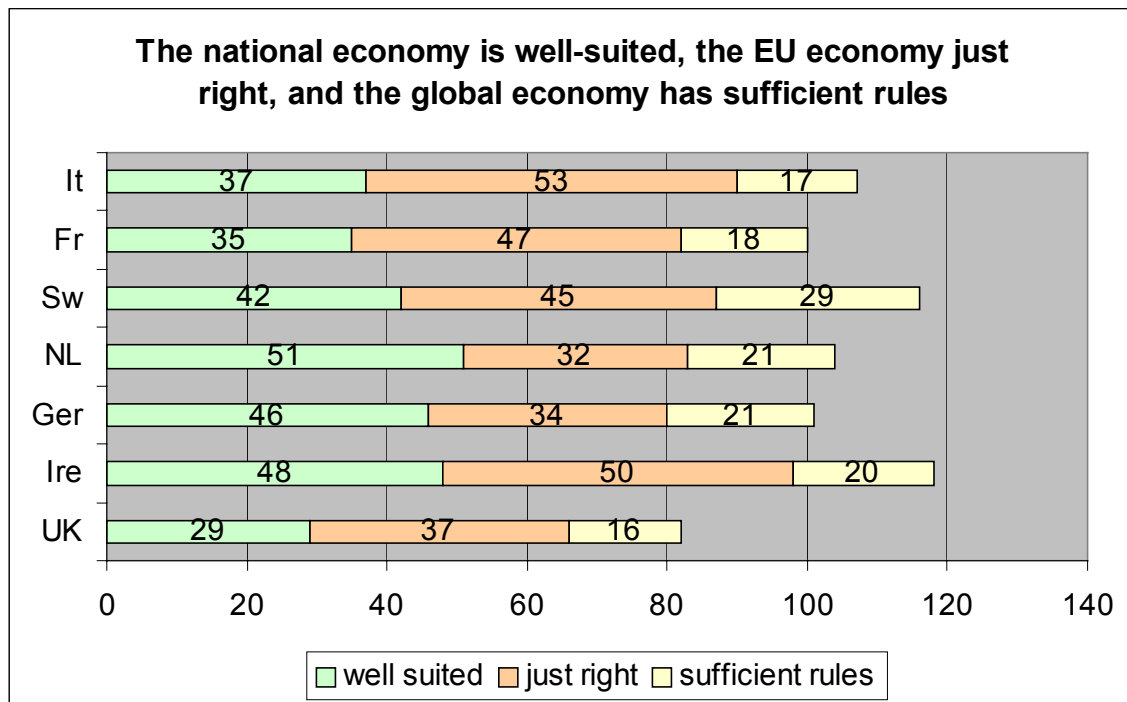


Figure 5: Views of National, EU, and Global Economies as a Measure of ‘Satisfaction’

Source: Eurobarometer 2003 (Flash EB no. 151b)

The questions include: Q3. Currently, do you consider that our country's economy is too open, too closed or is suited to the development of the worldwide economy? Q4. And generally speaking, would you say that the European Union is too protectionist or on the contrary too liberal or, neither too protectionist nor too liberal? Q5. Would you say that more regulation or less regulation is needed, or that the current regulation is sufficient in order to monitor the development of globalisation?

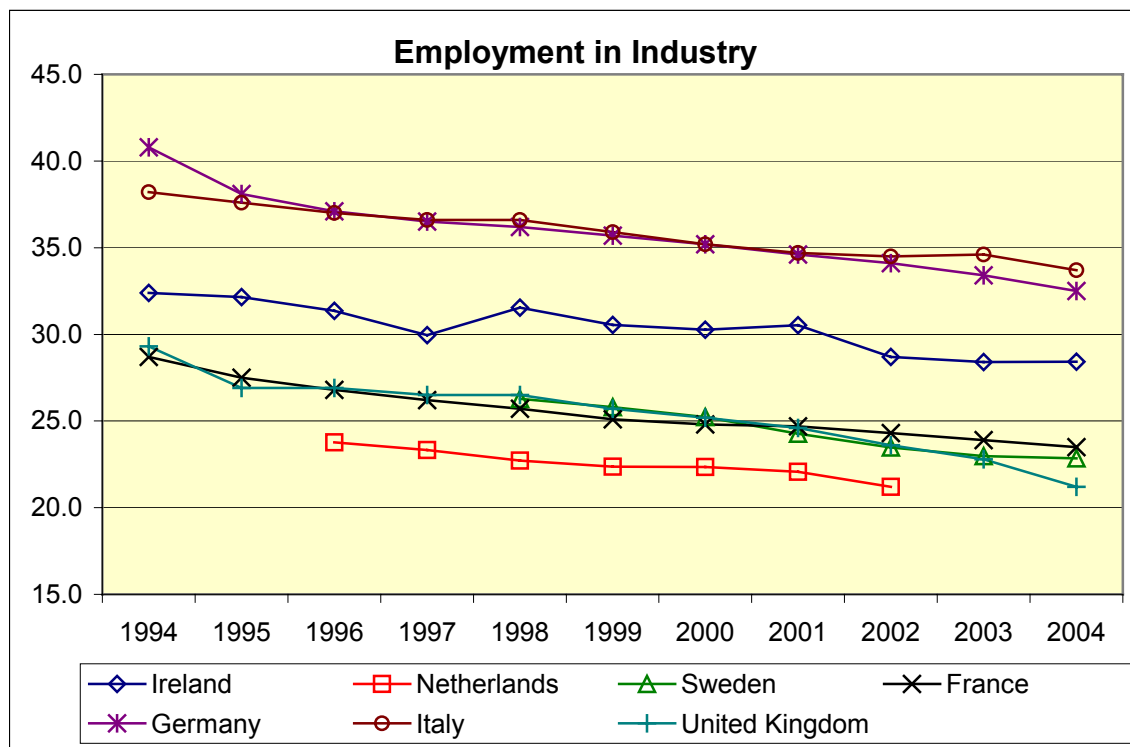


Figure 6: Employment in Industry (in percentages of total employment)

Source: OECD various years

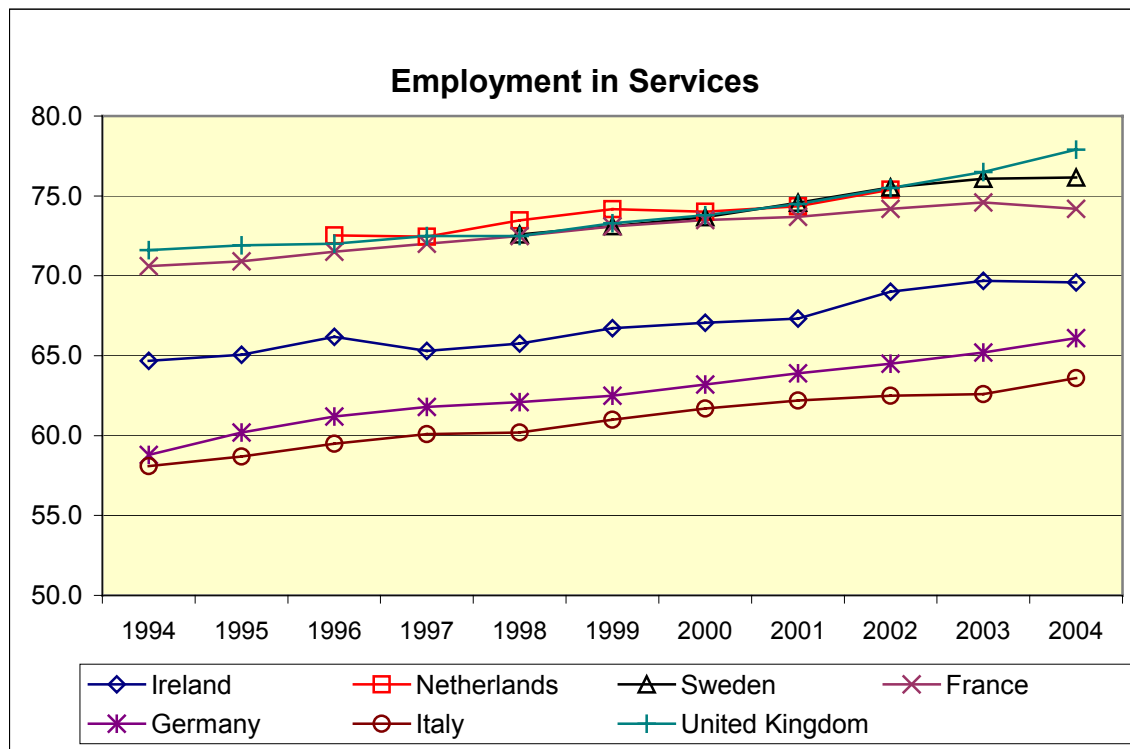


Figure 7: Employment in Services (in percentages)

Source: OECD

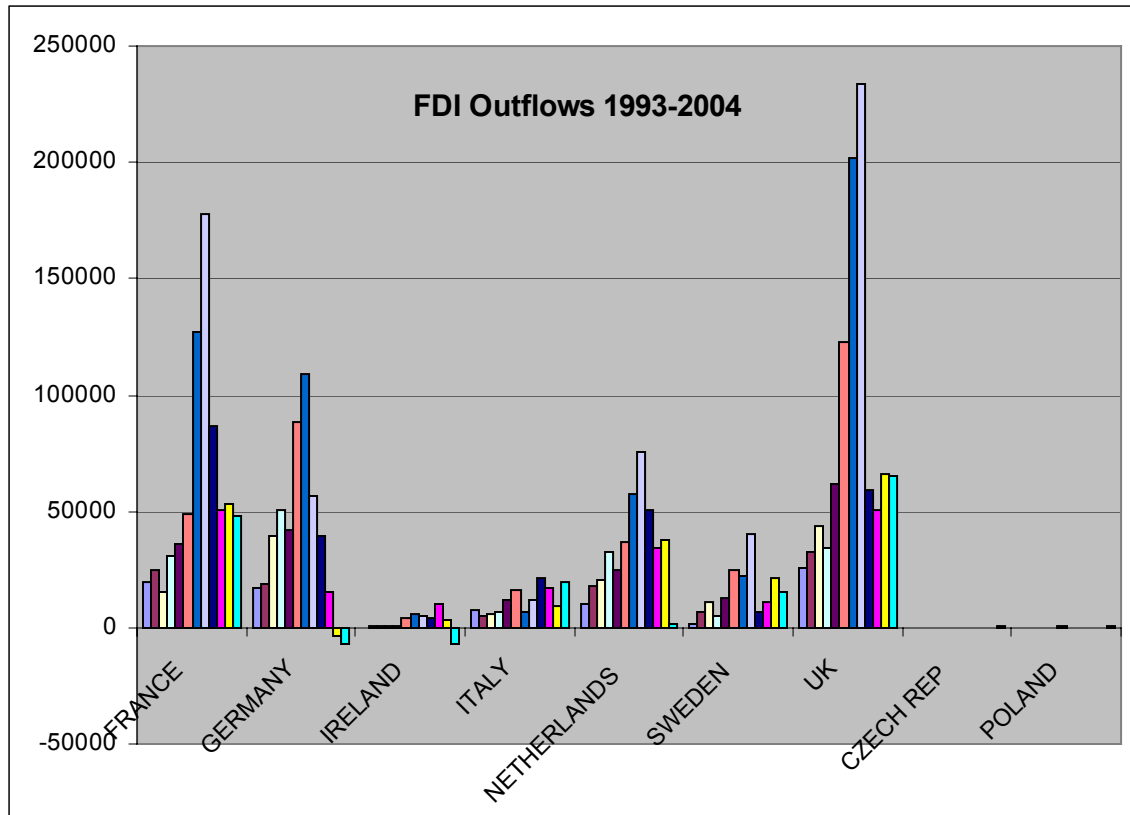


Figure 8: Foreign Direct Investment Outflows from 1993 to 2004 (amounts in millions of dollars)

Source: UNCTAD various years

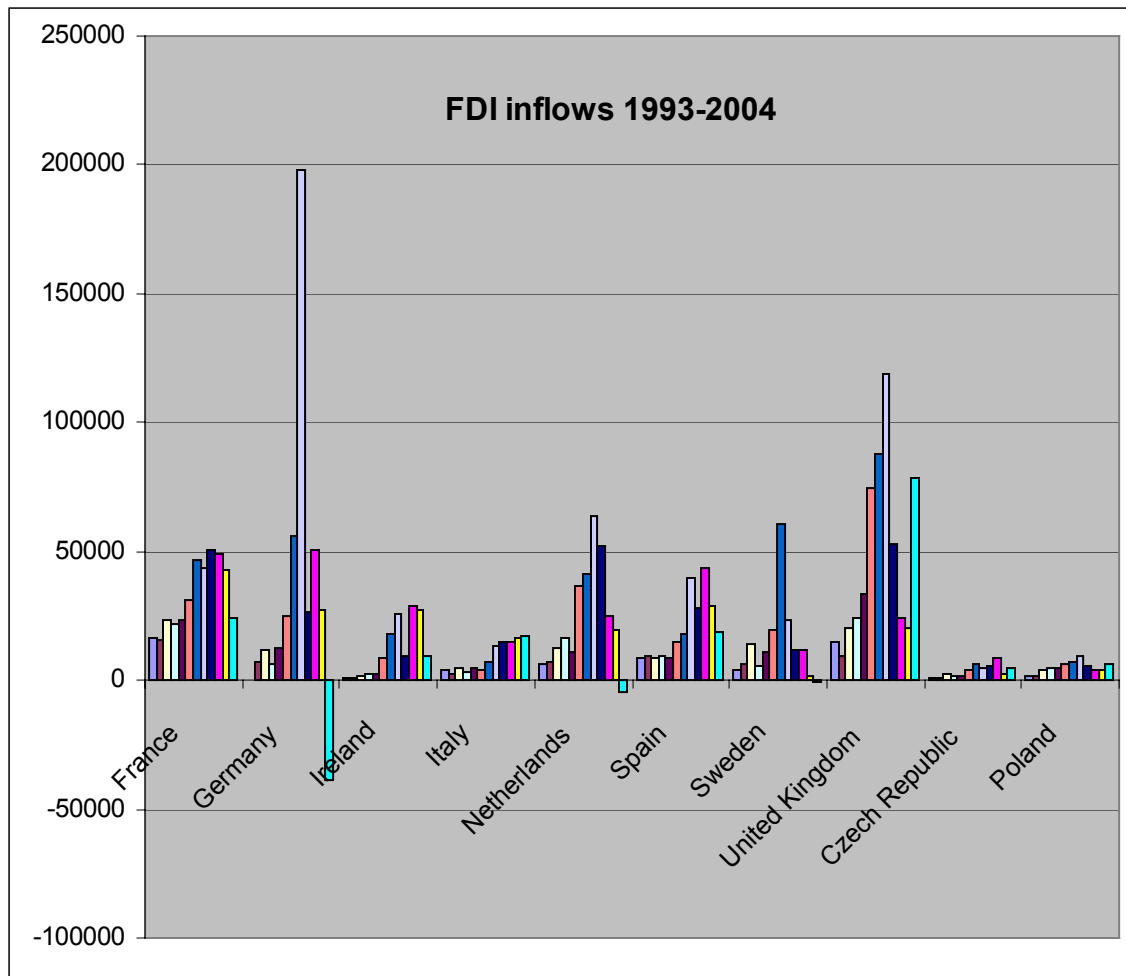


Figure 9: FDI inflows from 1993 to 2004 (amount in millions of dollars)

Source: UNCTAD various years

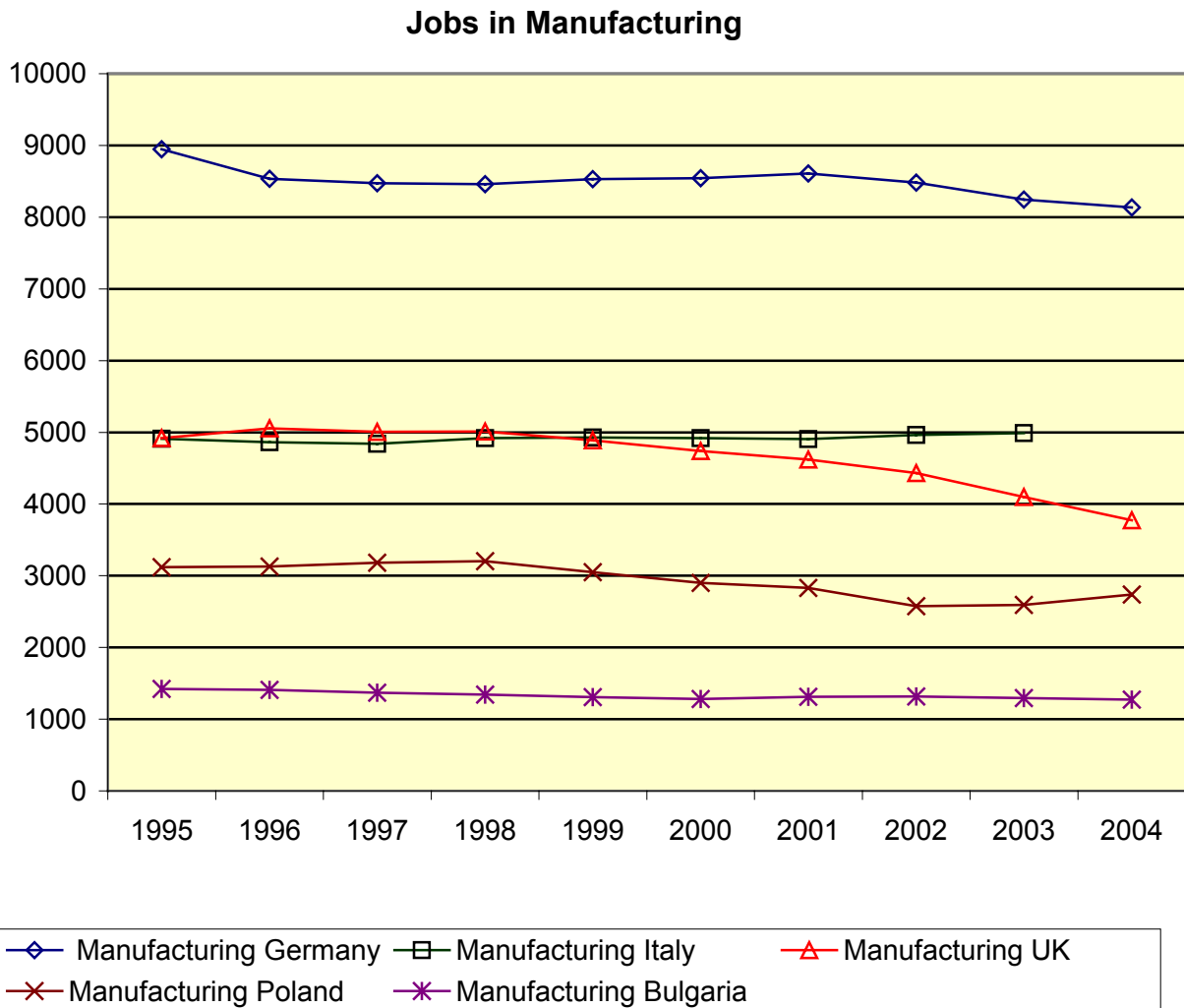


Figure 10: Employment in Manufacturing 1995 to 2004 (in thousands)

Source: ILO various years

Jobs in Financial Services

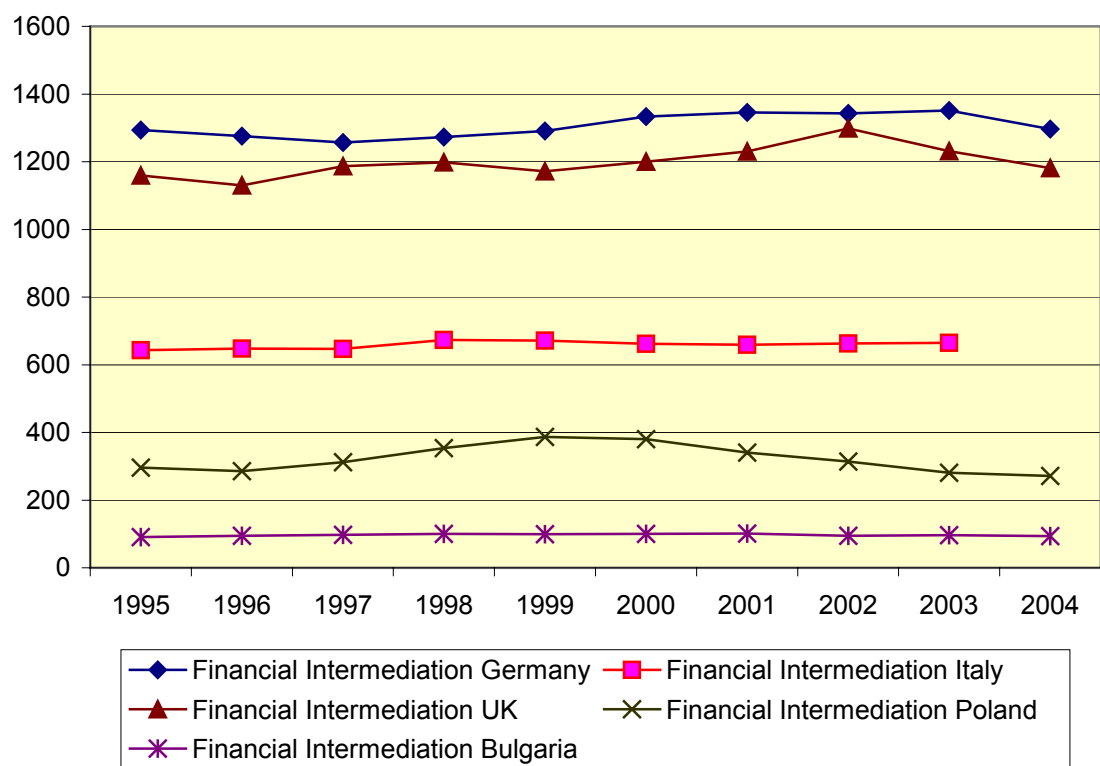


Figure 11: Employment in Financial Services 1995 to 2004 (in thousands)

Source: ILO various years

Jobs in Construction

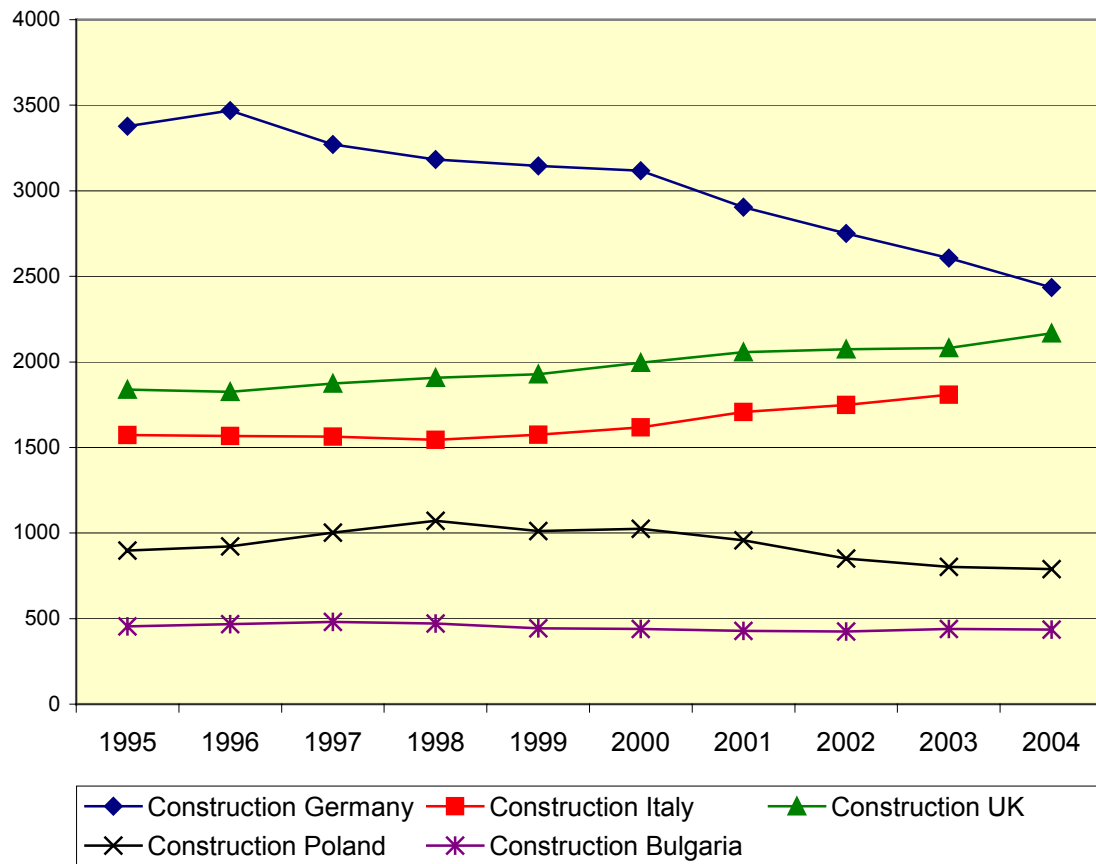


Figure 12: Employment in the Construction Industry (in thousands)

Source: ILO various years

Jobs in Real Estate

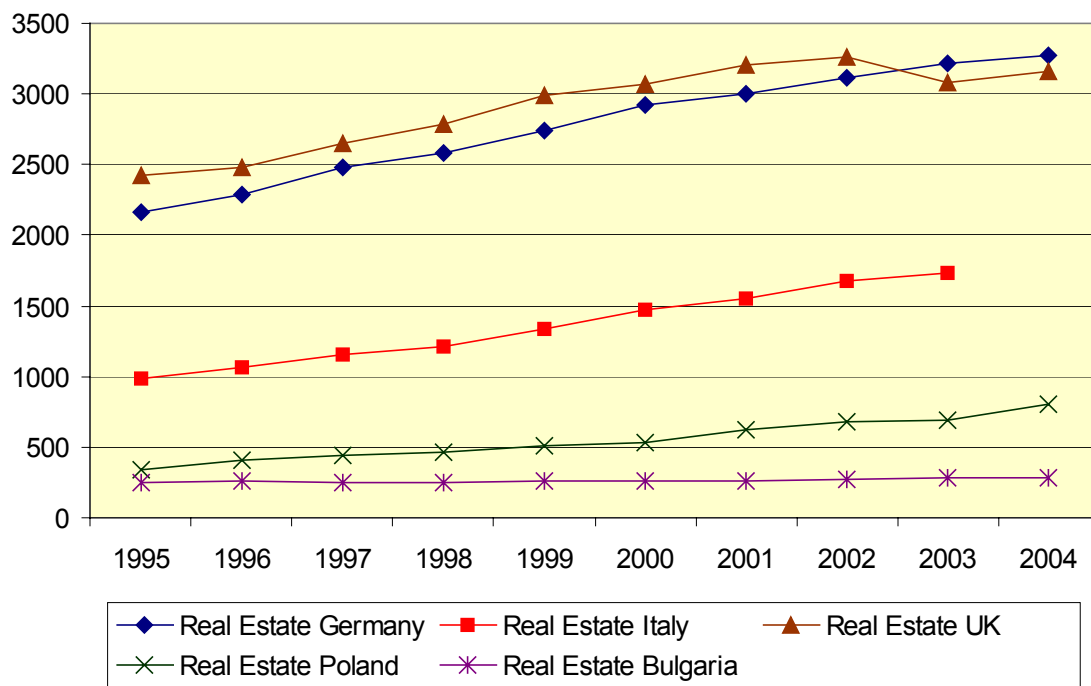


Figure 13: Employment in Real Estate 1995 to 2004 (in thousands)

Source: ILO various years

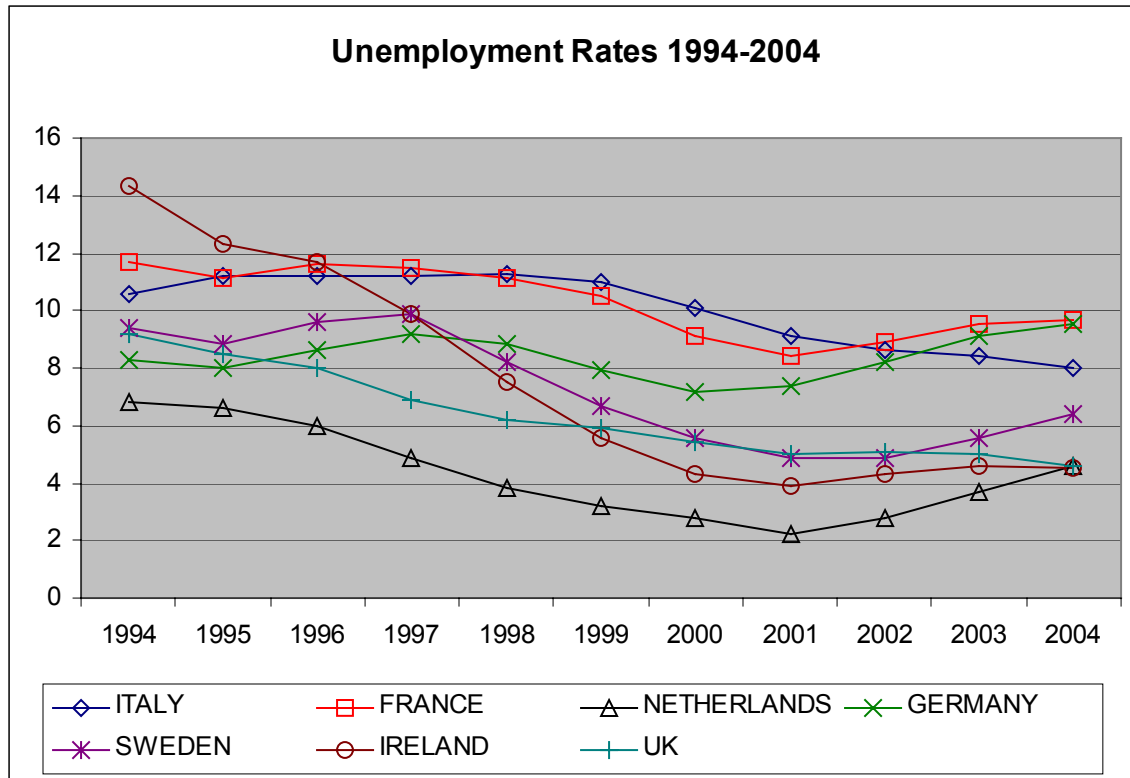


Figure 14: Unemployment Rates from 1994 to 2004 (as a percentage of total labour force)

Source: OECD 2005.

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