

Grzeszkowiak, Jana-Larissa

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Different Aspects of Internationalisation and Their Ramifications – Opportunities and Risks

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EIKV-Schriftenreihe zum
Wissens- und Wertemanagement

Different Aspects of Internationalisation and Their Ramifications
– Opportunities and Risks

Jana-Larissa Grzeszkowiak



IMPRESSUM

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European Institute for Knowledge & Value Management (EIKV)

Château de Wiltz

L-9516 Hostert - GD de Luxembourg

info@eikv.org

www.eikv.org

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Author:

Jana-Larissa Grzeszkowiak

Preface

The world we are living in is in continuous transition. Although the history of humanity dates back around 300.000 years and humanity has always experienced transition, the processes of transition have intensified and densified exponentially like over that period of time. While only few transition processes occurred and took long duration in the ancient times, they occur more frequently and happen quicker nowadays.

One of the most profound transitions influencing all our lives is the increasing internationalisation. Due to increased mobility and new information and communication technologies the world in general, but likewise nations and their citizens, get more and more interconnected. Internationalisation influences all aspects of our lives and comes along with risks but at the same time with opportunities. Whereas cultural exchange may erode cultural identity through over-adaption of foreign peculiarities, it offers opportunities for elevated self-development and self-expression.

Undoubtful, one of the greatest achievements of internationalisation is the global acknowledgements of human rights and their advocacy. Organisations like Human Right Watch make for less human rights abuse passing by unnoticed. This is to be enforced by increased global support availability. Likewise, main profits are visible in the field of global development due to this increase in availability of help but at the same time the enlarged availability of information. These aspects are also helping to achieve sustainability. Internationalisation offers humanity to surpass itself, particularly through the increased possibilities to exchange knowledge.

With thinking about internationalisation, it is hardly possible not to think about globalisation at the same time. The distinction of internationalisation and globalisation is not always clearly possible, but the incorporation of economics is more intuitive when using the term globalisation. While the global exchange of goods brings advantages in terms of availability and prices, the negative side of economic globalisation is most prominent. Through the increased interconnectedness crisis are more likely to spread globally in comparison to previous regionally bounded incidents. At the same time, they are probably to spread quicker. Nevertheless, economic globalisation is accompanied with by great opportunities, e.g. more efficient development of an economy because of more consciously planned economic policy due to the aforementioned availability of knowledge exchange, global help and information.

The intention of this work is to give insight into different aspects of internationalisation and globalisation and their ramifications and especially the risks and chances they come along with. Subsequently, chosen topics are presented and crises, divergence and convergence processes, disparities, labour market developments, emancipation and economic strategies are going to be discussed.

The Celtic Tiger, Ireland's Economic Miracle and the Irish Model: A Story of a Clever Lucky Black Bog Cat Becoming a Predator

Abstract Adopted from the Asian Tiger States, due to Ireland's economic miracle of the 1990s, this economy has gained the name Celtic Tiger. Since helping Ireland to lose its reputation as Europe's poorhouse, the system was promoted worldwide to developing nations. Whether this system is globally applicable or if this promotion is neglecting underlying structures is to be investigated in this work.

Keywords: Economic Policy, Tiger States, Ireland, Economic Development, Economic Model, Celtic Tiger

JEL: F63, O10, O20, O24, O30, O40, P40, P41

Introduction

During the 1990s the Republic of Ireland, formerly known as the poorhouse of Europe, turned into one of the top performing economies in the world, with GDP growth rates far above the OECD average and the EU average. The period of 1995 up to 2007 has gained the reputation of 'Ireland's Economic Miracle' in that Ireland had become the 'Celtic Tiger'. The government at that time ascribed this success to its policy and advertised it throughout the world as the 'Irish Model' enabling every developing economy to jump into the Olympia of high-level growth nations. But the shadow of the Global Financial Crisis spread darker over Ireland than on many other economies and Ireland had to make use of the EU rescue fund. This arises concerns on the Irish Model, whether it is a sustainable role model for other nations with just bad luck or if it is missing something fundamental. Additionally, the similarities in terms relating to economic development in Asia during previous decades, such as 'the Japanese Economic Miracle' or the 'The Four Asian Tigers' for Hong Kong, Singapore, South Korea, and Taiwan, point to the question whether the Irish Model is particularly Irish. This paper aims at understanding the development of the Republic of Ireland during its Tiger Years 1995-2007, including the distinction between the first and second Celtic Tiger, and especially shed the light on the global economic circumstances and preconditions. The growing enthusiasm about globalisation definitely helped Ireland

during its boom phase(es) but if this was the only driver is to be found out. Therefore, it is sensible to look at Ireland's economic development since its independence in 1922.

The intention of this paper is to look at Ireland's economic development and find out whether its economic miracle was caused by itself. The paper is structured as follows: In the following section the history of the economic development since Ireland's independence in 1922 is portrayed with a special focus on actions helping to rise to a tiger state in the 1990s. Section 3 explains which factors particularly made up the success of Irish economy during the tiger years 1995-2007. In Section 4 the shady side of this boom phase is highlighted. A conclusion whether the Irish Economic Miracle was self-induced or more due to externalities is drawn in Section 5.

The Economic Development of the Republic of Ireland

Since the 12th century Ireland was regularly invaded, conquered, and ruled by Great Britain and thus had not build up an own independent economy. Ireland was an agricultural economy with a little production of primary goods serving its neighbour market and its domestic one. Economically spoken, Ireland was an isolated economy exploited by Britain in a monopoly position. The Great Famine and the British laissez-faire policy in that time, in particular, traumatised the Irish population and fuelled the hunger for independence. Since the end of the Great Famine in 1849, Ireland gained independence in just about 70 years. The short time lapse, the fact that this independence was not achieved peacefully and quietly, and the low education level of the Irish citizen led to Ireland's independence without having an economic concept in 1922 and due to its preceding history, it is understandable that it was not the prior point on the Irish Free State's agenda. When Ireland had achieved independences, its primary economic goal was self-sufficiency. The small-scale agricultural market, production of primary goods and manufacturing was mainly for the domestic market with less than three million people and exporting excess supply to the United Kingdom. Ireland's nationalism turned into economical protectionism, such as high trade barriers like high tariffs and import substitution policies. These measures were sufficient to gain economic independence from the former landlords, but did not contribute to economic development, and thus not to the creation of wealth and higher living standards. This economic stagnation caused unsatisfaction with the economic regime within the population and resulted in mass emigration until the 1950s. (Dorgan, 2006)

In 1956, the Irish government started to leave the unsustainable path of economic nationalism and started to promote free trade, foreign investment and increase in productivity through investment and growth over fiscal balance, by tax cut backs on profits of exports and a reduction of control in foreign ownership of businesses in Ireland in 1958. (Whitaker, 1958) This was followed by a reduction of import tariffs, a free trade agreement (FTA) with the United Kingdom and joining the General Agreement on Tariffs and Trade of the World Trade Organisation in the 1960s. In addition, Ireland already expressed its desire to join the European Economic Community (EEC) in 1961. It was finally got the allowance in 1973. The Industrial Development Authority (IDA) was established to guide Ireland's economic development. It mainly did it by advertising the availability of English-speaking, low cost labour force and corporation tax exemptions for profits from export sales and tried to attract new and modern industries from overseas to come to Ireland. By 1970, over 350 overseas businesses had settled in Ireland. (Dorgan, 2006) Hence, the main employers in Ireland become non-Irish as the small local companies could hardly compete with these multinationals, but agriculture remained in Irish hands. To match the needs of the multinational companies (MNCs), such as the supply with high quality labour force, the government expanded public expenditure, particularly on social securities and education, with the result of a rapidly rising public debt. The government continued its path during the 1970s and the entrance in the EEC caused further foreign direct investment (FDI) into Ireland as it was seen as the gate to the well-funded European market. The IDA focussed on attracting high technology businesses, such as pharmaceuticals and medical technology, computer and telecommunication industries and international services. Due to high investments in domestic development to catch up with the nations whose businesses should be attracted, the public debt accumulated further. (Dorgan, 2006) In the 1980s the system economically collapsed because of internal and external factors. On the one hand, the oil shocks of the 1970s worsened the global conditions, in general, the initial momentum of the EEC entrance faded, in particular. On the other hand, unemployment rose steadily, as the new industries did not offer employment in the same scope as the population grew, while inflation rose sharply due to expansionary monetary policy, and the public debt exploded due to expansionary fiscal policy. In 1987, the more republican party Fianna Fail won the election and turned to a path of more fiscal discipline. It mainly achieved it through two points. First, through fiscal austerity, the government was able to cut

spending and slime the governmental body. Secondly, by the reduction of income tax while parallel wage increase it secured the people's support through redistribution of wealth. In addition, Ireland as an EEC member got transfers as many other poor economies, such as Portugal, Greece or Spain, and made wise usage and sustainable investment of it. Moreover, Ireland became member of the European Union in 1992. By the mid-1990s, Ireland had become a business hub with a modern infrastructure network, especially to mention in terms of digitalisation, with a well-educated, English-speaking labour force matching the needs of its main industries, and with access to the European market. The Celtic Tiger started to roar. (McAleese, 2000)

Due to high FDI, especially by US, and the focus on the aforementioned particular industries, Ireland was hit hard by the dot-com bubble of 2000-2003 and the Celtic Tiger's roar suffered a bit from hoarseness. Nevertheless, Ireland recovered quickly what can be ascribed to three main reasons. First, the introduction of the common currency in the EU mitigated inflationary pressure after the burst of the bubble and strengthened Ireland's position as gate to the EU market further. Second, through the enlargement of the EU in 2004 many people from the eastern-European countries were allowed to come to Ireland and thus, Ireland was able to maintain its supply with cheap labour. Third, the domestic housing market remained strong, and employment lost in industries such as computers were able to find a new job quickly. But this development was due to the close connection to the US markets, and it finally silenced the Celtic Tiger in 2007. The burst of the US real estate bubble crashed the US housing market and turned into a banking crisis. Because of the increased interconnectedness due to globalisation, it became the Global Financial Crisis (GFC). Ireland was hit harder than any other European nation by it, with its housing market collapsing, too. Likewise, the financial sector crashed and as the USA had used Ireland as gate to Europe the GFC swapped over to EU. Ireland was the first EU member applying for the EU rescue fund and although nobody can deny that Ireland has economically recovered, the Celtic Tiger shed feathers and its roar has turned into the purring of a pussycat.

Factors for Becoming the Celtic Tiger

In general, inward FDI is a popular measure for fostering development in an economy. The stronger the economy already is, the stronger is its bargaining position on its conditions. It appears that Ireland's only emphasize was on the industries that it wanted

to attract and not on the conditions itself. It made sensible usage of inward FDI to build up Information Technology (IT)-sectors and to invest in new technology sectors. By this Ireland turned from an agricultural economy to an Information society and skipped industrialisation almost completely. This process had two main advantages. On the one hand, it saved a lot of transformation costs which other nations had to invest to come from an industrial society to an information society. Additionally, as this is a process and has to happen gradually, it is a time-intensive process. Hence, Ireland saved a lot of time and money investment by not focussing on industrialisation. On the other hand, by directly investing into the newest technologies it saved costs of modernisation and created a good initial position, e.g., instead of installing copper cables and replace them after certain amount of time due to maintenance or due to modernisation, Ireland immediately made use of fibre optic technology and thus saved a lot of money while creating a competitive advantage. (Murphy, 2000) Nevertheless, Ireland did almost not negotiate about the requirements for businesses to settle in the country. It seems that it made use of inward FDI at all prices, because it made not requirements on ownership, relinquished tax returns, accepted doubtful business structures to avoid taxes and neglected stakeholders.

Moreover, while excess labour supply is a key factor almost all the time for development and inward FDI, mass emigration, especially of the well-educated youth, is particular to the Celtic Tiger. (Murphy, 2000) While in other nations the companies can choose of a big amount of unemployed or unpaid workers, such as self-sufficient farmers, which have to be trained first, Ireland offered well-educated graduates which got the opportunity not to leave their home any longer by increased employment options. The shift to English as main language in the country was another big advantage. While many parents encouraged their children to learn and use English instead of Irish to enhance the social status and protected them from discrimination, they had experienced, these good language skills became a big advantage for employment. (Ó Gráda, 2002)

Attracting and using inward FDI for development and offering excess labour supply in exchange are two of the main features for planned development of nations almost all over the world. It was the aforementioned Asian economies, that become known as the Tiger Economies later, making use of these instruments and implemented them into their planning. Hence, these measures become visible for the first time, tracked

attention, and become available for investigation. That they helped Ireland to develop is neither a new insight nor a miracle. What is remarkable about the Celtic Tiger is, while the Asian Tigers (and later the Tiger Cub States) had a competitive advantage through their currencies and the exchange rates, Ireland did not have such an exchange rate advantage. (O'Hearn, 2000) Ireland got a competitive advantage when it entered the common European market and got a competitive advantage by its good and fertile agriculture. As the prices on the common market were higher due to higher demand, the profits for Irish farmers increased while their costs remained the same. The flourishing of Ireland's agriculture was obviously good on its own but came along with another important advantage: the government could focus on the transition to an information society and did not have to worry about underprovision. Increasing globalisation helped Ireland with its development, because investors were seeking new opportunities anyway, Ireland was very willing to do and accept what every was necessary and offered a chance to enter a previously relatively closed but well-funded market by its new EEC membership. In addition, with the Asian Financial Crisis in 1997 many investors wanted to reallocate their investments away from Asia and welcomed investment opportunities in cultural closer areas than the Far East and politically closer than the (former) communist countries. (Ó Riain, 2000)

Another important point is that with the entrance in a common market, lower developed economies converge to the advanced economies anyway. In convergence theory, the increased options for the new economies and interactions in the new market, boost these economies, while in the worst case the advanced economies experience no difference at all or they profit from a slightly reduction in prices and cost reduction through outsourcing options. So, the promotion of the Irish Model as a business model neglecting external factors is tinged with some doubts. (Ó Gráda, 2002)

The Shady Side of the Celtic Tiger

Ireland is very proud to have a history of using innovative tax systems and standing out with its low tax rates allowing companies for high profits. Although these systems were not illegal, they did not match good practice experiences and guidelines, especially important for a common market. What Ireland meant by innovative taxation tools are nowadays known as 'base erosion and profit shifting (BEPS) corporate tax tools', mostly used by US MNCs and are blamed to make up a big part in the GFC.

The 'Double Irish Arrangement' has become the biggest tax avoidance tool in history by 2010. If an Irish company is parent company, it is owning the intellectual property rights, although located in a tax haven, the Irish subsidiary company located in Ireland can reduce its tax liabilities on profits by paying licence fees to the parent company before taxation. In combination with the 'Dutch Sandwich' BEPS tool, avoiding transfer costs for these transactions by transferring the licence fees to the Netherlands before to the tax haven, tax burdens are reduced further. The 'Double Irish with a Dutch Sandwich' has become the best-known practices to save billions of tax duties and is the reason why Ireland has gained the reputation of a tax haven within Europe. (Barry, 2003) The increased interlinkage due to these practices fuelled the spreading of the GFC all over the world. During the recovery many of these practices were abandoned by increased regulations and are nowadays no longer available. But that does not guarantee that they have not been replaced by even more complex structures.

The settlement of MNCs in Ireland suppressed almost all domestic companies in the particular sectors, which had set up during the economic nationalism. They were not competitive enough against these big companies and had no chance to develop as the MNCs took the bread out of their mouths when facing free trade. Domestic production suffered as only agriculture with low profits and low income level remained in Irish hands. (Drogan, 2006)

Directly related, the big MNCs did not invest into research and development (R&D) departments, because of the aforementioned tax benefits and the fact, that Ireland was just seen as gate to EU market anyway, resulting in a relatively low share of R&D investment in comparison to the OECD average even after the Tiger years. (Ní Mháille Battel, 2003)

One of the main reasons why Ireland remained very competitive until 2000 is, that wages in all income cohorts did not rise at the same level as economic output and growth did. Indeed, until 2000 the hourly wage per output declined in all income cohorts, meaning even if people worked more or more efficient, they did not earn more. With the introduction of the minimum wage the situation improved for the low-income groups but remained for the high-income group. While this lowers the social gap, it increases wage inequality until 2007. (Voitchovsky et. al, 2012)

Moreover, during the Tiger boom Ireland diverged regionally. The inward FDI fostered the development of particular regions and left others behind. It caused unbalanced development. While there was social divergence within one region due to the above-mentioned wage inequality, there was social divergence on the national level in development, living standards and productivity (O'Leary, 2002)

Conclusion

In conclusion, Ireland made excessive usage of inward FDI to foster its development and used its excess labour supply to cover foreign companies' demand. In addition, it did almost everything to attract particular sectors' companies to come to Ireland. These companies helped Ireland to turn from a mainly agricultural society into an information society, which all benefits, such as increased living standards, income and social welfare. To that point, it does not differ from other Tiger states, making planned usage of inward FDI to guide their development. What helped Ireland in particular was the entrance into the common European market, what made it even more attractive for companies with globalisation ambitions. It is undoubtful, that Ireland made clever usage of its competitive advantages on agricultural products in the European market and the EU transfers and thus, helped to build a competitive advantage in the IT sector. Nevertheless, these developments came along at some costs. Ireland had experienced regional and social divergences and was hit harder than any other European nation by the GFC and due to tighter regulation policies afterwards the Celtic Tiger became more a house cat.

While many aspects of the Irish Model are commonly known as development drivers, others can be ascribed to Ireland to be lucky being at the right place at the right time. Good preconditions came together with good timing and Ireland definitely took its opportunities, but to promote that as a business model appears to be neglecting these factors. The Celtic Tiger is actually the lucky black bog cat.

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Japan and Globalisation: Two Conflicting Concepts?

Abstract The world is more and more interconnected in all areas, but especially economically. Despite, a unified definition of globalisation is not available and thus a consistent interpretation is missing, the realisation by economies differs. This paper aims at understanding the Japanese conception of globalisation and its implementation by not neglecting Japan's unique features, economically as well as socially.

Keywords: Japan, Globalization, Economic Development, Economic Policy, International Business, Market Structure, Firm Strategy, Firm Objectives, Industrial Policy, Business Economics

JEL: F60, F62, F63, F64, F66, F68, F23, L10, L20, L50, M20, N15, N45, N75

Introduction

For many years Japan has held one of the leading positions on the international market, especially due to its outperforming innovation system. But since the increase of globalisation Japan starts to lose its top rank as it is threatened to be overtaken by emerging economies. Yet in order to take actions it is vital to understand the concept of globalisation, first of all. And that is the fly in the ointment since such thing as a 'one and only' concept of globalisation is not existing. This raises the question if Japan's paradigm and globalisation are generally conflicting concepts.

The intention of this paper is to present the different meanings of globalisation and to give insight into the Japanese point of view on the issue. The paper is structured as follows. Section 2 will illustrate the variety of meanings of the term globalisation and the difficulties arising from the numerous attempts to make it measurable as well as the Japanese understanding of the term. Japan's implementation of this understanding and its 'Global Strategy' associated therewith will be presented in section 3. Section 4 will focus on the obstacles that hamper Japan from becoming a global society. A comprehensive conclusion will be given in section 5.

The Meaning of Globalisation

When talking about globalisation everyone has a sense of the meaning in the head and takes it to be universal. But the truth is that these definitions are subjective and

incorporated by values and emphases. So, it is necessary to be aware that there is no universal definition. This becomes especially obvious when having a closer look at globalisation indices. Instead of one or two universally accepted indices there is a fair variety, which is continuously increasing as the designer is unsatisfied with previous approaches and certain missing aspects. So, it is hardly surprising that difference in meaning can be found even on a national level and that it is not possible to find consensus neither within scientific fields nor within individuals.

How to define ‘Globalisation’

“The increase of trade around the world, especially by large companies producing and trading goods in many different countries”

(Cambridge Dictionary 2014)

“A situation in which available goods and services, or social and cultural influences, gradually become similar in all parts of the world”

(Cambridge Dictionary 2014)

The controversy on the topic ‘Globalisation’ becomes quite obvious already at the stage of looking for a definition. Normally, one would expect to find one or at least only a few main definitions and only slight differences in the whole rest of results. But for ‘Globalisation’ one can find a whole lot of definitions and even in one single dictionary more than one (Cambridge Dictionary 2014). Moreover, the further and farther one searches the more the meaning of globalisation tends to enrich rather than to reduce. (Apostoaie 2011) This is due to the multidimensionality of this issue. Every definition has its own subjective emphasis and thus differs from the others. The chief difference lays in its belonging, whether to economics only or if it covers several fields, such as culture, society or environment. Nevertheless, there seems to be a consensus that the economic dimension is a main pillar of globalisation. (ibidem) Thus, a separation of globalisation as a whole and purely economic globalisation can be found in much of the literature. But as you can see from Table 1 even within purely economic definitions the emphases are put on various topics and there is no consensus on the term ‘economic globalisation’.

Table 1 different economic definitions of globalisation

BARNET Richard, CAVANAGH John (1994)	a new era of global competition, which, like a bulldozer, removes everything from its path
DAHRENDORF Ralf (1995)	free movement of capital, where business agents everywhere are able to deposit and invest their money where they wish and are able to do so; a redefined world in which we are all interdependent in a global market;
CABLE Vincent (1995)	a trade regime where the tendency towards integration and the pressure of competitiveness has given rise to mega markets;
BLANK Stephen (1994)	geopolitics, product of the triumph of neoliberalism, capable of externalizing the national policies at global scale;
BAIROCH Paul (1996)	a larger significance of the export sector within national economies;
RODRIK Dani (1997)	the end of the keynesian economy and its international market strategies; as a new form (some say phase) of economic development, in which the role of the state must be redefined;

Source: Apostoae (2011) p.100

“The term *globalization* is generally used to describe an increasing internationalisation of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries. Among other things, this gives rise to increased mobility of capital, faster propagation of technological innovations and an increasing interdependency and uniformity of national markets.”

(United Nations et. al 2002, p.170)

By looking at this distinct economic definition it becomes clear that the multidimensionality of globalisation is not the only problem to find a universal definition. Globalisation's inextricable interconnectedness to other issues exacerbates a simplification. It is almost impossible to draw a clear-cut line between globalisation and internationalisation. Whereas internationalisation is mostly accepted as an economic flourishing across national borders, it remains doubtful where it is congruent with globalisation and where the two differ. The clear consensus regarding the two is in the fact that they should be differentiated. (Figge & Martens 2014) Furthermore, both terms are closely connected to 'regionalisation'. Obviously this one means a spread across regions, but the arguable point is where to draw the line.

How to measure 'Globalisation'

The sobering realisation that there is no universal definition in existence becomes underpinned by looking for an indicator of globalisation. When searching for a universal indicator to measure globalisation a picture similar to the one when searching for a definition emerges. Instead of one official or at least few indicators, one will find a fair variety again. Each is modified by its creator to express globalisation better than

previous ones from their point of view. Each of these indices is reasonable comprehensible as the choice of the single variables is logically founded. Furthermore, the majority of them answer to the claim of scientific standards. The indicators are chosen thoughtfully, and the reduction of correlation is taken into account. The mathematical setting appears transparently and therefore admit to no doubt. Moreover, the indices yield statistical relevant results and bear up robustness checks. This is why, it is not possible to give preferences to on index of globalisation over another. Their difference is founded in their emphases. For this reason, which index one chooses is entirely dependent on what the author wants to focus on. But again, at least two types of indicators can be detected. On the one hand, indicators purely referring to economic globalisation, and on the other hand, the ones that try to cover more aspects.

Whereas the indices that cover different fields are widespread, at least the indices or indicators that refer to economic globalisation do follow a basic structure. They are divided into five groups, covering twelve indicators. (European Commission 2014) These main group are: International Trade, Foreign Direct Investment (FDI), Employment, Research and Development (R&D) and Value Added. International Trade uses the indicators of imported or exported goods and services as share of the GDP as well as the export to import ratio. FDI is described by the share of inward or outward FDI in percent of GDP and the FDI flows¹.

Employment can be measured by the share of employees in foreign controlled companies to total domestic employment and the development of employment in foreign controlled firms or foreign affiliates of domestic enterprises. R&D is described by the share of expenditure for R&D in foreign controlled companies to the total R&D expenditure. At last, the Value Added is measured as share of the Value Added in foreign controlled firms to the total Value Added as well as by the development of the Value Added in foreign enterprises. (European Commission 2014) Especially noticeable about these measurements is their usage by important institutions such as the World Bank, the Organisation for Economic Cooperation and Development (OECD), United Nation Commission for Trade and Development (UNCTAD) or the World Trade Organisation (WTO). (Euro Indicators 2007) These institutions offer a great quantity of international data on previously mentioned globalisation indicators but do not resume the single indicators to one or more composite indices and thus, do not

¹ The ratio of inward to outward FDI

set up comprehensive rankings for nations. Despite that, Japan generally ranks in high positions in the single indicators of economic globalisation, especially in terms of Trade. (WTO 2015 and OECD 2010).

To measure multidimensional concepts, such as globalisation, composite indicators are used instead of single ones. (JRC and OECD 2008) As mentioned before the composite indicators to measure globalisation are all constructed to focus on a core feature. Thus, it would not make sense to compare some of them without considering their main focuses. “The Global Competitiveness Index” (GCI), which is used in “The Global Competitiveness Report” of the World Economic Forum (WEF) published annually since 2005, is composed of twelve pillars, namely: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. (WEF 2016). Each pillar is composed of various indicators itself and has three subindices, basic requirements, efficiency enhancers and innovation and sophistication factors, which are weighted differently regarding to one country’s stage of development. It aims to give insight in the productivity level and thereby the potential prosperity of a nation as driver of its growth rates. (ibidem) In this report Japan ranks place number eight. This good rank is due to its high scoring in the third subindex ‘innovation-driven’. (ibidem) The report mentions the tax system, restrictions of the labour market, insufficient capacity to innovate and inefficient governmental bureaucracy as main obstacles for doing business globally. (ibidem)

Regarding “The Global Enabling Trade Report 2016”, which focuses on a nation’s economic openness with the aim of strengthening trade to enhance growth. (WEF and GAFTF 2016) The Report is based on the “Enabling Trade Index” (ETI), which considers market access, border administration, transport and communications infrastructure and operating environment. (ibidem) In this ranking Japan is only able to claim the sixteens place, which is considerable worse in contrast to the GCI. Although Japan has very good scores in availability and quality of transport services and availability and use of ICTs as well as operating environment and efficiency and transparency of border administration, its value for domestic market access is far below its average position and the one for foreign market access is quite grave. If only the last one would have been taken into account Japan would rank place 133 out of 136. (ibidem) In this area Japan definitely has some room for improvement, but all in all Japan is able to claim a good position in global economic comparison.

In contrast, the KOF Index of globalisation is composed of economic, political and social globalisation issues. The economic dimension consists of two indices. On the one hand, the measurement of actual flows in trade, FDI and portfolio investment, and

on the other hand, the measurement of restrictions on trade and capital. (Dreher 2005) The degree of political globalisation is expressed by the number of foreign embassies within the country, the number of international organisations the country holds membership to and the number of UN peace missions the country participates in. The social aspects are given by data on personal contact, such as e.g. international tourism and foreign population, data on information flows, expressed by e.g. radios or cable television per 1000 people, and data on cultural proximity, represented by the number of McDonald's restaurants per capita. (ibidem) In this estimation Japan ranks only 21st. (ibidem)

"The Maastricht Globalisation Index", first published in 2000 and since revised twice, is quite comparable to the KOF index in political, economic and social dimensions but sets itself apart by considering an environmental component. (Figge and Martens 2014) Adding this aspect Japan is only able to claim the 29th place in this ranking. (ibidem)

An augmented approach offers "The New Globalisation Index" (NGI), first published by Petra Vujakovic in 2010 at the Atlantic Economic Journal. The NGI is the first index that gives consideration to geographical proximity and thus attempts to distinguish regionalisation from globalisation. (Vujakovic 2010) Another important difference is the weighting of this indicator as it separates finances and trade and assigns the latter with politics. So, the dimensions of this index are finance, trade and politics and social, each weighted with approximately one third. (ibidem) Considering these two adaptations Japan only ranks in 53rd position. (ibidem)

In summarisation, Japan scores well in terms of economic globalisation, although it has weaknesses in terms of openness as one can see from the two above mentioned economic globalisation related indices. But adding more, less economic, dimensions Japan loses crucial places.

'Globalisation' from the perspective of Japan

As seen before, Japan acts well in terms of economic globalisation but shows a lack of commitment for the other dimensions. This could be due the Japanese 'understanding' of globalisation. Whereas the Korean as well as the Thai language has native term for globalisation, although it has been created newly (Koh 2005), the Japanese language uses a katakana term for globalisation. Katakana are traditionally used for foreign word to make them readable in Japanese pronunciation. For this reason, the foreign "グローバリゼーション" (gurōbarizēshon) is nothing firmly established within Japanese

nature. In contrast, 'internationalisation' has its own kanji² term and is thereby widely accepted in Japanese society. The Japanese internationalisation 国際化 (koku-sai-ka) composes of the words for international and change. For this reason, it is less closely connected to economic issues than the 'western' notion.

According to the understanding of globalisation is the adaption of the term 'localisation' as a katakana term: “ローカライゼーション” (rōkaraizēshon). The combination of these two words equals in the word “glocalisation”, which originally is a Japanese business concept occurred in the 1980s for the first time. (Roudometof 2016) It has its origin in the Japanese term 土着化 (do-chaku-ka), which originally meant the adaption of foreign techniques to local conditions in agricultural areas. (Tulloch 1991) Through Roland Robertson, who has published about the topic at Harvard Business School in the 1990s, the business strategy spread all over the world and finally has become more than an economic concept as it has found its way into sociology. (Khondker 2004) But despite of its global evolution it remains a business strategy in Japan. And then as now, it is successfully applied by many Japanese firms. Today, one of the most prominent representatives of this concept is Shiseido, which acts globally adjusted to national markets but strongly emphasis its origins in Japan. (Iwatani et al. 2011) Therefore, as seen from the perspective of Japan, globalisation is more a business strategy to be globally competitive rather than a multidimensional concept.

Japan's 'Global Strategy'

As main part of its global strategy Japan has detected Free Trade Agreements (FTA) and Economic Partnership Agreements (EPA). Since its first EPA with Singapore in 2002 took effect, Japan has been working proactively to achieve a development in this area. (Jetro 2012) Until 2017, Japan has negotiated sixteen treaties, of which one, namely the Trans-Pacific-Partnership (TPP) was not yet in effect, and further eight treaties that were under negotiation. (ARIC 2015) these agreements can be classified into four groups:

1. Treaties with countries Japan has close economic ties to and many Japanese companies have been based in, mostly in ASEAN-member countries
2. Agreements with nations that make active and effective use of FTAs as part of their

² Characters of Chinese origin

trade policies themselves, e.g. Mexico or Chile

3. FTAs on a big scale by integrating large markets and/or establishing of a broad free trade zones, such as the one with the EU or TPP
4. Treaties with suppliers of natural resources, e.g. Australia

(Jetro 2012)

As can be seen in Figure 1, Japan is creating a network spreading all over the world.

Figure 1 FTA and EPA of Japan



Source: MOFA (2014)

With its FTA strategy Japan wants to amend the efforts of the WTO and achieve more liberalisation and strengthen its own economy especially through economic relationships with countries which are not covered by the negotiations of the WTO. (MOFA 2002) By this, Japan wants to take economic as well as political and diplomatic advantage. On the economic hand, Japan aims at an expansion of imports and export markets, the harmonisation of trade-relations as well as an improvement of the efficiency of industrial structure and the competitive environment. (ibidem) On the other hand, it hopes to reinforce its bargaining position in WTO negotiations to influence and speed up these negotiations and expand Japan's diplomatic influence and interests by deepening the economic interdependency. This is especially important to strengthen the Japanese global production system further, which has been built up after the traditional 'vertical Keiretsu'³-structure, focussing on Japanese enterprises only, turned to be no longer globally competitive. (Aoki and Lennerfors 2013) As the new system worked quite similar to the old structure by putting up close ties to the suppliers by supporting trust, cooperation and educational exchange (ibidem) one aim of the

³ Tight associations of buyer and supplier, which obligational relationships based on trust and goodwill over long periods

Japanese FTA strategy is to essay improvement and facilitation of the flows between Japan and its supplier countries.

The government of Japan claims five criteria for its choice of nations, it would like closer cooperation: economic; geographic; political and diplomatic; feasibility; and time related. (MOFA 2002) On the one hand, the Japanese government fosters the production system of its domestic enterprises by its choice of nations. On the other hand, it aims at an increase of global influence by enhancing its trade relations while withstanding intensifying global competition. The Japanese government has started to take participation in a global race of creating the best possible conditions for its domestic companies to stay internationally competitive while facing increasing global pressure. The importance of the topic can be detected by regarding 'The Japan Revitalization Strategy', the economic agenda of the administration under Prime Minister Abe started in 2012. This action plan was first published in 2013 and was continued on a yearly basis since. The further expansion of FTA and EPA treaties has been and still is one of the focal points. In addition to this, in the 'Japan Revitalization Strategy 2016' the government targets an extension in the negotiations by integrating more investment agreements and tax treaties (Government of Japan 2016) as it is aware that the tariff elimination is low despite of the relatively high number of FTAs and EPAs (Urata 2014). Unfortunately, this already has been a point in the first agenda and until now only few has happened in this area. What really is a novelty in the later economic programme, was the item of supporting small and medium-sized enterprises (SME) to use the opportunities the TPP comes along with and expand their business overseas. (Government of Japan 2016). However, this article does not illustrate in which way and by what means the SME will be supported, thus this point seems to be more an idea instead of an identifiable content of an action plan. Although the support of SME to act globally is not a novelty, the previous support has referred to expansion to developing countries to further strengthen the mentioned above production system. (Government of Japan 2013) Furthermore, the point of the promotion of infrastructure exports opens a new field. On the one hand, such an increase would have a positive impact on export values. On the other hand, it would have two more advantages as it would help to develop other countries. Due to this, domestic companies would be able to benefit from the improvement of infrastructure in their supplier countries. Furthermore, the international integration of Japan would gain strength. Last but not least, the Japanese government targets an increase in inward FDI as part of its 'Global

Outreach Strategy'. (Government of Japan 2016, p.28f) But this ambitious goal appears doubtful as the government clearly emphasizes the importance of this issue, but again the means to achieve are not explained in detail either. (ibidem) The biggest obstacle to this aim seems to be the traditional 'horizontal Keiretsu'⁴-structure. On the one hand, this structure is well-known and negatively connoted in foreign, but especially non-Asian countries, and therefore could cut the incentives of becoming a part of it. On the other hand, this could be a reason for some parties to take this opportunity. Nevertheless, the government has already recognised that it has to improve the business environment for foreign companies first of all. (Government of Japan 2016) In addition to many attempts to bring down administrative struggles and regulations (ibidem) especially for foreign enterprises, but as well as for domestic ones, the content of utilising 'National Strategic Zones' (Government of Japan 2016, p.21) and the idea of an introduction of the 'Japanese Green Card for Highly Skilled Foreign Professionals' (Government of Japan 2016, p.27) could become a great step forward. Unfortunately, it should be mentioned that this is not the first advance of its kind and previous ones have never carried out as there have been too many disagreements on the details and for these reasons the undertaken approaches have been afflicted with remaining obstacles. Thus, they have not been successful in terms of attracting more foreign firms or employees to settle in Japan. But especially as Prime Minister Abe and his government plan to take advantage of the 'fourth industrial revolution' through revitalisation of the Japanese innovation system and its employees (Government of Japan 2016) the occupation of global sources is indispensable. This is why Japan has to enhance its global strategy over its FTA strategy.

Obstacles to become a 'Global Society' for Japan

Regarding Japan's history and development over time there are two things that strike the eye. First, Japan's upholding of traditions as many of them are founded in their unique history, e.g. the high estimation of loyalty as it tributes back to ancient times of shogunates, daimyōs and samurais. But considering the second issue, namely Japan's enormous openness and quick adaption of changes, such as the Meiji restoration and the development from an agricultural to innovation driven society within a very short time, it may seem confusing that contemporary Japanese society is so little global.

⁴ Tight associations of cross-shareholding companies

This confusion amplifies when beholding Japanese behaviour towards 'national pride' in contrast to other nations. Of course, Japanese are not ashamed of their nation, but they act reserved in terms of casting it upon the world like e.g. some US- Americans do. The reason behind this reservation seems to lay in their perception of 'National Identity'.

"National identity does not exist, as an essence to be sought for, found, and defined. It is a human construct, evident only when sufficient people believe in some version of collectivity identity for it to be a social reality, embodied in and transmitted through institutions, laws, customs, beliefs and practices."

(Sasaki (2004) p.75)

The question appears how Japanese feel about this issue. A research survey of 2004, published at the "International Journal of Japanese Sociology", gives a sobering answer: the Japanese do not put much emphasis on being Japanese, with the younger generation even less than the older one. (Sasaki 2004) But when it comes to the point of attitudes towards foreigners the picture clearly changes. In contrast to foreigners the Japanese experience themselves as different. (ibidem) The implication of this controversy is the following: although the Japanese society does not emphasise being Japanese, it expects foreigners to adjust to Japanese society. This opinion intensifies the older a Japanese person is or perhaps get. (ibidem) In case of globalisation the missing willingness to speak a language other than Japanese within Japan (ibidem) is an important obstacle as Japanese is very uncommon as a lingua franca. People all over the world and especially talented Asians with the willingness to work globally tend to learn English instead of Japanese. (Iwatani et al. 2011) In addition to the fact that Japanese do not want to speak English, it seems that the ability to do so is not common in Japan as well, as can be seen from the "International Monetary Fund's advanced economies on the Test of English as a Foreign Language" of 2009, in which Japan ranks last. (ibidem) This obstacle becomes even more important in business rather than in private life. As most Japanese organisations tend to be monolingual, they seem to be monocultural as well. (ibidem) The main characteristics of the Japanese employment system are its tenure-based advancement and the lifetime employment with all its benefits. These main aspects with their implications are the reason of lacking diversity within a company. The overwhelming majority of Japanese leading managers are male, Japanese and have never worked outside their company or at least the

conglomerate due to the traditional employment practice. Introducing other points of view could be very beneficial to the enterprises, especially as Japanese customers behave more and more like their global counterparts. (ibidem) To achieve the government's ambitious target of becoming a global competitive society by using the fourth industrial revolution and taking back its leading position in R&D as well as innovation, the turning point lays in the traditional business system and therewith the employment practice, in which foreigners struggle to succeed. Furthermore, the transformation into a global society starts at daily life and this composes of one's job for the most part.

Conclusion

In summary, there is only one possible answer to the guiding question: yes and no. Whether or not Japan meets the challenges of globalisation, is depending on one's definition and the expectations connected therewith. The main difference is founded on whether one sees globalisation as a multidimensional process or as a strategy. From the point of view of Japan, it is the way to preserve its international leading position or even rectify ranking Japan has lost during the last decades. This perspective is definitely not unique to Japan, and although it is spread more widely in the Eastern than in the Western spheres, it is not the universally accepted viewpoint in Asia. It is vital to distinguish between economic globalisation and other forms, such as political or sociological. But this differentiation is not always possible without any difficulties as the concept of globalisation is multidimensional and multiscale. Further, the measurement and evaluation associated therewith is not standardised either. For these reasons one could get the impression that globalisation is a very individual concept. At least, a common sense of globalisation exists, and the differentiation is founded in its details. This is especially valid for the economic globalisation. In terms of economic globalisation Japan is able to perform well but could do better due to market restrictions and regulations. Considering other areas Japan's appearance remains disputable.

As Japan sees globalisation as a strategy to be internationally competitive, its focus on its FTA strategy appears sensible. But this strategy alone will not be enough to stay globally competitive. The Japanese government under Prime Minister Abe was already aware of the issue and tackles it with its "Japan Revitalization Strategy". The following governments have continued this path. But until now, it has few successes to show for

it. The biggest obstacle is Japan's monocultural employment system as it represents the heart of the beast Japan wants to slay. The transformation of Japan into a global society can only be achieved by promoting diversity.

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On the Irrationality of the Japanese Bubble

Abstract Bubble economies are neither new nor unique to Japan. Although occurring repeatedly, they appear irrational after the burst. While their appearance and cause look quite similar from the outside and in the aftermath, the underlying structures differ from bubble economy to bubble economy. To understand these internal mechanisms, each bubble economy has to be investigated on its own. The intention of this work is to have a detailed look on the Japanese bubble economy of the early 1990s, with the result that the unique market structure in Japan was a main fueller for the development.

Keywords: Bubble Economy, Japan, Economic Development, Crisis, Asset Price Inflation, Credit Default

Keywords: G01, G12, E31, F63, N15

Introduction

The Japanese asset inflation of the late 1980s, like most other waves of speculation, appears irrational in hindsight. The reasons for the enormous asset price increases to this extent are not understandable, since they cannot be justified on a purely rational basis. On closer inspection, however, it must be recognised that the question of irrationality is much more complex than initially assumed.

The intention of this paper is to seek the causes of the wave of speculation. On the one hand, causes will be considered on the level of a mathematical model, which should clarify the apparently simple determinability of rationality. On the other hand, other possible causes that are not within the measurable range will be discussed.

The Japanese *Bubble*⁵

On Irrational Asset Inflation

The price of an asset is always a subjective value, reflecting the values involved in the market transactions and attributed to the asset. At first glance, no real price can be defined as long as buyers and sellers can freely interact in a market system. As a result of uncertainty about the future and possible information asymmetry in the present, there is an estimation of the value by economic subjects.

The price of an asset consists of two main components:

⁵ *Bubble*: This term is henceforth used to describe the asset price speculation bubble of the late 1980s in Japan.

1. an objective component, which can be determined from the *fundamental values*, which will be discussed later. The theoretical accuracy of this quantity in a neoclassical model with rationally acting economic subjects is undisputed, even if it is difficult to determine exactly. And
2. a subjective component that corresponds to the expected future sales price. The mere existence of this size can lead to waves of speculation when some investors expect a huge price increase.

For a *bubble economy* to form within the stock and real estate markets, the mere presence of uncertainty about the future and a substantial group of non-credit rationed investors believing in price increases is sufficient.

An inflationary price is anything above the objective price determinable by the fundamentals, as long as this objective quantity is determinable.

On the Parallel Movement of Stock and Real Estate Markets

The curves of stock and real estate prices usually move in parallel. As real estate prices soar, companies are seeing capital gains that indicate potential additional income. These can be realised by selling the property or using it as collateral for a loan for profitable projects. The latter possibility was particularly relevant for Japan, since companies became more credit-rationed due to the information asymmetry in relation to financial institutions. The easing of credit rationing, in turn, leads to rising share prices on the assumption that profitable investment projects are on the horizon. A price spiral develops.

Furthermore, a sudden rise in stock prices can lead to a rise in real estate prices if it is assumed that companies will want to expand for profit and thus lease or buy real estate. In addition, of course, other investors try to get involved by buying interesting properties in order to then sell them to the companies at higher prices. As a result, the development of a price spiral is also possible.

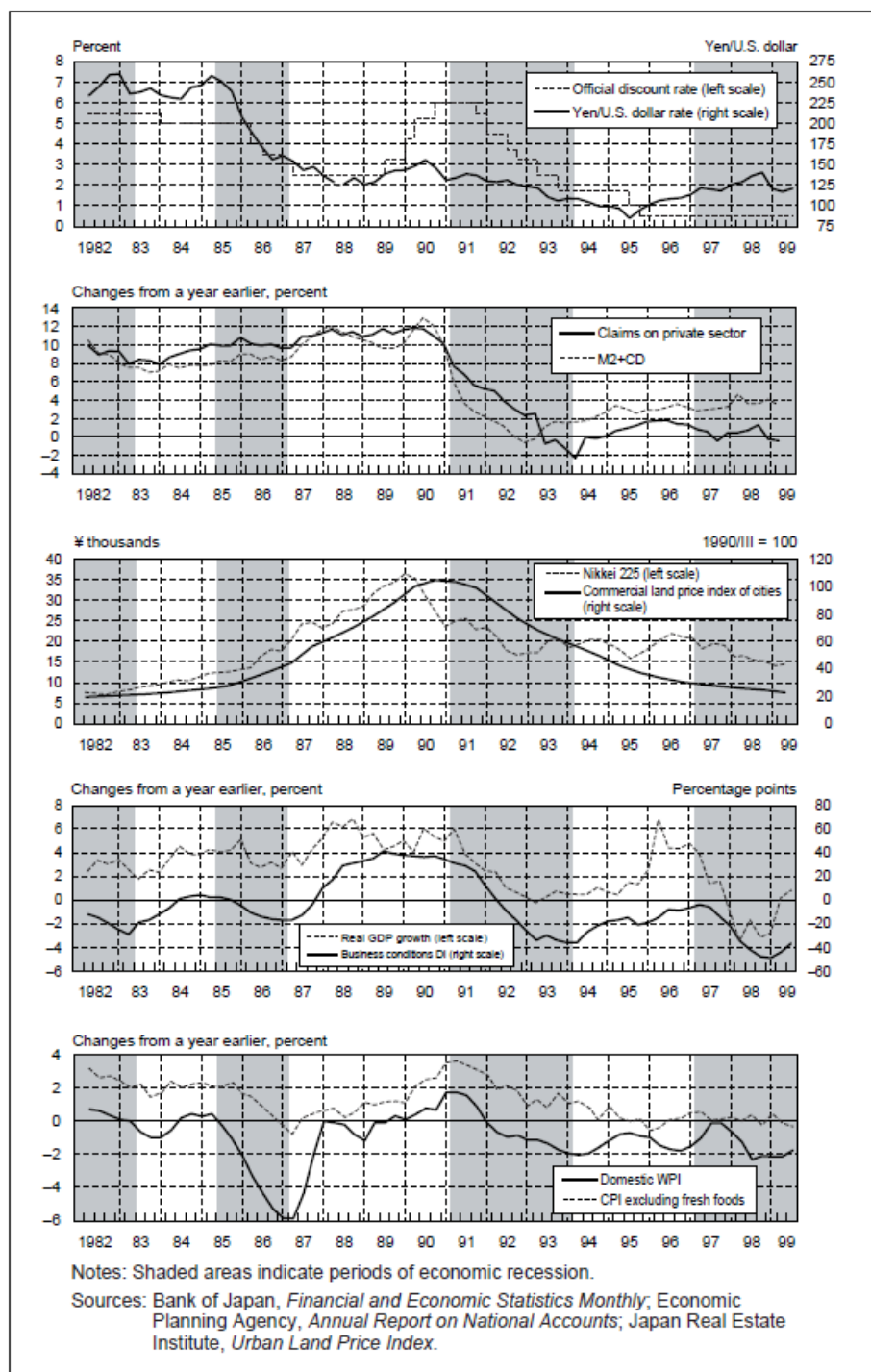
The Course of the Japanese Bubble

Both the beginning and the end of the Japanese asset inflation of the 1980s are not clearly definable. The first increase in assets started around 1982, but was severely ⁶slowed down by the so-called "Endanka Recession". Therefore, it makes sense to see the beginning of the *bubble* in 1987, since Japan was already in a strong economic upswing at that time, so that not even the international stock market crash of autumn 1987 caused the Nikkei to collapse,

⁶The so-called "Endanka recession" is seen as a consequence of the "Plaza Agreement" concluded between the G5 countries to revalue the yen.

but only to a low growth rate compared to the previous months ⁷. The end of the *bubble* can be seen over the course of 1990, as the Nikkei rose until early that year, but the Japan Real Estate Institute (JREI) land price index did not peak until three quarters later, and the real economy with even greater delay responded (see Figure 1).

Fig. 1: The Japanese economy in the 1980s and 1990s



Source: BOJ, 2001: p.398

⁷The Nikkei is a representative selected share price index, which has been continuously collected since 1950 and measured in yen.

This price spiral led to the main characteristic of the Japanese *bubble*: the enormous price increases and the steadily accelerating growth of the real estate and stock markets, while the consumer price index has signalled price stability since mid-1986 with a price increase of less than one percent. (Schmitz 2005)

The Fundamentals of the Japanese *Bubble*

An Extended Neoclassical Model

In order to be able to examine the irrationality of the Japanese *bubble*, it is essential to understand the objective components of pricing already mentioned above. For this we assume a simple extended neoclassical model, with which one can determine the expected return of the asset from the sum of the period productivity and the expected price development, our subjective component:

$$E_t(\Psi_{t+1}) = \alpha + \left(\frac{E_t(q_{t+1})}{q_t} - 1 \right) \quad (1)$$

where are $E_t(\Psi_{t+1})$ the expected rate of return, $E_t(q_{t+1})$ the expected asset price for period $t+1$, α the constant period productivity and q_t and q_{t+1} the asset prices of the corresponding periods t and $t+1$. In equilibrium, where no investment project arbitrage is possible, the rate of return on the marginal investment in the asset is exactly equal to the interest rate r :

$$E_t(\Psi_{t+1}) = r \quad (2)$$

Substituting equation (2) into equation (1) and equivalence transformations, we get a formula for q_t that period's price in terms of expected rate of return $E_t(\Psi_{t+1})$, interest rate r , and constant period productivity α :

$$q_t = \frac{E(q_{t+1})}{(1+r) - \alpha} \quad \text{with } \alpha < 1+r \quad (3)$$

The model shows that a higher expected price leads to a higher current price. The *fundamental values* are the rationally expected price $E_t(q_{t+1})$ for the period $t+1$, the interest rate r , and the period productivity α .

In order to explain irrationally inflated *bubbles*, it is now necessary to introduce an irrationality factor η for the future expected price of the asset.

$$q_t = \frac{\eta E(q_{t+1})}{(1+r) - \alpha} \quad (4),$$

where applies $\eta \cong 1$ to an environment without uncertainty, with which the emergence of an irrational *bubble economy* is not possible. Since information asymmetry has to be allowed to explain the formation of a *bubble economy*, an irrationality factor for which applies $\eta > 1$ is assumed.

It should now be possible to separate the change in fundamental values from other developments and thus be able to analyse the Japanese bubble more specifically.

On the increased Japanese period productivity as a cause

During the 1980s, the average productivity of the Japanese economy increased by almost 30 percent (Ito and Iwaisako 1995), which is often cited as the main reason for the asset price increases at the time. However, productivity growth started to slow from the mid-1980s (Schmitz 2005), so it seems questionable whether the accelerating asset price increase can be explained by the already decelerating productivity growth.

In the second half of the 1980s, many indicators, such as the real GDP growth rate, pointed to a decline in production. For example, there were poor growth prospects in exports as a result of the Endanka recession, since the strong appreciation of the yen with an export surplus can be viewed as a relative production discount compared to other countries.

If one also considers the average increase in return, i.e., an increase in productivity that accrues entirely to the owners of capital, as an explanation for the increase in asset value, it can be calculated that between 1988 and 1989 alone there was an increase in return of more than two percentage points over a period of more than ten years should have been accepted. Such a high increase in returns over such a period is to be regarded as completely utopian, even if such an increase in productivity took place almost in the *bubble years*⁸.

Furthermore, it is necessary for this calculation that the interest rate cuts of the Bank of Japan (BOJ) must be included.

On the BOJ Interest Rate Cut as a Cause

A common assumption is that the BOJ's sharp interest rate cuts during the bubble years are what caused asset prices to rise. As can be seen in Figure 1, the BOJ cut the discount rate

⁸ *Bubble Years*: Period of the asset bubble.

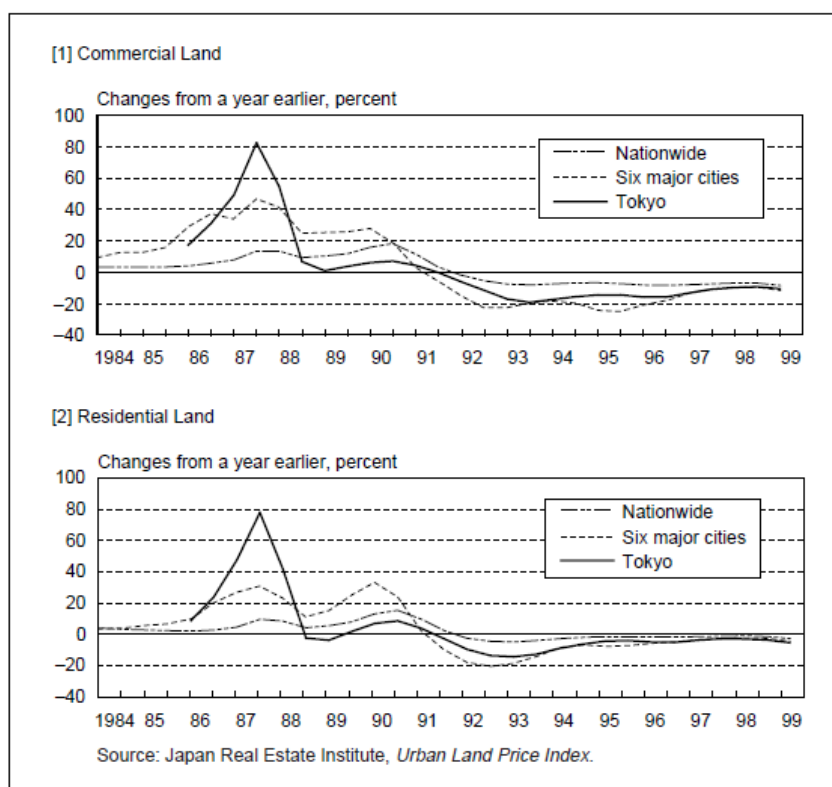
several times between 1985 and 1987, until it reached a historic low of 2.5 percent at that time and remained there until mid-1989.

However, just to explain the Nikkei rise from March 1986 to March 1987, a rate cut of 300 basis points over 20 years should have been assumed. Even if the BOJ lowered the interest rate level by this amount, the assumption that it would remain at this level for 20 years "is not compatible with the calculus of a rational investor" (Schmitz 2005 p.16). (Blanchard and Illing 2005)

On Long-Term Demand for Real Estate as Cause

Fig. 2 shows that there were enormous price increases in the real estate sector in Tokyo, which can initially be rationally explained by the increasing relevance of the Tokyo financial district. However, these price increases quickly spread to the entire Tokyo area, and from there to other major Japanese cities. These sudden price increases of 40-80 percent across the country cannot be explained by the long-term increase in demand in Tokyo's financial district.

Fig. 2: Land price fluctuations in the 1980s and 1990s



Source: BOJ (2001): p.400

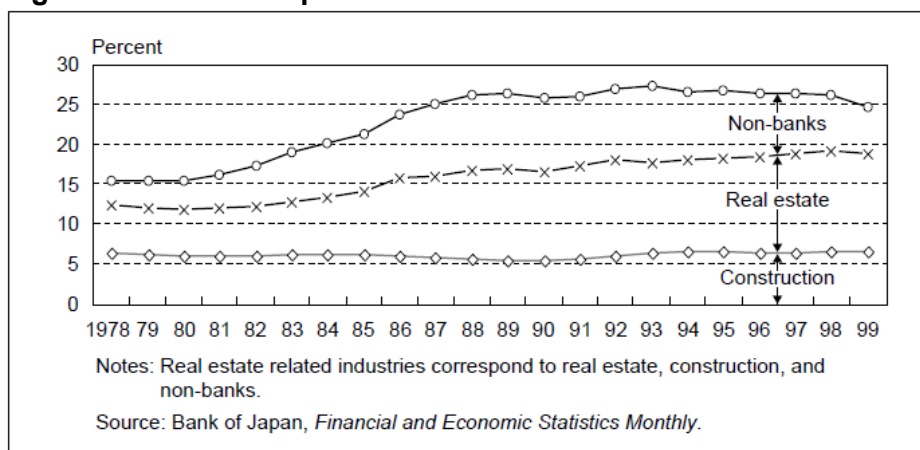
Other Possible Causes of the *Bubble*

As discussed in the previous section, initial asset price increases can be explained by improved underlying conditions, i.e., changes in fundamentals. However, these improvements should

have been assumed to be quasi-permanent, which would be irrational. Furthermore, the magnitude of the improvements and asset inflation are not relatable. So many things point to an irrational wave of speculation. For our neoclassical model, this means that the irrationality factor η must have assumed a value significantly greater than 1 (Schmitz 2005).

So other causes need to be considered as the *bubble* cannot be fully explained by fundamentals alone. The lending practices of commercial banks seem to be relevant as the cause of the asset price development, since the use of real estate as collateral for loans has traditionally been very widespread in Japan and kept being for long (Ogawa and Kitasaka 2000). Poor regulation of lending and the presence of *moral hazard*⁹ may have increased process dynamics.

Fig. 3: Loans from Japanese banks



Source: BOJ (2001): p.412

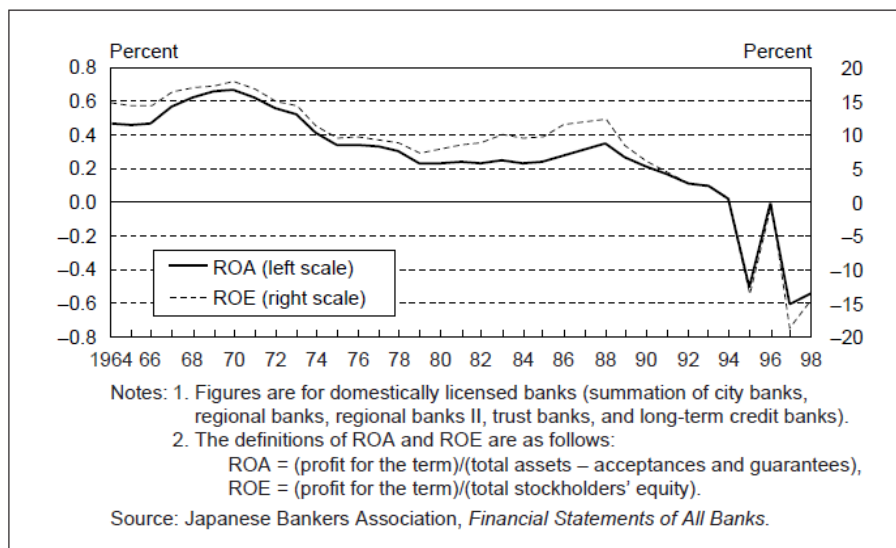
The Aggressive Lending Behaviour of Commercial Banks

Figure 3 shows that as early as the early 1980s, Japanese banks have increasingly granted loans based on collateral in the form of real estate. This is mainly due to the deregulation of the financial markets that began in the 1970s and its consequences. In Fig. 4 one can see that the profitability of commercial banks started to decline since then. With the easing of stock market financing restrictions for companies in the early 1980s, their independence increased, and the financing business of the banks was endangered (BOJ 2001). Furthermore, the banks were only partially allowed to enter the stock exchange business (ibidem). In addition, an important source of income for the banks fell away as a result of the release of credit interest. As a result, the banks were forced to engage in other business areas, with lending on the basis of real estate as collateral being an obvious choice as a result of the increase in real estate prices that had already begun.

⁹ *Moral Hazard*: Describes a situation in which risk is socialized, thereby increasing an individual's willingness to take risks.

As a result of the easier options, most banks switched to an aggressive lending practice from 1986 on, as they were under great pressure to become profitable.

Fig. 4: Average profit rates of Japanese banks (1964-1998)



Source: BOJ (2001): p.411

Weak State Regulatory Mechanisms of Disciplining

The regulatory mechanisms for disciplining banks and the Japanese government's accounting guidelines were simply not sufficient during the *bubble years*, especially since banks, economic entities and, above all, real estate companies invested in increasingly risky projects.

The many existing shareholdings due to the *Keiretsu structure*¹⁰, the general statutory accounting rules and the lack of disclosure requirements made it possible to conceal the real asset situation and simply inflated the company balance sheet. In addition, although there was the possibility for banks to build up reserves for credit default risks at reduced taxes, the banks did not take advantage of this by a long shot.

Moral Hazard as a Cause

Moral hazard as a result of state deposit insurance

Japanese banks have consistently had a cheap source of funding with little risk of default because the Japanese government, like most other developed nations, implicitly and explicitly guarantees its citizens' deposits with private lending institutions (Schmitz 2005).

¹⁰ *Keiretsu Structure*: The keiretsu are corporate groups (also called *keiretsu conglomerates*) that share a corporate web of equal interests, common management, and mutual social control. Their structure is characterized by mutual holdings of shares, strong personal ties and a house bank at the centre.

This was compounded by the fact that Japan's Postbank, Japan's largest and most capitalised bank, is truly state-run. This means that deposits at Postbank are quasi deposits with the state itself, which is responsible for this with its fiscal enforcement powers. In order to keep general capital market interest rates low, it was up to Postbank to introduce private savings into the financial system (Cargill and Yoshino 2000). It should be noted that Japan's Postbank was never directly involved in the asset speculation but acted as a lender to commercial banks. It must therefore be regarded as unthinkable that the Japanese government would have allowed Postbank to get into difficulties because of non-solvent borrowers. As a result, the commercial banks were able to pass on part of the responsibility and the consequences became less drastic, since the state had to step in in the event of insolvency.

Moral Hazard Due to the Keiretsu Structure

Due to the personal links, the mutual holding of blocks of shares and the close contact with the house bank, it was expected that the risk assessment of projects and their control could be carried out better. However, the reality of the *bubble years* showed that this was not the case for two main reasons.

On the one hand, the house bank was under enormous lending pressure due to the close relationship. Especially when companies formally started to record gains from the first asset price increases (see above), there seemed less need to pay attention to credit rationing.

On the other hand, the default risk was apparently socialized due to the house bank's close ties to the *Keiretsu conglomerates*, because possible losses would be borne jointly by the conglomerate. Thus, the risk of a bad loan being granted seemed to be virtually impossible (Schmitz 2005).

Moral Hazard from the Convoy System of the Japanese Financial System

The Japanese financial sector convoy system “is an intersectoral protection system against the risk of bankruptcy of Japanese commercial banks and should strengthen the stability of the financial sector from a government perspective.” (Schmitz 2005 p.26) As the name implies, it means that a bank does not move significantly faster than the weakest, i.e., innovative and profitably operating banks in the market slow down their operations in order to give the other banks the opportunity to adjust. In addition, successful banks have been rewarded by treasury regulatory incentives for takeovers of weak banks. There were even so-called *rescue mergers*, with which solvent banks were forced to act as “white knights” to take over banks threatened with bankruptcy.

As a result, it was no longer necessary to carry out an objective risk assessment for risky projects, because the credit default risk was socialized by the entire banking community and the bankruptcy risk was borne by the banking community.

Conclusion

The aim of this work was to examine the irrationality of the Japanese *bubble* in order to make it easier to understand. The neoclassical model should clarify how easy it is theoretically to determine an objective asset. However, since it has to be recognized that the model is highly abstract and that the adjustment to the real world only takes place gradually and that asymmetric information distribution can lead to credit rationing, it had to be recognized that asset inflation is not purely rationally comprehensible.

A search was then made for some possible causes that cannot be determined quantitatively. Due to the economic situation, the banks in Japan developed a very aggressive lending behaviour and thus promoted the willingness of economic subjects to invest. On the other hand, economic agents perceived the risk of their investment as lower than the actual risk due to the various types of *moral hazard*. In addition, all parties had to act under the enormous information asymmetry that arose from the lack of state disciplinary measures, which made it difficult to assess risk. It must therefore be recognized that irrationality is an extremely complex interplay of many variables and that it can hardly be possible to act purely rationally in such an environment.

So, it has to be conceded that Japanese asset inflation is not the result of the utter irrationality of its economic agents alone, even if it cannot be understood rationally.

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Development and extent of regional disparities within the European Union

Abstract This paper deals with the development of disparities within the European Union against the background of vertical and horizontal integration. The focus in point of time are the developments coming along with the last eastward expansion of the European Union and the impact of the Global Financial Crisis. The economic situation, the labour market situation and the development potential of the different regions are analysed by the interpretation of carefully selected, according indicators. By that, convergence and divergence processes within the European Union will be revealed.

Keywords: disparities, Global Financial Crisis, vertical integration, horizontal integration, development potential, convergence, divergence

JEL: N94, O10, O20, O18, O30, O47

Introduction

This paper deals with the development of disparities within the European Union and is based on the following key question: "How have regional disparities developed against the background of vertical and horizontal integration?". The focus is on highlighting the disparities and their development measured against economic indicators. On this base, possible divergences and convergences as well as possible development potentials are to be shown. The empirically examined period focuses on the eastern expansion of the European Union and the effects of the world economic crisis from 2007. The work is structured as follows: In the first chapter, the emergence and development of the European Union is presented. The methodological background follows in chapter two. Various indicators are explained and their meaning and application is discussed. Convergence and divergence theories are also discussed. In the third chapter, the developments of the disparities are presented and analyzed critically. In particular, the sub-sections deal with the development of the GDP per capita, the labor productivity and the unemployment and employment rates as well as possible factors of development potentials. The analytical chapter is structured chronologically, first the eastward enlargement of the European Union and then the world economic crisis from

2007 is discussed and its effects up to the present day. The fourth chapter concludes with a detailed summary.

Historical Background

With the founding of the European Economic Community in 1957, the cornerstone of the European Union was laid. The initial creation of a common market has been extended to other areas. With the Maastricht Treaty in 1993, the European Economic Community became the European Community, in which the decisions on economic and monetary union, as well as the coordination of foreign and security policy and the judiciary, were contractually regulated. The European Union was founded in 2002 with the introduction of the common currency. The European Union (EU) is based on a three-pillar principle: the common economy, common politics and police and judicial cooperation. It is based on the four basic freedoms: free movement of goods, free movement of persons, free movement of services and free movement of capital and payments. From the founding of the European Economic Community with the founding states of Belgium, Germany (FRG), France, Italy, Luxembourg and the Netherlands to today's European Union with 28 member states, there have been numerous gradual expansions. Denmark, Ireland and Great Britain explicitly joined in 1973. Greece joined in 1981 and Portugal and Spain in 1986. Finland, Austria and Sweden joined in 1995. As a result of the eastward expansion of the EU, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus were integrated in 2004 and Bulgaria and Romania in 2007. Croatia was the last country to join in 2013. In addition, increasing vertical networking of the members was created through the establishment of a common parliament and an executive and judiciary union as well as the creation of common programs and goals.

The development of the European Union can be viewed at different levels. Different developments can be observed at both regional and national level. (Schätzl 2000) If the European Union is viewed as an area of integration with the aim of reducing disparities, it is important to show these in various areas and to consider their changes over a longer period of time. In general, it can be said that the EU's growth in economic and demographic potential has led to a shift in regional disparities through the gradual incorporation of new member states. In the 1970s and 1980s, Europe was characterized by convergence through advances in production and high economic growth. (ibidem) While the 1990s were characterised by the increasing vertical

networking of Europe, as previously mentioned, the first decade of the new millennium is marked by a sharp increase in the number of member states. With the last accessions, an increase in regional disparities can be observed. Reasons for this include budget deficits and higher inflation in the newer accession countries than in the member states that have been integrated longer. (ibidem) Nowadays, processes of divergence can also be observed at the national level. One of the reasons for this is structural change, which does not affect entire countries but only regions. The characteristics can be observed, for example, on the basis of the unemployment rates in old industrial regions, which are higher there than the national average. (ibidem)

With the help of measures such as setting cohesion goals, attempts are being made to use political means to counteract divergence processes and to promote convergence processes.

Theoretical and methodological background

In order to examine disparities and to be able to draw conclusions about convergence and divergence processes, it is just as important to understand the methodology used to present the data as the theories. Therefore, in the following, the importance of indicators and their evaluation is discussed, as well as an insight into the theory of convergence and divergence processes is given.

Indicators to measure disparities

In order to present the disparities, it is important to be able to make the development status measurable. Various indicators serve this purpose. These can be divided into various categories. From an economic point of view, the most important indicators are the gross domestic product (GDP) or the GDP per capita as well as its growth rate and the level of employment. (Schätzl 2000) Furthermore, indicators can be assigned to sociological and ecological considerations. These are, for example, the average life expectancy as an indicator of health, the years of education as an indicator of education and the density of natural resources such as coal or natural gas. It is not always possible to categorise them unequivocally, since there are sometimes strong interdependencies between the individual indicators and one indicator can show several different facts. Another indicator that can partly explain the economic situation of a region is the education indicator, which can be measured in educational qualifications, for example. These are considered a basic requirement for innovation and economic growth. (ibidem) The European Union uses various indicators, among

other things to obtain a detailed analysis of the development based on as many different factors as possible and then to determine its strategies for action.

From an economic point of view, the GDP serves as a key indicator, since it is used as an indicator of economic growth and the prosperity of the population (ibidem), although it often correlates with other indicators, for example with economic output, innovations and also the level of employment. Despite its strong correlation, GDP per capita is a single indicator is used to measure the level of development. In contrast, in the multi-indicator method, individual indicators can be combined and form a new one, which is usually referred to as an index, for example the Human Development Index.

It must be taken into account that indicators are indirect measurement variables and thus pointers to certain facts. Viewed in isolation, individual indicators have little meaningfulness because they are local and temporal parameters. They gain their meaning by relating and comparing the values. The selection and combination of indicators poses a challenge. On the one hand, comprehensive data availability should be guaranteed in order to be able to compare regions with one another. On the other hand, particular attention must be paid to the substitutability of some indicators, since certain facts can be shown by several indicators. (Nohlen & Nuscheler 1993)

In order to establish local comparability, it is important to create comparable regions. For this purpose, the NUTS regions were developed by the European Union. There are three different sizes of regions divided by the number of inhabitants. The NUTS 1 regions have more than three million inhabitants and are comparable to larger German federal states, the NUTS 2 regions are comparable to German administrative districts and have between 800,000 and three million inhabitants, NUTS 3 regions form the smallest regions with fewer than 800,000 and are the largest group accounting with 1342. (European Commission 2016) This approach makes a lot of sense in theory, but is more difficult in practice because the data available in the countries differs greatly. In order to counteract this problem, the European Commission has introduced Eurostat, the statistical office of the European Union, collecting the data of all members centrally and making it available in bundles. However, the problem is that Eurostat is dependent on the provision of data from the individual member countries. Some of these data are not complete or standardised but are made available individually by the individual countries.

Measurability tools

As already mentioned, indicators are only temporal and local measurements that can be evaluated with different instruments. The most important instruments are: the mean deviation, the variability coefficient, the standard deviation and the variation coefficient, as well as the regression coefficient. These values serve as indicators of changes in disparities between regions. A decrease in disparities means convergence of regions and an increase in disparities means divergence. There are two forms of convergence, namely sigma convergence and beta convergence. Sigma convergence examines how the spread, measured by variance or standard deviation, behaves at different points in time in the different regions. (Dauderstädt 2014) It serves as an indicator for the relative alignment of the measured values and is usually calculated using the standard deviation of the logarithmic values. Beta convergence, in turn, is divided into relative and absolute convergence. Absolute Beta convergence indicates that poorer regions have a higher growth rate than richer regions. Whether a region is defined as poorer or richer depends on the initial values. In comparison, relative beta convergence relates baselines to growth rate, meaning that the higher a region's baselines, the slower it grows. (Dauderstädt 2014) Opposing manifestations of the above facts are referred to as divergence processes.

Convergence and divergence thesis

Recording and presenting the indicators is not sufficient; the implications must also be looked at. This measurement and analysis of the indicators is theoretically embedded for subsequent interpretation. Convergence characteristics can be explained with the neoclassical growth theory. This describes that economies with fewer factors achieve higher accumulation rates and thus a higher growth rate in order to reach their steady state. (Thomas 1995) In addition, there is absolute convergence due to balancing mechanisms in the case of different regional factor endowments. (ibidem) This convergence process is reinforced by the four basic freedoms laid down in the European Union and the associated factor mobility. In general, free trade in goods leads to a reduction in disparities, since, according to the factor equalisation theorem, this has a positive effect both on the harmonisation of goods prices and factor prices. (Thomas 1995) In the neoclassical period, technical progress is assumed to be an exogenous factor. Over time, endogenous factors have found increasing consideration in the theory when specifying technical progress. Influencing factors such as transfer

effects and 'economies of learning' found their way into the explanation of technology diffusion through endogenous growth theories. (Thomas 1995) However, some endogenous growth theories also allow the explanation of divergence processes. The polarisation theories have a special position here. They assume that economic growth emanates from growth poles, which are often located in agglomeration areas and whose development is further favored by their advantages. This further exacerbates existing imbalances. Furthermore, this development is favored by the pull factors existing in agglomerations. In addition to the accumulation of knowledge, there is a concentration of companies and human capital. (Schätzl 2000) According to G. Myrdal's regional polarisation theory, there is "circular causation of a cumulative process" in market economies. (Myrdal 1959: 14) This leads to imbalances at the national level between the regions and thus to divergence.

Analysis

The following analytical part is divided into different sections. First, the development of two economically important indicators, that of the GDP per capita and that of the employment structure, represented by employment and unemployment rates, are considered. These indicators are presented at different points in time and possible reasons for the characteristics are highlighted. In addition to GDP per capita, labor productivity is also considered. Subsequently, individual potential factors are considered in order to derive opportunities and risks for development from the characteristics and to identify connections between the individual indicators.

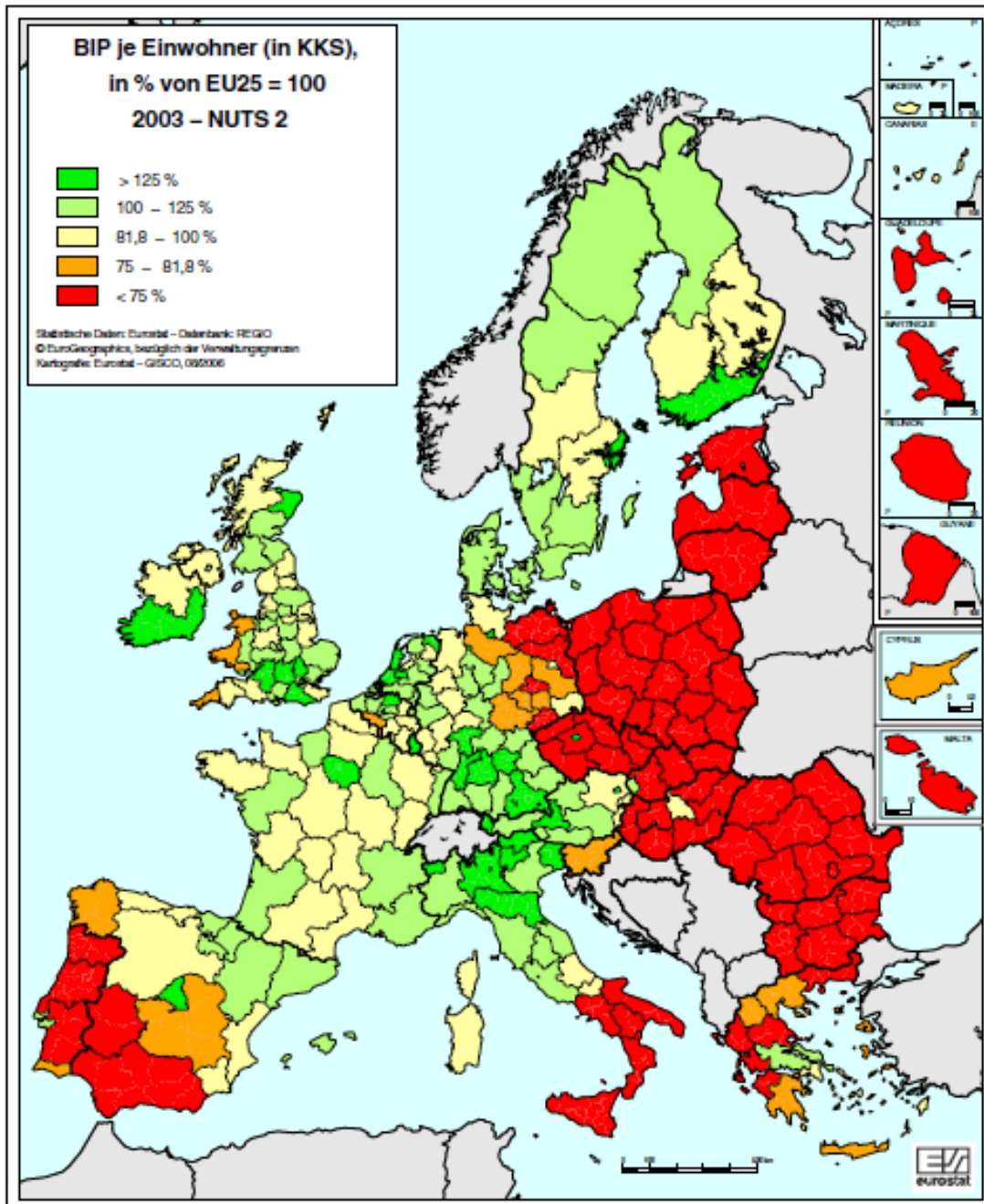
Gross domestic product per capita development

In order to be able to compare regions better, it is important to calculate GDP per capita independently of exchange rates and prices. This is done by displaying the so-called purchasing power standard. The purchasing power standard is determined by measuring the absolute values of GDP with purchasing power parities. (European Commission 2006)

The EU-25 countries in 2003 are considered below. There are 74 regions below 75% of the EU-25 average GDP per capita, mostly concentrated in the southern periphery, eastern Germany, the new member states and candidate countries (ibidem). 36 NUTS 2 regions have an average GDP per capita of over 125%, these regions are predominantly located in southern Germany, Great Britain, northern Italy, the Benelux

countries, as well as Ireland and Scandinavia (ibidem). It can also be stated that the capital regions mostly have above-average GDP per capita performance values (see Figure 1). It follows that there are some regional disparities within the European Union, which become visible through the distribution of GDP.

Figure 1: GDP per capita (in PPS) in % of the EU-25 average in 2003

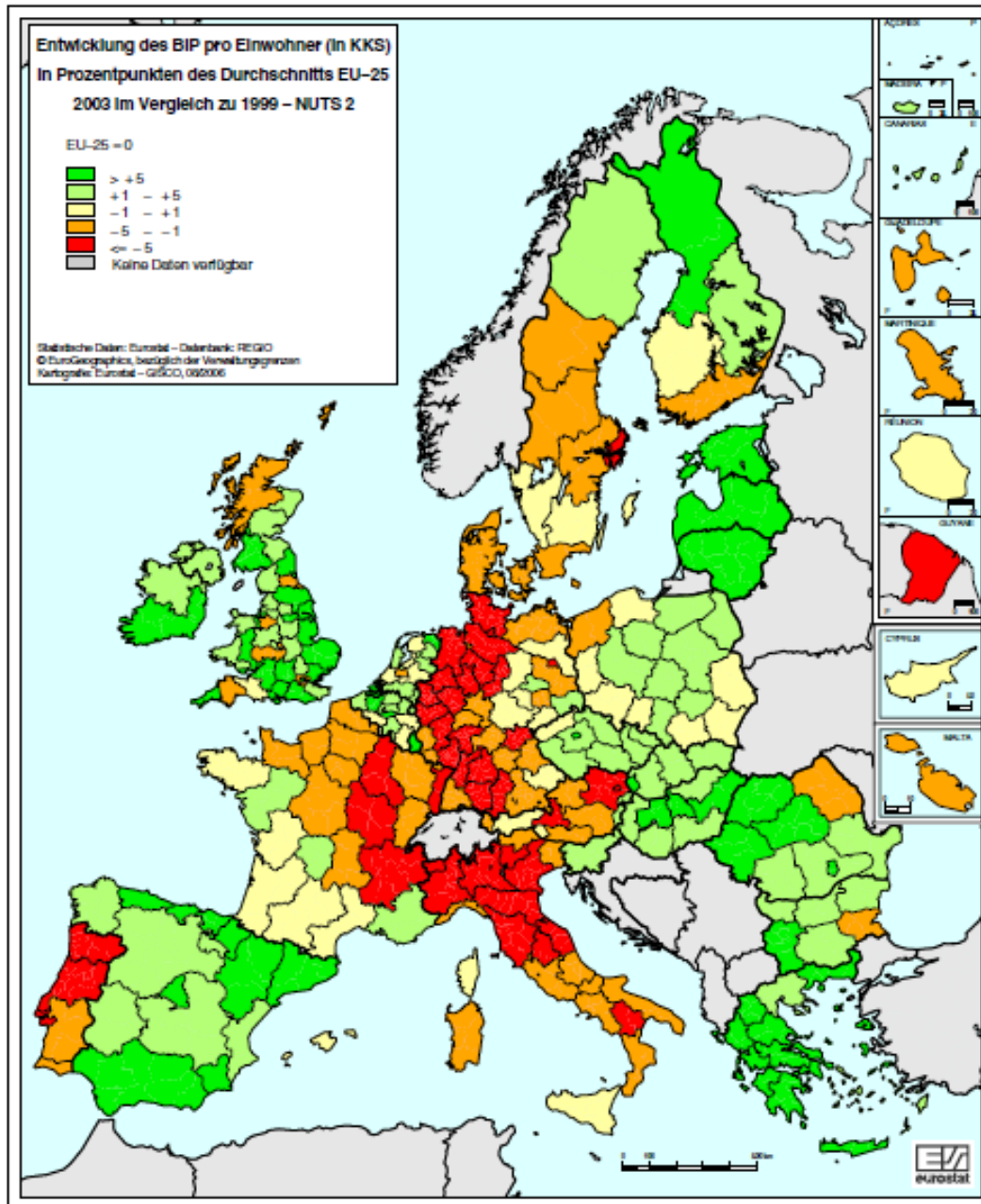


Source: European Commission 2006: 32

Looking at the development between 1999 and 2003, it can be seen that many EU-15 countries are showing negative growth. On the other hand, many NUTS 2 regions with a low initial GDP show above-average growth. Figure 2 shows that the Baltic countries

(Latvia, Lithuania and Estonia), Hungary, Slovenia, Bulgaria and Romania are particularly dynamic. (European Commission 2006) Convergence tendencies can be observed in the dynamic development between 1999 and 2003, which arise from the different GDP growth rates of the countries.

Figure 2: Change in GDP per capita on average to EU-25 1999-2003



Source: European Commission 2006: 34

When evaluating certain data from the yearbook of the regions by the European Commission from 2007, it must be taken into account that this focused on the eastward expansion of the EU in 2004 and 2007. As a result of the enlargements, imbalances in the distribution of GDP have increased. For example, the average GDP per capita in

the European Union fell by almost 12%. (European Commission 2007) One reason for this is the low starting values of the new member states, which were below 50% of the EU average in many regions. As a result, some very weak regions of the EU-15 countries now show a smaller deviation from the average. (European Commission 2007) It can also be stated that the difference between the poorest and richest regions has increased enormously and the disparities have increased as a result. When looking at economic growth, regional differences can be identified. Above all, regions that are located in more peripheral locations of the European Union show stronger economic growth. Italy is an exception to this. This expression is a clear sign of beta convergence. (ibidem)

From the data analysis of the annual report from the year 2010 it can be stated that the weakest regions form southern, western and south-eastern peripheries. (European Commission 2010) The difference between the weakest and strongest economic regions Severozapaden (Bulgaria) (26%) and Inner London (334%) in GDP per capita has increased compared to the values from 2005. In 2005 the weakest region was still in Romania with 24% and has thus increased by 2 percentage points, while the value of Inner London has increased by 31 percentage points from 303% to 334%. A divergence can be derived from this. (Krueger 2010) Nevertheless, the absolute number of regions that were below 75% of the EU average GDP per capita has fallen to 67. Of these, 28 regions were even below 50% of the EU average. Due to the reduction in the number of regions below the EU average, this is referred to as convergence. At the same time, the number of regions generating over 125% of the EU average has increased slightly to 41, which means that the number of weaker regions is decreasing altogether faster than the number of richer regions is increasing. (European Commission 2010) Furthermore, strong divergences can be observed within the countries, which mean a large regional spread within the countries. "Moderate regional divergences in GDP per inhabitant (i.e., factors between the highest and lowest values of less than 2) can only be seen in the EU-15 member states, with the exception of Slovenia and Croatia" (European Commission 2010: 77). There are also major differences between the capital and surrounding regions. In addition, the capital regions often stand out from the rest of the regions of the respective country because they generate a higher average GDP per capita. (European Commission 2010) A possible reason for this could be commuter flows, which are intensified by pull factors arising in agglomerations. With high commuter flows, the number of people

generating the output is significantly higher than the number of people used to calculate GDP per capita.

As can also be seen from the older reports, the western, eastern and northern peripheral areas show clear economic dynamism. (ibidem) If there are some EU-15 countries in this belt, one can generally speak of weak growth within them. This results in beta convergence for the EU as a whole, as this area also includes many regions that had lower initial GDP. The catching-up process of the new member states goes hand in hand with growing regional disparities within them, so there is regional divergence there. (ibidem)

With the change in the number of regions producing less than 75% of average GDP per capita from 67 (2008) regions to 68 (2010) regions and the constant number of wealthier regions with over 125% from 41, this parameter can be adjusted hardly any effects of the global economic crisis from 2007 onwards in this period. One explanation here could be that the measurements cover specific periods of time. By looking at the average values over a longer period of time from 2000 to 2009, the cuts of the global economic crisis due to previous strong growth are significantly mitigated. (European Commission 2012) There are noticeable effects of the global economic crisis in 53 regions where GDP has fallen by 10 percentage points or more. All of them are in the EU-15 countries. These regions are spread across Great Britain (16), France, Italy (11 each), Sweden (4), Belgium, Germany (3 each), Denmark, Greece, Spain, the Netherlands and Austria (1 each). (European Commission 2012)

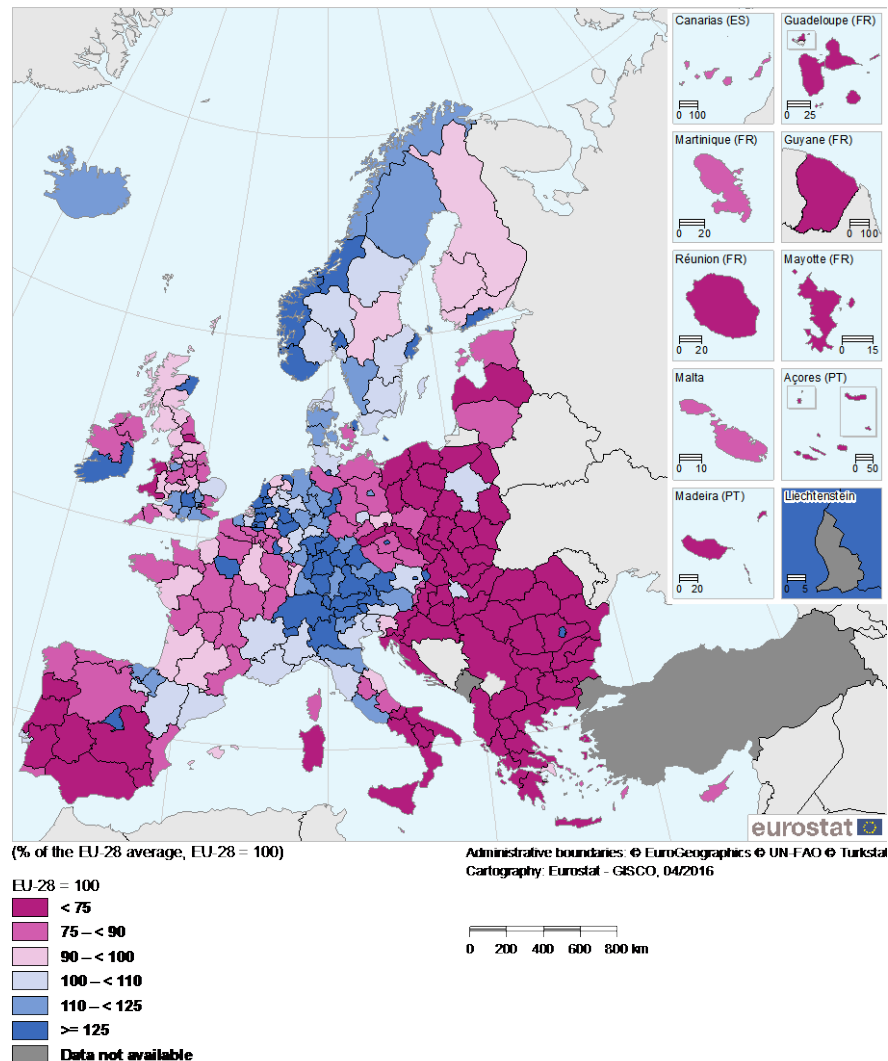
The latest developments indicate increasing disparities and thus divergence between the poorest region, Severozapaden with 30% (2014) of the EU-28 average GDP per capita and Inner London with 539% (2014). (European Commission 2016) Figure 3 also shows that the number of regions with an average GDP per capita below 75% has increased to 78, while the number of richer regions has remained the same. (European Commission 2016) This development does not necessarily mean that regions have deteriorated. The characteristics can possibly be attributed to the fact that economic growth has not grown as quickly as that of the EU-28 average.

In general, it should be noted that the data situation is difficult to compare, since the data sets relate to different periods of time that vary in duration and also sometimes overlap. In addition, some countries only provide data at national level, or the countries

are so small that they only form a NUTS 2 region. This makes it difficult to compare data.

Figure 3: GDP per capita (in PPS) in % of EU-28 average 2014

Gross domestic product (GDP) per inhabitant in purchasing power standard (PPS) in relation to the EU-28 average, by NUTS 2 regions, 2014 (%)
(% of the EU-28 average, EU-28 = 100)



(*) Norway: 2013. Switzerland, Albania and Serbia: national data. Switzerland and Albania: provisional.

Source: European Commission 2017 (a)

Labor Productivity

Although GDP per capita is the most widely used indicator to measure a region's economic performance, it is also one of the most criticised indicators, as the numerator refers to the production rendered in the region, but the denominator to the resident population of the region, who were not necessarily involved in the value-added process. (European Commission 2006) The main problem here is that per capita GDP is correspondingly strongly influenced by the population structure, which can lead to distortions when comparing regions. The labor productivity indicator, on the other

hand, relates the output of a region to its input factor labor, with the distortion caused by commuter flows being eliminated. (European Commission 2007) Labor productivity is measured in euros per employee.

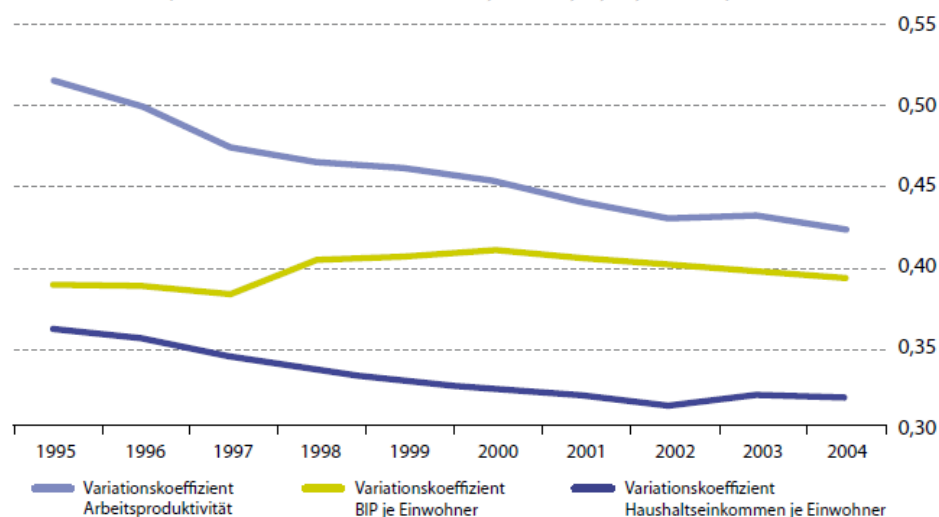
In 2004, the regions with the highest labor productivity were Luxembourg, Île-de-France, Brussels, Southern and Eastern Ireland, each with more than €80,000 per employee. In contrast, the regions with the lowest labor productivity in 2004 were all regions of Bulgaria and Romania, with the exception of Bucharest with less than €10,000 per employee. In general, labor productivity in the new member states is low, below €20,000 per employee in all regions except for the regions of Cyprus, Malta and Slovenia, and the capital regions of the Czech Republic, Slovakia, Hungary and Poland. On the other hand, labor productivity in the regions of the old member states is almost consistently over €40,000 per employee, with the only exceptions being all regions in Portugal, two Spanish regions and two British regions. (European Commission 2007) There are even strong differences in labor productivity within single countries, such as Germany, with a west-east difference and in Italy with a north-south difference. In general, the distribution of labor productivity is similar to that of GDP per capita, and the capital regions are usually better than the national average for this indicator as well, although this difference is much less pronounced than for GDP per capita.

A similar picture emerges when looking at the growth rates of labor productivity in the regions. In the period from 1999 to 2004, the growth rates for the new member states were well above average, while the old member states with higher starting values showed much lower growth rates. This is confirmed by a correlation coefficient of -0.67 (ibidem). Even if this does not express a strong correlation, it is clearly different from 0. A parallel development to GDP per capita can also be seen here. A convergence process within the European Union can thus also be identified here.

Unfortunately, labour productivity was not followed up and compared with the above results, since the European Commission no longer included this indicator in the statistical yearbook of the regions from 2008 and only refers to GDP per capita. The following can be found as possible reasons for this. Firstly, GDP per capita is a key indicator of the Structural Funds to support vulnerable regions. In order to assess the efficiency of cohesion policy, it makes sense to look at the indicator that it also uses as a basis. (European Commission 2006) The second thing to note is that the labor

productivity indicator shows results that are similar to the per capita GDP indicator, but that it receives much more international attention. The main difference lay in the correction of the capital city values for the distortion caused by commuter flows. However, since this distortion is quite evident when looking at GDP per capita, its global presence outweighs this effect. Finally, the coefficient of variation of the two indicators should be mentioned as a reason. Figure 4 shows that the coefficient of variation in labour productivity falls significantly over the period 1995-2004, while the coefficient of variation in GDP per capita remains lower on the one hand and fairly constant on the other. For the first time, different statements on convergence can be derived from the two indicators. While the GDP per capita does not show any convergence due to its small change in the dispersion over time, a sigma convergence is clearly recognizable in the coefficient of variation of labor productivity. The small change in the coefficient of variation of GDP per capita may be due to the fact that commuter effects have increased over time, offsetting a decrease in the remaining variance. (European Commission 2007)

Figure 4: Development of the coefficients of variation for GDP per capitalabor productivity and household income per capita (Eu-28) (for household income only EU-23, excluding BG, CY, MT, LU and SI) 1995-2004



Source: European Commission 2007: 71

Employment Structure

Other important indicators for measuring disparities are the employment and unemployment rates. The main difference between the indicators is that the employment rate indicates the degree of employment of the total population, while the unemployment rate refers exclusively to people who are able to work. Persons aged

between 15 and 64 are considered to be able to work. This distinction in the initial values must be taken into account, as otherwise they would add up to 100% and it would therefore be sufficient to consider one indicator. Furthermore, the differentiated view enables a more detailed analysis of the labor market situation. While the employment rate has macroeconomic significance, the unemployment rate provides an accurate description of the labor market. Nevertheless, the two indicators correlate strongly with each other.

Looking at Table 1, which shows the employment rate over a period of 10 years in Europe and as a percentage of the population, a positive development can be seen for the area as a whole. The eastward enlargement of the EU had little effect on the employment rates of the individual countries, but on the average value, since the employment rate in the eastern countries is well below the peak values. This statement also applies to the southern countries (Spain, Italy and Greece) of the European Union. Denmark, Sweden, Great Britain and the Netherlands have the highest employment rates at over 70%. (see Table 1) However, the global economic crisis had a significant effect on the employment rate from 2007 onwards. While in 2008 hardly any effects of the global economic crisis on the employment rate were visible, in 2009 a decrease of 1-2 percentage points on average compared to the previous year can be determined. The change in Latvia is particularly striking, where the rate fell by almost 8 percentage points. (see Table 1) The values from 2010 show that the countries have developed differently. Some can show a slight growth in the employment rate after the crisis compared to the previous year, these include Romania with 1.6 percentage points, Malta with 0.9 percentage points, Germany with 0.8 percentage points, Austria with 0.5 percentage points and Belgium with 0.4 percentage points. Most countries continue to experience negative growth. The countries most affected are Bulgaria with -2.9 percentage points, Estonia with -2.6 percentage points and Ireland, Lithuania and the Netherlands with -2.3 percentage points each as well as Denmark and Croatia with -2 percentage points each .0 percentage points compared to the previous year. (see Table 1) For most countries, however, a positive development can be seen again from 2012 onwards. With the exception of the countries that were particularly hard hit by the euro crisis, these are showing a positive development but deviate from the other countries that have recovered more quickly, including Greece, Spain, Italy and Croatia. Their employment rate has not yet risen above 60% again. Despite this positive development, no sigma convergence can be derived from the data.

Table 1: Employment rate (employed persons aged 15-64) 2004-2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-28	62,9	63,4	64,3	65,2	65,7	64,4	64,1	64,2	64,1	64,1	64,9
Europa (ER-19)	63,0	63,5	64,5	65,5	65,8	64,4	64,0	64,1	63,7	63,4	63,9
Belgien	60,3	61,1	61,0	62,0	62,4	61,6	62,0	61,9	61,6	61,8	61,9
Bulgarien (*)	54,2	55,8	58,6	61,7	64,0	62,6	59,7	59,4	58,8	59,5	61,0
Tsch. Republik (*)	64,2	64,8	65,3	66,1	66,6	65,4	65,0	65,7	66,5	67,7	69,0
Dänemark	76,7	76,9	77,4	77,0	77,9	77,3	77,3	77,2	72,6	72,5	72,8
Deutschland (*)	65,0	65,5	67,2	69,0	70,1	70,3	71,1	72,7	73,0	73,5	73,8
Estland	63,1	64,8	68,4	69,8	70,1	69,8	61,2	65,3	67,1	68,5	69,6
Irland (*)	66,3	67,6	68,7	69,2	67,4	61,9	59,6	58,9	58,8	60,5	61,7
Griechenland	59,1	59,6	60,6	60,9	61,4	60,8	59,1	55,1	50,8	48,8	49,4
Spanien (*)	61,3	63,6	65,0	65,8	64,5	60,0	58,8	58,0	55,8	54,8	56,0
Frankreich (*)	63,7	63,7	63,6	64,3	64,8	64,0	63,9	63,9	63,9	64,1	64,3
Kroatien	54,7	55,0	55,6	59,0	60,0	59,4	57,4	55,2	53,5	52,5	54,6
Italien	57,7	57,6	58,3	56,6	58,6	57,4	56,8	56,8	56,6	55,5	55,7
Zypern (*)	66,9	68,5	69,6	71,0	70,9	69,0	66,9	67,6	64,6	61,7	62,1
Lettland	61,0	62,1	65,9	68,1	68,2	60,3	58,5	60,8	63,0	65,0	66,3
Litauen	61,6	62,9	63,6	65,0	64,4	59,9	57,6	60,2	62,0	63,7	65,7
Luxemburg (*)	62,5	63,6	63,6	64,2	63,4	65,2	65,2	64,6	65,8	65,7	66,6
Ungarn	56,8	56,9	57,4	57,0	55,4	55,0	54,9	55,4	56,7	58,1	61,8
Malta (*)	54,0	53,6	53,9	55,0	55,5	55,3	56,2	57,9	59,1	60,8	62,3
Niederlande (*)	73,1	73,2	74,3	76,0	77,2	77,0	74,7	74,2	74,4	73,6	73,1
Österreich	66,5	67,4	68,6	69,9	70,8	70,3	70,8	71,1	71,4	71,4	71,1
Polen (*)	51,7	52,8	54,5	57,0	59,2	59,3	58,9	59,3	59,7	60,0	61,7
Portugal (*)	67,6	67,3	67,6	67,6	68,0	66,1	65,3	63,8	61,4	60,6	62,6
Rumänien (*)	57,7	57,6	58,8	58,8	59,0	58,6	60,2	59,3	60,2	60,1	61,0
Slowenien	65,3	65,0	66,6	67,8	68,6	67,5	66,2	64,4	64,1	63,3	63,9
Slowakei (*)	57,0	57,7	59,4	60,7	62,3	60,2	58,9	59,3	59,7	59,9	61,0
Finnland	67,6	68,4	69,3	70,3	71,1	68,7	68,1	69,0	69,4	68,9	68,7
Schweden (*)	72,1	72,5	73,1	74,2	74,3	72,2	72,1	73,6	73,8	74,4	74,9
Vor. Königreich	71,7	71,7	71,6	71,5	71,5	69,9	69,4	69,3	69,9	70,5	71,9
Island	82,3	83,8	84,6	85,1	83,6	78,3	78,2	78,5	79,7	81,1	81,7
Norwegen	75,1	74,8	75,4	76,8	78,0	76,4	75,3	75,3	75,7	75,4	75,2
Schweiz (*)	77,4	77,2	77,9	78,6	79,5	79,0	78,6	79,3	79,4	79,6	79,8
EJR Mazedonien	-	-	39,6	40,7	41,9	43,3	43,5	43,9	44,0	45,0	46,9
Türkei	-	-	44,6	44,6	44,9	44,3	46,3	48,4	48,9	49,5	49,5
Japan	68,7	69,3	70,0	70,7	70,7	70,0	70,1	70,3	70,6	71,7	72,7
Vereinigtes Königreich	71,2	71,5	72,0	71,8	70,9	67,6	66,7	66,6	67,1	67,4	68,1

(*) 2011: Bruch in der Reihe.
 (*) 2005: Bruch in der Reihe.
 (*) 2007: Bruch in der Reihe.
 (*) 2013: Bruch in der Reihe.
 (*) 2009: Bruch in der Reihe.
 (*) 2010: Bruch in der Reihe.

Source:

European Commission 2017: Statistics Explained

No clear convergence or divergence processes can be derived when comparing the data from the years 2013 and 2014. There are some weaker countries (e.g. Croatia) where the employment rate seems to be growing faster than in the stronger countries

(e.g. Sweden), but there are also just as many outliers, for example Belgium and the UK.

Table 2: Unemployment rate 1990-2016

Arbeitslosenquote, insgesamt % Anteil der Erwerbspersonen		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
geo	time																													
EU (28 Länder)		:	:	:	:	:	:	:	:	:	:	:	8,9	8,7	9	9,2	9,3	9	8,2	7,2	7	9	9,6	9,7	10,5	10,9	10,2	9,4	:	
EU (27 Länder)		:	:	:	:	:	:	:	:	:	:	:	8,8	8,6	8,9	9,1	9,2	9	8,2	7,2	7	9	9,6	9,6	10,4	10,8	10,2	9,4	:	
Euroraum (19 Länder)		:	:	:	:	:	:	:	:	10,4	9,7	8,9	8,3	8,6	8,6	9,1	9,2	9,1	8,4	7,5	7,6	9,6	10,2	10,2	11,4	12	11,6	10,9	:	
Euroraum (18 Länder)		:	:	:	:	:	:	:	:	9,6	8,8	8,2	8,5	8,2	8,5	9	9,3	9,1	8,4	7,5	7,6	9,6	10,1	10,1	11,4	12	11,6	10,9	:	
Belgien		6,6	6,4	7,1	8,6	9,8	9,7	9,5	9,2	9,3	8,5	6,9	6,6	7,5	8,2	8,4	8,5	8,3	7,5	7	7,9	8,3	7,2	7,6	8,4	8,5	8,5	:		
Bulgarien		:	:	:	:	:	:	:	:	:	:	16,4	19,5	18,2	13,7	12,1	10,1	9	6,9	5,6	6,8	10,3 ^(b)	11,3	12,3	13	11,4	9,2	:		
Tschechische Republik		:	:	4,3	4,3	4	3,9	4,8	6,5	8,7	8,8	8,1	7,3	7,8	8,3	7,9	7,1	7,1	5,3	4,4	6,7	7,3	6,7	7	7	6,1	5,1	:		
Dänemark		7,2	7,9	8,6	9,6	7,7	6,7	6,3	5,2	4,9	5,2	4,3	4,5	4,6	5,4	5,5	4,8	3,9 ^(b)	3,8	3,4	6	7,5	7,6	7,5	7	6,6	6,2	:		
Deutschland		:	5,5	6,6	7,8	8,4	8,2	8,9	9,6	9,4	8,6	7,9	7,8	8,6	9,7	10,4	11,2 ^(b)	10,1	8,5	7,4	7,6	7	5,8	5,4	5,2	5	4,6	:		
Estland		:	:	:	:	:	:	:	:	:	:	14,6	13	11,2	10,3	10,1	8	5,9	4,6	5,5 ^(b)	13,5	16,7	12,3	10	8,6	7,4	6,2	:		
Irland		13,4	14,7	15,4	15,6	14,3	12,3	11,7	9,9	7,5	5,7	4,3	3,9	4,5	4,6	4,5	4,4	4,5	4,7	6,4	12	13,9	14,7	14,7	13,1	11,3	9,4	8	:	
Griechenland		:	:	:	:	:	:	:	:	11,1	12	11,2	10,7	10,3	9,7 ^(b)	10,6	10	9	8,4	7,8	9,6	12,7	17,9	24,5	27,5	26,5	24,9	:		
Spanien		15,5	15,5	17	20,8	22	20,7 ^(b)	19,9	18,4	16,4	13,6	11,9	10,6	11,5	11,5	11	9,2	8,5	8,2	8,5	8,2	11,3	17,9	19,9	21,4	24,8	26,1	24,5	22,1	:
Frankreich		7,9	8,1	9	10,1	10,4	10,2 ^(b)	10,5	10,7	10,3	10	8,6	7,8	7,9	8,5	8,9	8,9	8,8	8	7,4	9,1	9,3	9,2	9,8	10,3	10,3	10,4	:		
Kroatien		:	:	:	:	:	:	:	:	:	:	15,8	15,9	15,1	14,2	13,9	13	11,6 ^(b)	9,9	8,6	9,2	11,7	13,7	16	17,3	17,3	16,3	:		
Italien		8,9 ^(b)	8,5 ^(b)	8,8	9,7	10,6	11,2	11,2	11,2	11,3	10,9	10	9	8,5	8,4	8	7,7	6,8	6,1	6,7	7,7	8,4	8,4	10,7	12,1	12,7	11,9	:		
Zypern		:	:	:	:	:	:	:	:	:	:	4,8	3,9	3,5	4,1	4,6 ^(b)	5,3	4,6	3,9	3,7	5,4	6,3	7,9	11,9	15,9	16,1	15	:		
Lettland		:	:	:	:	:	:	:	:	:	14,1	14,3	13,5 ^(b)	12,5	11,6	11,7	10	7	6,1	7,7	17,5	19,5	16,2	15	11,9	10,8	9,9	:		
Litauen		:	:	:	:	:	:	:	:	13,2	14,6	16,4	17,4	13,8	12,4	10,9	8,3	5,8	4,3	5,8	13,8	17,8	15,4	13,4	11,8	10,7	9,1	:		
Luxemburg		1,7	1,6	2,1	2,6	3,2	2,9	2,9	2,7	2,7	2,4	2,2	1,9	2,6	3,8	5	4,6	4,6 ^(b)	4,2	4,9	5,1	4,6	4,8	5,1	5,9	6	6,4	:		
Ungarn		:	:	:	:	:	:	:	9,9	9,1	8,7	6,9	6,3	5,6	5,6	5,8	6,1	7,2	7,5	7,4	7,8 ^(b)	10	11,2	11	11	10,2	7,7	6,8	:	
Malta		:	:	:	:	:	:	:	:	:	:	6,7	7,6	7,4	7,7	7,2	6,9	6,8	6,5	6	6,9	6,9	6,4	6,3	6,4	5,8	5,4	:		
Niederlande		6,1	5,7	5,7	6,5	7,2	8,3	7,7	6,5	5,1	4,2	3,7	3,1	3,7 ^(b)	4,8	5,7	5,9	5	4,2	3,7	4,4	5	5	5,8	7,3	7,4	6,9	:		
Österreich		:	:	:	:	4,3	4,2	4,7	4,7	4,7	4,2	3,9	4	4,4	4,8 ^(b)	5,5	5,6	5,3	4,9	4,1	5,3	4,8	4,6	4,9	5,4	5,6	5,7	:		
Polen		:	:	:	:	:	:	:	10,9	10,2	13,4	16,1	18,3	20	19,8	19,1	17,9	13,9	9,6	7,1	8,1 ^(b)	9,7	9,7	10,1	10,3	9	7,5	:		
Portugal		5,6	5	5	6,3	7,6	7,9	8	7,5 ^(b)	6,1	5,5	5,1	5,1	6,2	7,4	7,8	8,8	8,9	9,1	8,8	10,7	12	12,9	15,8	16,4	14,1	12,6	:		
Rumänien		:	:	:	:	:	:	:	6,1	6,3	7,1	7,6	7,4	8,3	7,7 ^(b)	8	7,1	7,2	6,4	5,6	6,5	7	7,2	6,8	7,1	6,8	6,8	:		
Slowenien		:	:	:	:	:	:	6,9	6,9	7,4	7,3	6,7	6,2	6,3	6,7	6,3	6,5	6	4,9	4,4	5,9	7,3	8,2	8,9	10,1	9,7	9	:		
Slowakei		:	:	:	:	:	:	:	:	12,7	16,5	18,9	19,5	18,8	17,7	18,4	16,4	13,5	11,2	9,6	12,1	14,5	13,7 ^(b)	14	14,2	13,2	11,5	:		
Finnland		3,2	6,6	11,7	16,3	16,6	15,4	14,6	12,7	11,4	10,2	9,8	9,1	9,1	9	8,8	8,4	7,7	6,9	6,4	8,2	8,4	8,2	8,4	7,8	7,7	8,2	8,7	9,4	:
Schweden		1,7	3,1	5,6	9,1	9,4	8,8	9,6	9,9	8,2	6,7	5,6 ^(b)	5,8 ^(b)	6	6,6	7,4	7,7	7,1	6,1	6,2	8,3	8,6	7,8	8	8	7,9	7,4	:		
Vereinigtes Königreich		6,9	8,6	9,8	10,2	9,3	8,5	7,9	6,8	6,1	5,9	5,4	5	5,1	5	4,7	4,8	5,4	5,3	5,6	7,6	7,8	8,1	7,9	7,6	6,1	5,3	:		
Island		:	:	:	:	:	:	:	:	:	:	:	:	:	3,3	3,1	2,6	2,9	2,3	3	7,2	7,6	7,1	6	5,4	5	4	:		
Norwegen		5,2	5,5	5,9	6	5,4	4,9 ^(b)	4,7	3,9 ^(b)	3,1	3	3,2	3,4	3,7	4,2	4,3	4,5	3,4 ^(b)	2,5	2,5	3,2	3,6	3,3	3,2	3,5	3,5	4,4	:		
Schweiz		:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	
Türkei		:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	
Vereinigte Staaten		5,6	6,8	7,5	6,9	6,1	5,6	5,4	4,9	4,5	4,2	4	4,7	5,8	6	5,5	5,1	4,6	4,6	5,8	9,3	9,6	8,9	8,1	7,4	6,2	5,3	:		
Japan		2,1	2,1	2,2	2,5	2,9	3,1	3,4	3,4	4,1	4,7	4,7	5	5,4	5,3	4,7	4,4	4,1	3,8	4	5,1	5	4,6 ^(b)	4,3	4	3,6	3,4	:		
-nicht verfügbar		-siehe Metadaten (in Zukunft nicht mehr verwendet)																												
		b-Zeitreihenbruch																												
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Kurzbeschreibung: Die Arbeitslosenquote ist der Anteil der Arbeitslosen an der Erwerbsbevölkerung. Die Erwerbsbevölkerung ist die Summe der Erwerbstätigen und der Arbeitslosen. Zu den Arbeitslosen zählen alle Personen von 15 bis 74 Jahren, a) die während der Berichtswoche ohne Arbeit waren; b) die gegenwärtig für eine Beschäftigung verfügbar waren, d. h. Personen, die innerhalb der zwei auf die Berichtswoche folgenden Wochen für eine abhängige Beschäftigung oder eine selbstständige Tätigkeit zu finden oder die einen Arbeitsplatz gefunden haben, die Beschäftigung aber erst später, d. h. innerhalb eines Zeitraums von höchstens drei Monaten aufnehmen. Diese Tabelle zeigt nicht nur die Arbeitslosenquote, sondern auch die Anzahl der Arbeitslosen in 1000 bzw. als Anteil in der Gesamtbevölkerung.																														

Source: European Commission 2017 (b)

As with the employment rate, changes can also be seen in the unemployment rate after the eastward enlargement of the EU. However, these are considerably more pronounced. A significant reduction in the unemployment rate can be observed for most countries. This trend can be observed until 2006, due to the above-mentioned time lag in the development. These changes are particularly noticeable in the new accession countries when comparing the figures for 2004 and 2006. The unemployment rate fell particularly sharply in the Baltic States, Bulgaria, Poland and Slovakia. It has decreased by around 5 percentage points in the Baltic States, Slovakia and Poland and by 3 percentage points in Bulgaria. Rates have also fallen in most other member states, although not by as much. Only in Portugal, Hungary and Great Britain unemployment rates have increased slightly. A clear sigma convergence can be observed during this period, since the difference between the lowest and the highest unemployment rate has become smaller. The development continued until 2008 and with the global economic crisis this trend reversed. After 2008, the unemployment rate increased more or less in all member states. Spain, Greece, Bulgaria and Italy recorded the largest increases in the unemployment rate with more than 10 percentage points. Significantly lower increases of around 2-3 percentage points were recorded in Finland, Sweden, Luxembourg, Hungary, the Czech Republic, Germany, Estonia and Great Britain. Malta with the smallest increase (0.4 percentage points) and Greece with the largest increase (19.7 percentage points) form the outer positions. (see Table 2) In general, it can be observed that in 2013 no country had an unemployment rate below 5%, in 2008 there were still seven countries. Since 2013, the unemployment rate has been falling in all countries, but in 2015 Germany was the only country with an unemployment rate below 5%. (see Table 2) Both the employment and the unemployment rate reflect the country's economic situation with a time lag, since the effect on these indicators only begins after the economic downturn or upswing. (European Commission 2010)

In summary, a prosperity gap can be derived from these indicators. A closer look reveals different development tendencies. Especially when considering NUTS 2 regions, it is striking that there are major differences in development at regional and national level. A possible connection could be the population distribution. The values for densely populated regions often deviate greatly from those in less densely populated regions. It is also clear that the existing regional disparities have increased as a result of the enlargement of the European Union in 2004 and 2007. (Klett no date)

Factors with development potential

In addition to the indicators, which clearly show the current state of development, there are also indicators from which potential for the development of the regions can be derived. This is why these indicators are also called potential factors. They provide information about the performance of the regions in various areas. Indicators that are less dependent on other indicators and are more likely to have an influence on facts can be described as potential factors. They are important markers for promoting convergence or avoiding divergence, as they can be directly influenced. This is because they provide more specific information about the social, economic and environmental situation of the region. Selected economic potential factors are discussed below. "Research and development" and "patent applications" were chosen as measurable innovation indicators, since innovation is a source of economic growth. The statistical processing of the data can serve as a basis for the development of an action plan to achieve the cohesion goals, which are constantly being revised.

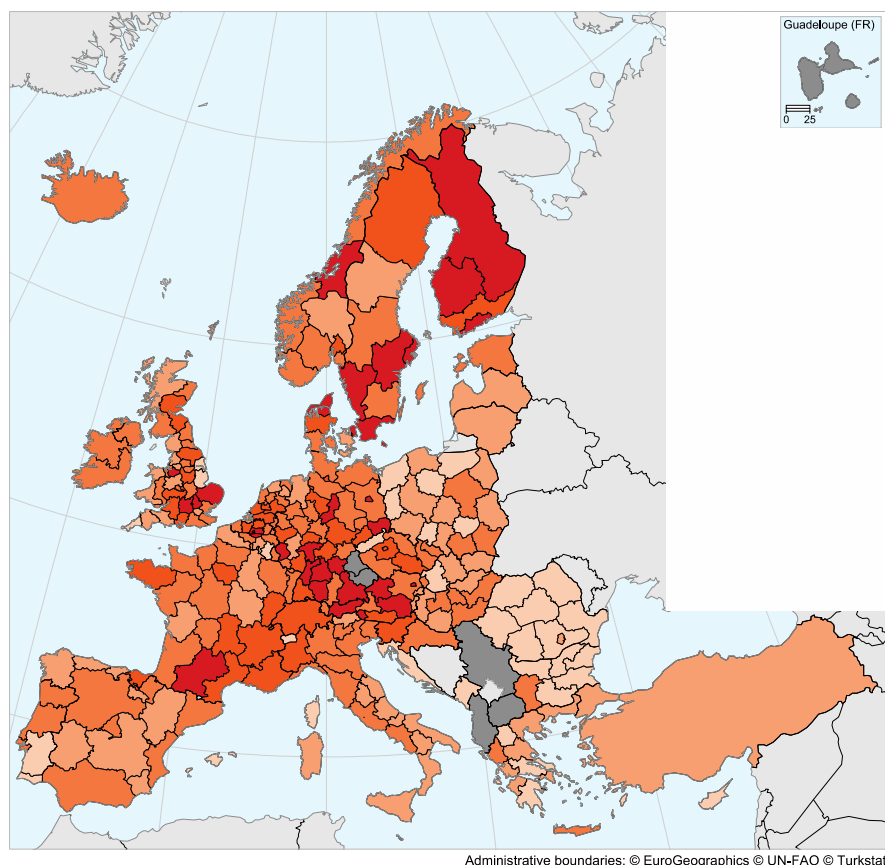
Research and Development

Figure 5 shows the research intensity, given as a proportion of expenditure on research and development in relation to total GDP from 2013 (excluding Switzerland, for which only values from 2012 are available, as well as Slovenia, Serbia and Turkey, for which only national data is available). Research intensity serves as an indicator for research activity. (European Commission 2016) The illustration shows in which regions the research intensity should be increased in order to generate new growth opportunities through innovations. An innovative society can support and maintain the competitiveness of an entire region. Often, however, these regions are also dependent on business culture, workforce skills, education and training institutions, technology transfer mechanisms, regional infrastructure, researcher mobility, sources of funding and creative potential, and innovation support services.

Figure 5 shows that few regions spend more than 3% of GDP on research and development. These include three regions in Finland, three in Sweden, one in Norway, four in the UK, France, Belgium and the Netherlands, two in Denmark, some regions in Germany which they are mostly located in the south and some in Austria. Thus all regions are located in the EU-15 countries. In general, it can be stated that the capital regions spend more than the national average, but they are not always automatically the region with the highest values. The Belgian province spent the most with 11.6% of

the total GDP. The neighboring regions of Namur and Luxembourg had the lowest expenditure with less than one percent of GDP. (European Commission 2016) It can be seen that the EU states that have joined since 2004 have great catching-up potential in the area of research and development.

Figure 5: R&D intensity (expenditure on R&D in relation to GDP) 2013

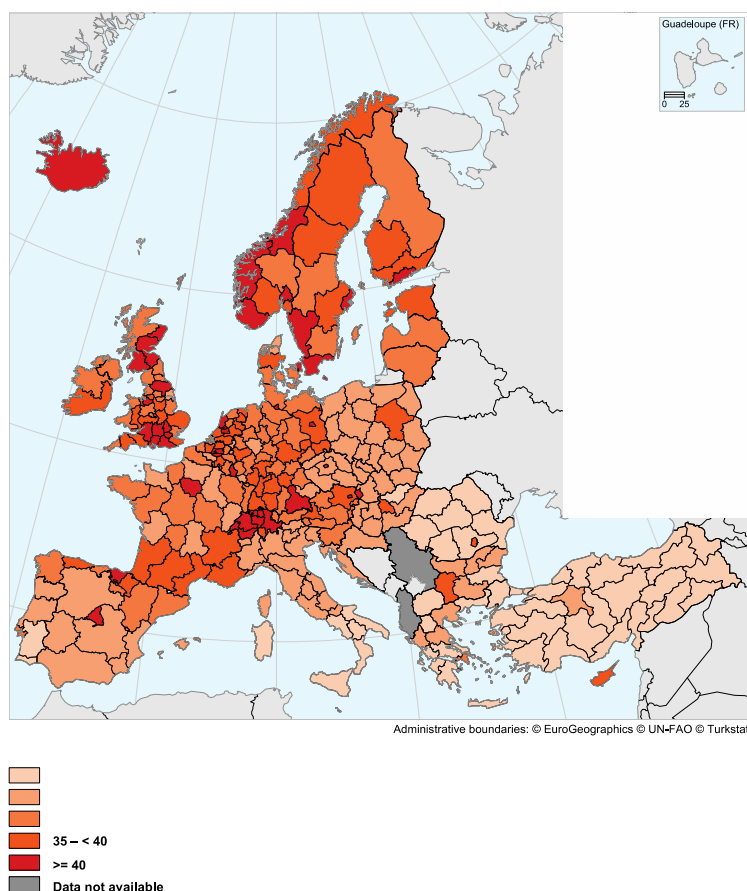


a not available

Source: European Commission 2017 (a)

Figure 6 shows the percentage of people employed in science and technology as a percentage of the total population in 2014. The figure shows that the highest employment rates are in science and technology, in the UK, Norway, Sweden, Iceland, Switzerland, the Netherlands and Belgium. In addition, capital city regions often have a higher employment rate in the science sector compared to the national average. Both a north-south gradient and a west-east gradient can be observed.

Figure 6: Proportion of employees in the scientific sector in relation to the total population in 2014



Source: European Commission 2017 (a)

Comparing the two maps shows that the regions with the highest research intensity are not congruent with the rates of employment in science and technology, it can be concluded that research activity does not appear to be dependent on employment levels. So, there must be other factors that influence them more and for the new member states, job creation in this area alone will not be enough.

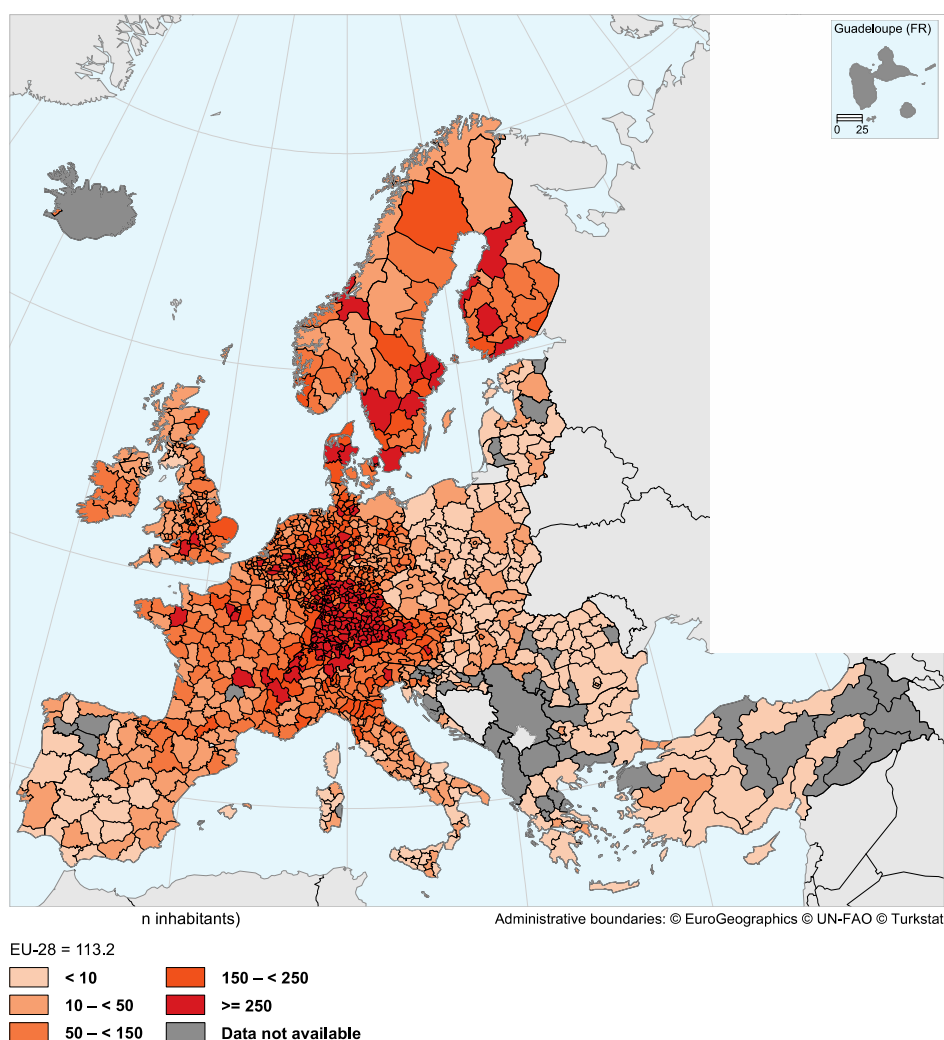
Patent Applications

Figure 7 shows, broken down into NUTS 3 regions, patent applications per million inhabitants in 2011. The regions with the most patent applications have more than 250 applications per million inhabitants, those with the fewest less than ten. There are a total of 210 regions with the highest level, 165 of which are in Germany. The rest are spread across France, Austria, Sweden, Great Britain, Belgium, Denmark, Finland, the Netherlands and Italy (ordered by number). As with the analysis of the distribution of

research intensity, it can be seen that all the regions mentioned are in the EU-15 countries. The greatest development potential can be seen in the new member states as well as in the southern ones (Spain, Italy, Portugal and Greece).

It remains unclear why there are so few applications for patents. Possible factors could be a lack of understanding of the importance of patent applications or a lack of trust in the responsible institutions. These would be helpful to understand in order to be able to develop possible action strategies of EU regional policy beyond the analytical consideration.

Figure 7: Patent applications in relation to population (per million inhabitants) 2011



Source: European Commission 2017 (a)

Conclusion

As highlighted in the analysis, it can be observed that the disparities at the supranational level have decreased. This means that convergence processes can be identified. They can be divided into beta convergences and sigma convergences.

The eastward enlargement of the EU is reflected in a significant change in the distribution of relative GDP per capita. The average GDP per capita in the European Union has fallen by almost 12% and the development regions have shifted to the south-east. The effects of the global economic crisis from 2007 are not clearly visible when looking at GDP per capita. This is due to the fact that in the present work periods of time were considered for the development of GDP per capita instead of points in time. In these, the phases of strong growth before the crisis are offset by the recessionary phase of the crisis.

Nevertheless, it is worth noting that the difference in GDP per capita between the poorest region and the richest region has increased. Both regions have seen positive growth, however Inner London has seen a much greater growth rate than Severozapaden. The stronger growth of the richest region can be explained with the regional polarization theory.

While there are clear signs of convergence at the supranational level, processes of divergence can be identified at the national level. Particularly strong disparities can be seen between capital regions and the surrounding regions. A clear trend towards higher GDP per capita values in agglomeration areas can be observed. These developments can be explained with agglomeration advantages and the “circular causation of a cumulative process” according to G. Myrdal. In general, regional structural differences tend to increase due to this. (Meyer-Thamer 1998) The same tendency can also be seen when looking at labor productivity. This corrects the GDP values in the agglomeration areas from the distortion caused by commuter flows, but still shows the same tendencies as the GDP per capita. It also confirms higher values in agglomeration areas.

This showed the effects of horizontal integration. However, these characteristics are also due to vertical integration. According to the neoclassical growth theory, the increasing interconnectedness of the member states and the four basic freedoms lead

to increased factor mobility. The increased accumulation rates of the lower-factor economies result in higher growth rates and thus convergence.

This interconnectedness of the European Union is also clearly noticeable at the sub-national administrative level, since most employees of these authorities feel that the EU has an influence on their respective work area. (Pitschel 2012) The importance of transnational EU policy can be derived from this. From a regional policy perspective, the developments highlighted at the various levels serve to examine the economic diversity of the European Union in detail. The aim is to reduce disparities by setting common goals and setting up a cohesion fund. The cohesion funds are monetary subsidies that are used to achieve the compensation goal (convergence goal since 2014). In general, the European Union's cohesion and structural policy is one of its most important instruments for reducing disparities and thus promoting or even initiating convergence processes. (Karl 2006) The EU's cohesion and structural policy can be systematically strengthened and efficiently expanded precisely through the increasing vertical integration of the European Union. This also makes sense, since the European Union's cohesion policy currently mainly uses economic indicators to measure and evaluate the current status and is therefore focused solely on convergence in income and ignores other aspects such as gender equality or environmental improvements. (Breidenbach, Mitze, Schmidt 2016) For example, there is the possibility of including the well-being index in the analysis. This links different indicators together. These include health and other social indicators, they are then linked to the GDP and thus represent an alternative assessment option that is not limited to the economic situation of a region or nation. (Döpke et al. 2016) Due to the increasing criticism of the neoclassical perspective after the global economic crisis from 2007, these aspects have also moved into the focus of the European Union, so that more and more indicators from the social and environmental area are taken into account and the GDP is supplemented with these. (European Commission 2013) In addition, more and more importance is attached to sustainability and in particular to sustainable economic growth. For example, while the European Union's cohesion policy is one of its core elements, there are many more policy areas that also enjoy strong attention from the European Parliament and are directly linked to cohesion policy.

A broadening of the political horizon is also necessary, since there are some critical voices who describe the effectiveness of the previous measures of the cohesion policy on incomes within the European Union as only low. (Breidenbach, Mitze, Schmidt 2016) This is particularly interesting because the financial effort in the funding periods has increased steadily since the 1990s and the distribution and amount of funding is based solely on the economic strength or weakness of the various target regions. (Karl 2006) One of the main points of criticism is that the regions are viewed as isolated islands and interdependent aspects are hardly taken into account. (Acemoglu 2007) This does not take into account that the subsidies do not have an effect in the regions to be subsidized, but rather flow into neighboring regions that are already stronger due to spillover effects. This applies in particular to structurally weak regions and the European Commission should therefore possibly reconsider the current monetary support programme. (Breidenbach, Mitze, Schmidt 2016) Because, as shown above, the biggest winners of European integration are already the urban agglomerations, which are characterised by their economic strength. (Schätzl 2000)

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Recent Developments in the Japanese Labour Market:

How can the problems of the Japanese labour market be solved?

Abstract With Japan's economic development after WWII, unique features within its market structure have developed, becoming known as Japanese Capitalism. This comes along with unique features of the labour market. While the system was a driver of Japan's economic success, it began to struggle with the burst of the Japanese bubble economy in the 1990s and the following lost decades. Although the system is seen as worth preserving, its core feature *regular employment* is more and more eroded. With this work the development on the Japanese labour market are to be portrayed and investigated, focussing on the period after the millennium. Segmentation theories are to be applied as underlying theory.

Keyword: Japan, Labour Market, Labour Market Development, Female Labour Participation, M-Curve, Demographic Change, Segmentation theory

JEL: E24, J10, J12, J20, N35

Introduction

This paper analyses recent developments of the Japanese labour market and the problems that the Japanese economy has been facing in the past decades. Furthermore, it will provide prospects for a possible development of the Japanese labour market in the future.

For decades, the Japanese labour market has been characterised by stable employment careers, low unemployment and high wages. This kind of labour market has been regarded as an essential part of the post-war Japanese economic model and a key reason for Japan's economic success and prosperity, as will be shown in section 2.

However, for the last two decades the Japanese economy has been trapped in constantly recurring phases of recession. As a consequence, direct impact on the labour market can be noticed. Section 3.1 will reveal that especially huge companies tend to replace their share of regular employees with non-regular workers, because keeping up the system with its benefits for the regular employees has proved to be

prohibitive. This is a form of flexibility that is supposed to help the Japanese labour market to react to economic fluctuation, but it does not facilitate long term growth.

In sections 3.2 and 3.3 this paper will provide a closer look on the problems caused by demographic change and the role of women in the Japanese labour market. These two problems are interdependent. Japan is facing severe problems of demographic change caused by a declining birth rate. While this may not have effects on the labour market at present, it will lead to a shortage in the labour force in the future. One reason for the declining birth rate is the lack of attractiveness of the Japanese labour market for mothers, or women who eventually plan to have a baby. The system as it is now forces women to decide whether they want a career or a family.

In section 4, segmentation theories will be considered in order to help find feasible solutions for the Japanese labour market. If and how these theories can help to fix the Japanese labour market will be evaluated in section 5, before this paper will end with concluding remarks in section 6.

Uniqueness of the Japanese Labour Market

For several decades, life-long employment and seniority-based wages were considered to be the main characteristics of the Japanese labour market. These principles, however, have always only applied to the group of the so-called “regular employees”, who enjoy the benefits of being full-time workers with indefinite contracts, job security as well as rising salary and position depending on their seniority.

As opposed to the regular employees, the group of the “non-regular employees”, who account for over 30% of the workforce since 2005 (Jones, Urasawa 2011), mainly consists of workers with temporary employment contracts, as well as part-time workers, freeters¹¹ or agency workers. (Tanaka 2009) These types of workers do not enjoy job security or promotion prospects, and their average wages are lower than those of the regular employees even if they basically carry out the same work. (Jones, Urasawa 2011)

This system was established in Japan during the labour-market reforms in the 1940s and represents an important attribute of the Japanese capitalist model. Furthermore, the system of regular employment contributes to the idea of the Japanese welfare society and is therefore seen as worthy of preservation. Until the 1980s, the Japanese

¹¹ jap. フリーター (furītā); person in their 20's who is moving from job to job

labour market worked well under that system since the Japanese economy acquired long-term growth and phases of booms were longer than phases of recession. But since the burst of the bubble, Japan failed to adapt its labour market system to the changing circumstances (Yashiro 2012).

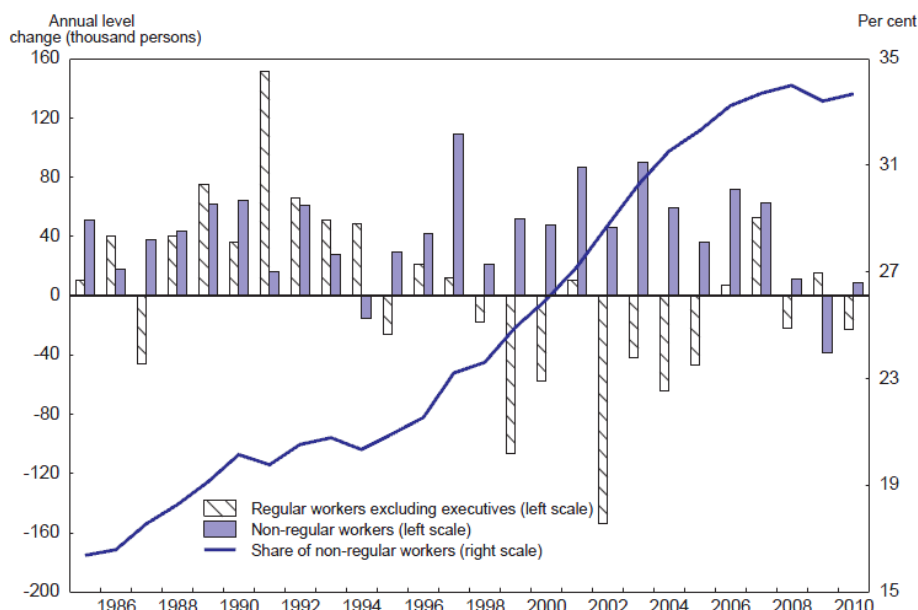
In addition, the classification into regular and non-regular employees can also be seen as separating male and female workforce (Rebick 1998). Even though nowadays the university enrolment rate for females (76.5%) is slightly higher than the enrolment rate for males (76.2%) (Matsui et al. 2010), women are 2 times less likely to become regular employees afterwards (Steinberg 2012). The stereotypical view that women have the responsibility of being a wife and a mother only is still deeply ingrained in the minds of the Japanese population, making it hard for women to compete on the labour market. This will be elaborated further below.

Recent Situation

Development of Workforce

In recent years, the number of regular employees in Japanese companies has decreased noticeably. In contrast, the share of non-regular workers has been rising steadily over the last two decades (Figure 1). This is a sign that “firms have reduced the role of long-term employment” (Jones, Urasawa 2011), which entails problems as well as offering opportunities.

Figure 1. The share of the non-regular workers is rising again.



Source: Jones, Urasawa 2011: Page 6

According to a 2007 government survey, firms hire non-regular workers to be able to reduce both wage costs and non-wage labour costs, and benefit from employment flexibility (ibidem). Another aim is to facilitate adjustment to business fluctuations and reduce working time (Table1).

Table 1. Reasons given by firms for hiring non-regular workers

Year of survey	To reduce wage costs	To cope with daily or weekly fluctuations in demand	To hire work-ready and experienced workers	To work on skilled tasks	Difficulty in finding regular workers	To facilitate adjustment to business fluctuations	To cut non-wage costs	To cope with long business hours	To re-employ older workers	To specialise regular workers in key tasks
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1999	61.0	29.6	23.7	23.8	11.6	30.7	--	20.6	10.3	15.8
2003	51.7	28.0	26.3	23.1	20.1	26.5	22.5	18.1	14.2	15.4
2007	40.8	31.8	25.9	24.3	22.0	21.1	21.1	18.9	18.9	16.8
<i>Part-time</i>	41.1	37.2	11.6	12.7	17.6	18.0	21.3	21.7	7.9	15.3
<i>Dispatched</i>	18.8	13.1	35.2	20.2	26.0	25.7	16.6	3.4	2.6	20.4
<i>Temporary</i>	28.3	4.5	38.3	43.6	18.2	15.6	8.1	6.4	11.0	10.6

1. Firms were allowed to give multiple answers. The figures for part-time, dispatched and temporary workers are for 2007.

Source: Jones, Urasawa 2011: Page 9

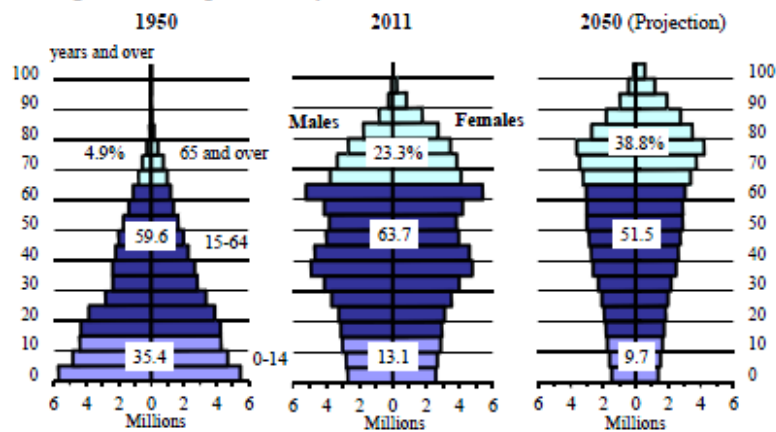
However, the rising share of employees with limited firm-based training has negative effects on long-term innovation and economic growth. Non-regular workers are not part of the company's research and development departments and have no access to confidential in-house information. Furthermore, the non-regular employees are not tied to the company, thus they usually do not have a complete overview of the enterprise. Hiring too many employees who have not had specific firm-based training hampers the company's growth and efficiency.

As a consequence, this has negative long-term effects on the country's economic growth (ibidem).

Demographic Change

While the problems mentioned in section 3.1 mainly have an effect on the Japanese labour market only, the whole country is about to face the problem of demographic change (Figure 2).

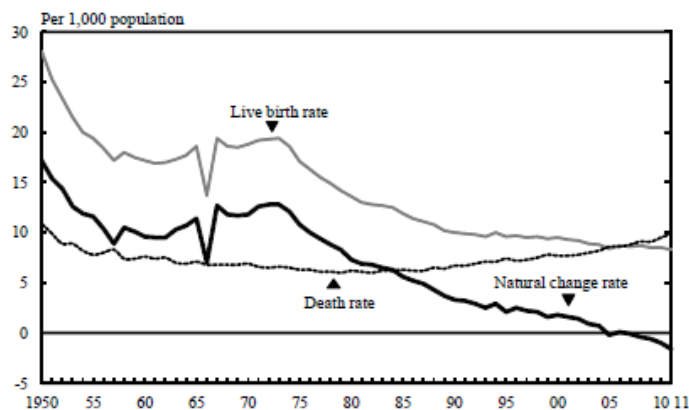
Figure 2. Changes in the Population Pyramid



Source: Statistical Handbook of Japan 2012: Chapter 2

This problem may not yet have an impact on the current developments of the Japanese labour market, but it will definitely have one in the future. For a few decades now, Japanese society has been suffering from an almost constant decline of the birth rate. Since 2005 it has been even lower than the death rate, which leads to an ongoing negative natural change rate (Figure 3). In other words, more people die than babies are born.

Figure 3. Natural Population Change



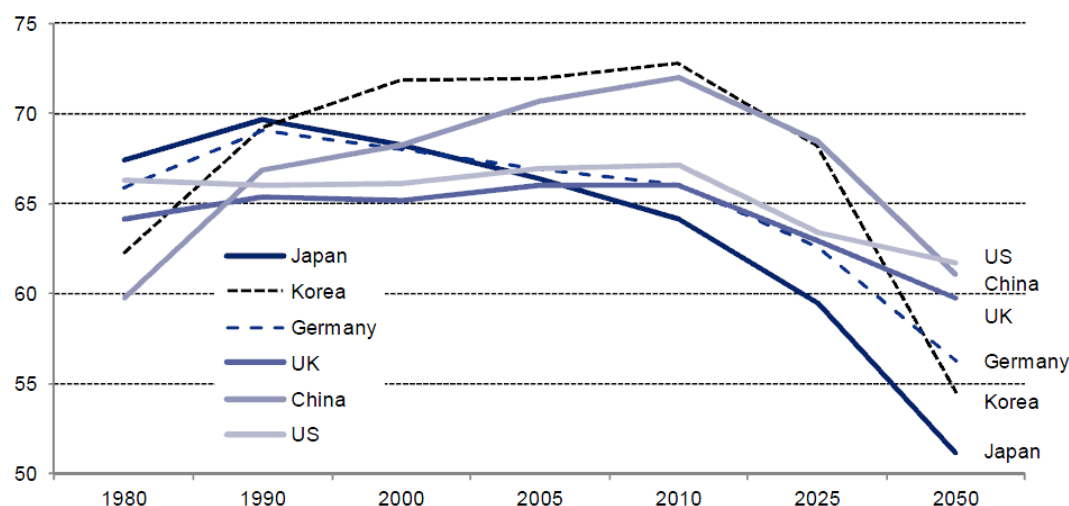
Source: Statistical Handbook of Japan 2012: Chapter 2

If this trend continues, Japan will face “the sharpest labour force decline among advanced economies” (Steinberg, Nakane 2012) (Figure 4). Estimates show that by 2050, the Japanese workforce will have shrunk so much that the decline in economic output will lead to a lowered GDP and negative growth. Such a decline in the basic output would endanger the availability of supplies as well as Japanese competitiveness in the global market. Future productivity gains could possibly counteract this problem,

if the output per worker rises faster than the labour market shrinkage, but whether this can really be achieved remains to be seen.

Figure 4. Japan's working population shrinking faster than other developed countries

Working population (ages 15-64) as a % of total population



Source: Matsui et al. 2010: Page 5

So, for now, one solution is to combat the decline of the birth rate. Therefore, it is necessary to change the Japanese labour market to make it more attractive for mothers. Becoming a mother should not be seen as an obstacle to working and it also should not lead to women having to end their career. If changing in the Japanese labour market would lead to women being able to balance family responsibilities and work, the birth rate would rise again, and the shrinkage of the workforce could be averted. Furthermore, family-friendly policies could help to achieve this (Steinberg, Nakane 2012).

Another solution would be the re-employment of pensioners in order to avoid a too abrupt fall in labour input. Moreover, this could help passing on expert knowledge to younger generations which would help companies to remain competitive (Higashino 2005).

Maternity-Caused Loss of Labour Force

In general, it can be said that Japanese women are more likely to be employed as non-regular workers than as regular employees. In 2008, for example, only 42.2% of the female workforce was employed as regular workers, in contrast to 76.3% of all working

men. This means that women account for only 27.9% of the overall workforce of regular employees (Table 2).

Table 2. A comparison of regular and non-regular workers

In per cent unless indicated otherwise

A. Age	Under age 30	30 to 59	Over age 60
All employees	15.7	76.3	8.0
Regular workers	15.0	82.1	2.9
Non-regular workers	16.8	66.7	16.4
B. Gender	Male	Female	Female's share of:
Regular workers	76.3	42.2	27.9
Non-regular workers	23.7	57.8	63.0
C. Education ¹	Middle school	High school	University
Regular workers	3.5	39.7	36.7
Non-regular workers	7.8	57.3	11.8
D. Occupation ²	Clerical workers	Management	Professional/technical workers
Regular workers	35.4	19.1	19.4
Non-regular workers	26.1	2.7	10.3
E. Sector ³	Manufacturing	Services	Construction
Regular workers	70.3	54.3	85.7
Non-regular workers	29.7	45.7	14.3
F. By size of establishment ³ (number of employees)	More than 1 000	30 to 999	5 to 29
Regular workers	74.2	61.8	61.3
Non-regular workers	25.8	38.2	38.7
G. Wage payment system	By hour	By day	By month or year
Regular workers	0.1	5.7	91.1
Non-regular workers	64.5	9.3	22.3
H. Monthly payment in yen	Less than 100 thousand	100 to 200 thousand	More than 200 thousand
Regular workers	0.2	11.8	86.8
Non-regular workers	40.5	37.4	21.5
I. Tenure ⁴	Less than 1 year	1 to 10 years	More than 10 years
Regular workers	3.7	45.1	49.4
Non-regular workers	21.0	64.3	12.8
J. Main income earner	The worker	Spouse	Parents
Regular workers	84.9	8.8	5.0
Non-regular workers	45.4	41.5	8.1
K. Coverage by social insurance	Employees' pension scheme	Employees' health insurance	Employment insurance
Regular workers	98.7	99.7	99.2
Non-regular workers	46.6	48.6	60.0

1. Highest level of education attained. University includes graduate schools. The remainder (20.2% for regular workers and 23.1% for non-regular workers) are graduates of specialised training colleges and colleges of technology.

2. For the top three occupations for regular workers.

3. Figures show the percentage of regular and non-regular employees in each sector and for each size of establishment.

4. Figures shown are from the 2003 survey, as this question was not included in the most recent survey in 2007.

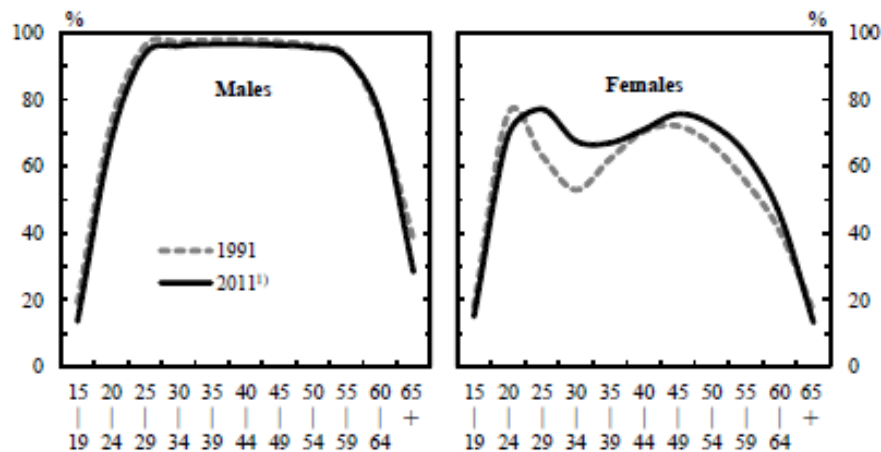
Source: Ministry of Health, Labour and Welfare (2008b), *General Survey of Diversified Types of Employment*, 2007.

Source: Jones, Urasawa 2011: Page 8

The majority of women who enter the labour market are employed as non-regular workers only, regardless of what kind of education they have received. Assuming that they will go on maternity leave rather sooner than later anyway, companies prefer to employ women on a temporary-contract-base. Thus, women have hardly any chance to build a career in a certain company, because they are seen as responsible for their

family and taking care of their children (Steinberg, Nakane 2012). An even more significant gap between the labour force participation of men and women (Figure 5) can be seen concerning women in their mid-20s.

Figure 5. Labour Force Participation Rate by Gender

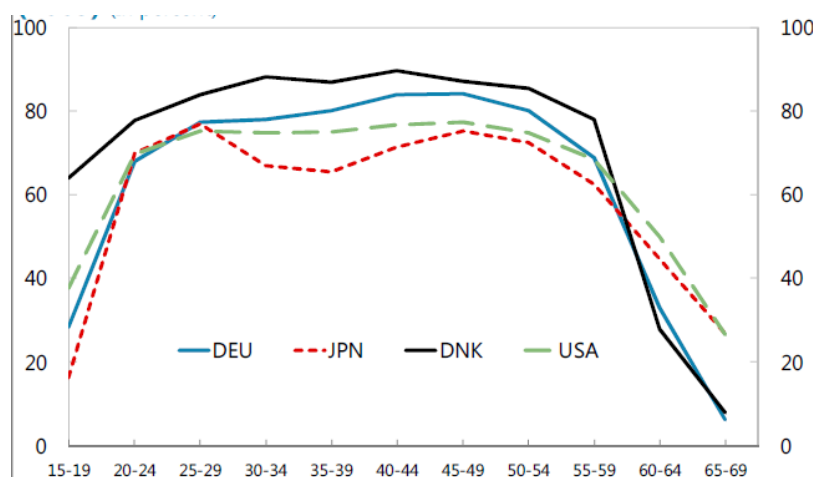


1) Excluding Iwate, Miyagi and Fukushima prefectures.

Source: Statistical Handbook of Japan 2012: Chapter 12

However, between 1991 and 2011 this gap has not only been getting less pronounced, but also been shifting towards the later 20s. Along with the assumptions made in section before, this implies that fewer women have children and therefore do not have any reason to leave their company. Furthermore, women aim for a higher education nevertheless these days, which also contributes to the shift in their normal ages for working and having children (Matsui et al. 2010) This is a phenomenon that especially applies to Japan (Figure 6).

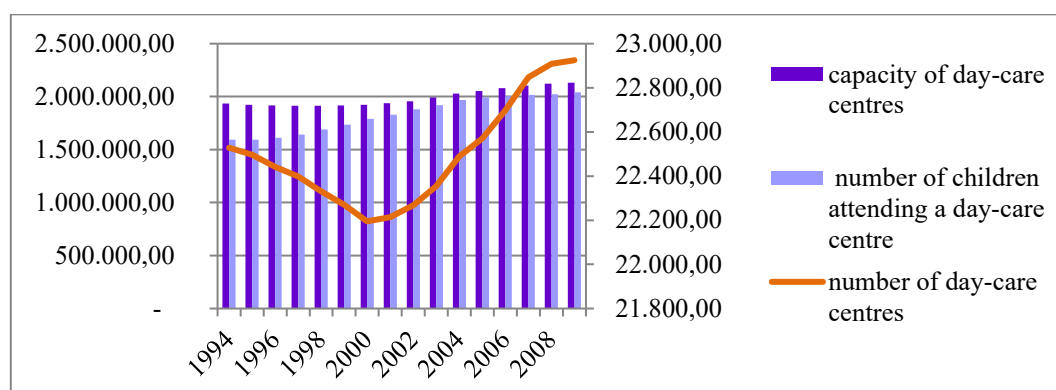
Figure 6. Female Labour Participation Rate by Age Group



Source: Steinberg, Nakane 2012: Page 20

It could be argued that the flattening of the gap also means that women re-enter the labour market as soon as their children are old enough to be taken to childcare facilities. But the facts that childcare facilities are almost at full capacity (Figure 7), and that there is still great societal expectation that women should look after their children, make this unlikely.

Figure 7. Changes in the Number of Day-Care Centres



Source: own illustration based on data from MHLW

Although the total number of day-care centres has increased, the number of public centres shows a downward tendency while the number of private centres has an upward tendency (Table 3). Private day-care centres are more expensive than public ones and therefore the question arises how far making use of day-care centres is worthwhile for women.

Table 3. Changes in the Number of Day-Care Centres

(As of April 1 of each year)

Year	The number of day-care centers			Capacity of day-care centers			The number of children who entered at day-care centers		
	Total number (place)	Council (place) (public since 2004)	Private operated (place) (private since 2004)	Total number (person)	Council (person) (public since 2004)	Private operated (person) (private since 2004)	Total number (person)	Council (person) (public since 2004)	Private operated (person) (private since 2004)
1994	22,528	13,226	9,302	1,935,029	1,138,391	796,638	1,592,698	871,470	721,228
1995	22,496	13,194	9,302	1,923,697	1,128,790	794,907	1,593,873	868,201	725,672
1996	22,441	13,129	9,312	1,917,072	1,120,787	796,285	1,610,199	874,333	735,866
1997	22,398	13,064	9,334	1,914,871	1,113,000	801,871	1,642,754	889,804	752,950
1998	22,332	12,960	9,372	1,913,951	1,103,838	810,113	1,691,270	910,699	780,571
1999	22,270	12,875	9,395	1,917,536	1,099,603	817,933	1,736,390	925,412	810,978
2000	22,195	12,723	9,472	1,923,157	1,092,911	830,246	1,788,425	945,784	842,641
2001	22,214	12,589	9,625	1,936,881	1,086,452	850,429	1,828,225	954,781	873,444
2002	22,268	12,426	9,842	1,957,504	1,080,335	877,169	1,879,568	967,901	911,667
2003	22,354	12,246	10,108	1,991,145	1,074,521	916,624	1,920,599	970,405	950,194
2004	22,490	12,358	10,132	2,028,110	1,100,268	927,842	1,966,958	1,002,001	964,957
2005	22,570	12,090	10,480	2,052,635	1,087,834	964,801	1,993,796	987,854	1,005,942
2006	22,699	11,848	10,851	2,079,317	1,076,548	1,002,769	2,004,238	967,503	1,036,735
2007	22,848	11,602	11,246	2,105,254	1,063,369	1,041,885	2,015,337	944,566	1,070,771
2008	22,909	11,327	11,582	2,120,934	1,046,694	1,074,240	2,022,227	919,559	1,102,668
2009	22,925	11,008	11,917	2,132,081	1,025,938	1,106,143	2,040,974	901,141	1,139,833

Source: MHLW online

In addition to that, Japan lacks attractive parental leave policies that would encourage women to go on paid maternity leave with the prospect of returning to their job afterwards (Steinberg, Nakane 2012).

In summary it can be said that Japan's labour market does not offer an incentive for women to combine children and work. Even if a Japanese woman had a chance to build a career before marriage, going on maternity leave would most likely end that career. A re-entry into the labour market is in most cases only possible under worse conditions and with fewer promotion prospects than before.

Segmentation Theories

The Dual Labour Market

According to the theory of the dual labour market, the labour market is split into two parts.

„Ausgangspunkt ist die These der Notwendigkeit einer Aufspaltung des in der neoklassischen Theorie als homogen angenommenen, tatsächlich aber heterogenen Arbeitsmarktes in intern einigermaßen homogene, gegeneinander abgeschirmte Teilmärkte mit unterschiedlichen Funktionsweisen und Anpassungsformen. [...] Der Arbeitsmarkt entspricht nicht dem neoklassischen Modell eines Wettbewerbsmarktes [...].“¹²
(Keller 2008: Page 288)

Originally, it was created to describe the US-American labour market, where the model is split into a primary and a secondary segment (Keller 2008). Employment in the primary segment is characterized by high wages, better working conditions, high job security, promotion prospects, isolation from market powers and participation in decision making processes. Employment in the secondary segment, by contrast, is characterised by relatively low wages, poor working conditions, high labour turnover rates and the lack of promotion prospects (Reich et al. 1973).

Over the years there have been several modifications of this theory, one of them being the split-up of the labour market into an internal and an external segment¹³. The internal labour market follows the same basic principles as the primary segment but is further characterised by administrative rules and a stable employment relationship.

¹² Translation: The basis of this theory is the necessity of splitting the labour market, which neoclassical theory assumed to be homogenous, but which is in fact heterogenous, into internally reasonably homogenous segments which are shielded against each other and have differing modes of operation and [wage-price] adjustments. [...] The labour market does not correspond to the neoclassical model of an open market.

¹³ especially the model by Doeringer and Piore in 1971

Moreover, wage determination, allocation of labour forces and in-house vocational training are fixed by institutional rules.

It is most extensively shielded against the external sector, where price determination and allocation of labour force follow the neoclassical model with the price of labour as a control mechanism (Keller 2008).

The Tripartite Labour Market

The theory of the tripartite labour market was originated to describe labour markets in countries (e.g. Germany) whose economic and social framework was different from dual economies. It is especially suitable for societies where skilled workers are the backbone of a high-end manufacturing industry. The classification of employees is more complex than in the dual labour market theory, because the sectoral labour markets partly overlap.

The first sector is the professional labour market with institutional barriers to entry. To overcome these barriers, workers have to receive vocational training. That secures standardised qualifications and high intercompany-horizontal mobility. This implies high initial investment in vocational training for companies, but low costs of collecting information as well as employee orientation costs later. In general, it can be said that this sector is job centred.

The second sector is the in-house labour market which on the contrary is company-centred and more or less closed to the outside. Employees receive better chances of advancement, seniority rights and high job security in exchange for loyalty to their company. Qualifications and vocational training are firm-specific which leads to in-house- vertical labour mobility. High training costs will most likely be amortized by long-term contracts of employment.

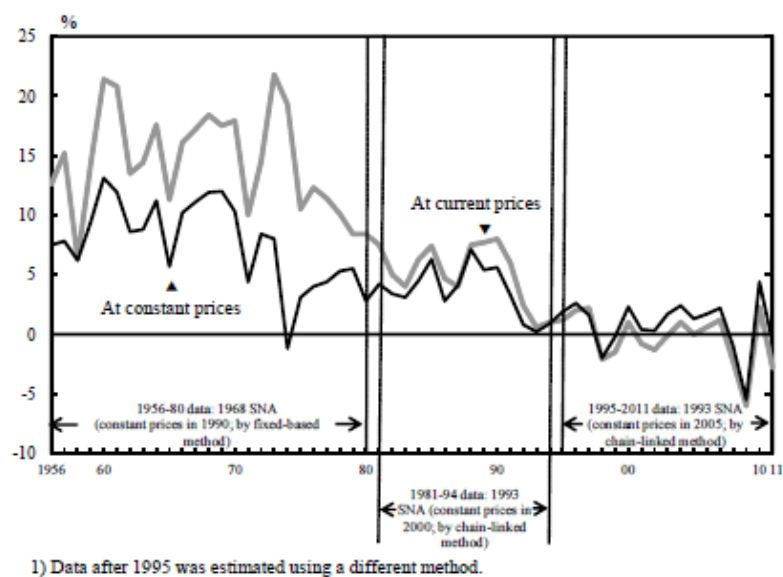
The third sector in this labour market theory is the non-specific unstructured public labour market. It can be compared to the external sector of the dual labour market with the price of labour as a control mechanism, and lack of vertical mobility and job security (Keller 2008).

Solution for Japan

The theory of the dual labour market works best in constantly growing economies. During booms employees tend to work overtime hours they can use up in phases of recession (Yashiro 2012). For a few years now, the Japanese economy has been in a

state of recession (Figure 8). As a result, companies cannot afford this system of labour hoarding anymore. To be able to react to cyclical ups and downs, more labour market flexibility is a necessity. In the view of Japanese companies however, “labour market flexibility means that a company can easily dismiss employees” (Yashiro 2011: Page 2). This leads to an increase in the share of non-regular workers as already shown previously. Hence, the chances of getting a job with high job security diminish. In short, the theory of the dual labour market no longer works for Japan.

Figure 8. Economic Growth Rate



Source: Statistical Handbook of Japan 2012: Chapter 3

In addition, the lack of job security and regular income lead to people hesitating to raise a family; this has a direct effect on demographic change and therefore will not help to solve the problems portrayed in section above.

A shift towards the tripartite labour market could be a solution, but it would be very costly and require great effort. Furthermore, it would need to be set up quickly, since the recent situation of the Japanese economy calls for measures that have an immediate impact. Hence Japan could not distribute the cost over a longer period of time, as Germany did, for example, where the system of vocational training in all occupational fields as it is today has gradually formed over centuries. In addition to that, the vocational training of instructors tailored to the uniqueness of the Japanese system requires time which Japan does not have.

Jobs for which vocational training is a prerequisite already exist in Japan, but only for a minority of occupational fields, and training is not completely state-subsidized.

Although these qualifications lead to privileges in contrast to ordinary non-regular employees, they still do not enable the holder to become a regular employee. Currently the medical field offers the most opportunities for these kinds of jobs (Jones, Urasawa 2011). This raises the question of how far this system is capable of extension.

Conclusion

As shown in this paper, the theory of the dual labour market is not useful anymore in the case of Japan. Features that were unique to the Japanese labour market are eroding. The widening gap between the working conditions of non-regular and regular employees gives rise to a variety of problems, such as the decrease of long-term economic growth and the hampering of company's efficiency. Furthermore, it is also doubtful that a rising share of non-regular workers can contribute to long-term economic growth and the kind of productivity gains that would be needed to offset the shrinkage in the labour force. Therefore, measures to avoid a further increase of non-regular workers have to be taken.

In addition, the lack of job security for the growing number of Japanese workers in non-regular employment leads to social uncertainty. Together with the ageing population and the unattractiveness of the labour market for women, social uncertainty is a factor in demographic change. The effects of demographic change are serious and therefore need to be averted. It is already debatable whether the young generation will be able to defray the costs of supporting a continuously ageing population. The only possible way to reverse or ameliorate demographic change is to stop the decline of the birth rate. But the conditions of the Japanese labour market do not encourage working women to become mothers, as long as they have to decide between career and family. Currently the only feasible possibility for Japanese women to have both is a job for which vocational training is a prerequisite. These types of jobs might not yet have the same benefits as regular employment, but they already offer more job security than non-regular work does.

It is uncertain whether expanding this model is a solution for the problems of the Japanese labour market. Fully establishing a tripartite labour market, however, would take a long time and would be very costly. Furthermore, there is no guarantee that this step would solve the country's problems and harmonise with the economic and social framework.

This paper shows that none of the existing models fully applies to Japan anymore. It is up to Japanese policy makers to solve the problems described here. In summary, Japan needs to find a new model that can be implemented in short order and at low cost. Therefore, it would make sense to extend structures which already exist in the Japanese labour market.

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Women in Ireland during the Last Decades: The Rocky Road to Gender Equality and How It Was Influenced

Abstract In comparison to other European nations, the Irish emancipation process of the 1970 appears to be rather late, although Ireland had already granted equal rights in its first own constitution. With this work the history of Irish emancipation is to be portrayed. Developments and underlying structures are utilised to understand the renewed erosion of rights before the start of the emancipation process in the 1970s.

Keywords: Emancipation, Ireland, Gender Equality, Catholicism, Victorianism, Model of Femininity, Gender Roles

JEL: J10, J12, J13, J70, J71, J81

Introduction

During the last years many movies, such as “Philomena” or “The Secret Scripture”, have come up and shown us the unemancipated daily life of Irish women during the first half of the twentieth century. Having a look at self-confident Irish women today it appears as unreal that the hard times of the movies are not even a hundred years ago.

The intention of this paper is to look at women over the last decades in Ireland and what has influenced them. It will be shown that Victorian picture of an ideal woman were incorporated in Irish minds deeply and that the Catholic Church was the institution that fostered this. The paper is structured as follows: In the following section the historical event of the introduction of equality in franchise with the foundation of the Irish Free State and its gradual erosion is portrayed. Section 3 explains how Catholic mentality could enter Irish minds how it anchored there deeply. In Section 4 is shown how this mentality's influence is lasting, even until today. A comprehensive conclusion is drawn in Section 5.

The Volatility of Equality in Franchise in the Irish Free State

The way to the Irish Free State was a long and painful one, in which women took a crucial role. This may be one of the reasons why in the Constitution of the Irish Free State of 1922 (Saorstát Eireann) equal rights and equal opportunities regardless to gender were guaranteed to all citizen. (University College Cork, 2019) The most

important point to mention is the introduction of the general women's suffrage only constrained by requirements of being at the age of legal majority and holding Irish citizenship. Although it is to say, that Ireland was in good company within Europe and not a pioneer nation introducing general women's suffrage, it is worth mentioning that Ireland introduced it six years before its former occupier Britain. In comparison, it was introduced in 1944 in France and 1946 in Italy, that are both founding members of the European Union. (Deutscher Bundestag, 2019) But the Constitution of the Irish Free State was even more far-reaching as it not only guaranteed the right to vote for women but although equal franchise, meaning that all citizens were guaranteed liberty and equal rights and opportunities regardless to their gender or their religion. One might think that this was the product of women's movement or at least that it had fired the starting gun for the Irish emancipation or feminism process, but the truth is that feminism became visible not before the 1970s, although it grew steadily from that point in time onwards. (Inglis, 2005) In fact, the political contribution of women to Irish independence and the foundation of the State seemed to be forgotten already fifteen years after when a new Constitution was passed in 1937 and it was not remembered again in the following Constitution of 1948. (Beaumont, 1997) Both constitutions clearly stated the difference in citizenship between male and female citizens, meaning that men and women had different duties, different rights and most important different opportunities.

The questions appear how these backsteps could happen and if there was no woman or man putting up resistance. A systemic answer to the first one of the previous questions can be given easily, the first government of the Irish Free State, Cumann na nGaedheal under William Cosgrave, and the second one, Fianna Fail led by Eamon de Valera, gradually eroded the rights and opportunities of women by several measures. (Beaumont, 1997) These measures will be shown below. The second question can be answered very simply with a no, there were several women's organisations and although men opposing the plans of the governments, but although they achieved successes, they were not successful in avoiding the inaction of many discriminating acts. To examine what happened it is crucial to have a detailed look on the different events.

In 1925 Cumann na nGaedheal wanted to introduce the Civil Service Regulation (Amendment) Bill, which restricted the women's position in public services to lower

ones. On the one hand, that constrained their career opportunities, but on the other hand, it also limited their earning power, and thus reduce the ability of self-financing and thereby increases independence on men. A group of different women's organisations, among them the already 1913 founded Cumann na mBan, the Women's Citizens Association and the National Council of Women, which was founded in 1924 and was affiliated to the International Council of Women, campaigned against the bill and achieved that it was suspended with a two to one majority. But the first attack in female franchise already took place in 1924 with the Juries Act, which gave women, but not men, the right to apply for exemption from jury services, which were obliged for all citizens before. The reasoning behind was that women should not be forced to neglect their responsibilities at home, namely child-rearing and housework, due to participating in the time-consuming jury service. While this act was seen more as an extension of women's rights in 1924 and was welcomed by many women making use of this opportunity afterwards, the discrimination became obvious in 1927 with the attempt to enact the second Juries Act, which should exclude all women from jury service as the exemption process was time and resource consuming and thus economically inefficient. Again, the passing was prevented by campaigning women's organisations, but this time not completely. The bill was still enacted but did no longer exclude all women in general. It allowed the application of women willing to participate. So, women got a 'right' to do something what was an obliged citizen duty. It is obviously that this reduced the number of women participating in the jury service further and finally led to a further discrimination against women. Due to the low number of women in jury services, many women accused for criminal offence were denied the right to be judged by people of their own gender. In 1932, immediately after the government was taken by Fianna Fail, a public service marriage bar was introduced, which ended the work of female teachers, and later women civil servants in general, as soon as they got married. Despite protests of women, rather based on the argument, that it would cause discrimination against older women still in service than on the point that it is a curtailment of women's rights in general, the Act was passed and enacted. In 1934, an article, which prohibited the import and domestic sale of contraceptives and any birth control device, was incorporated into the Criminal Law (Amendment) Act. The reaction to this Act were relatively modest and only aimed at the early age of consent of fifteen and the duration of six months of internment for women convicted of prostitution, which were legally distinguished from prostitutes. The modest reaction of women's

organisations can be ascribed to two main reasons. First, as the usage of any pregnancy avoiding method, excluding sexual abstinence, is seen as sin in Catholic religion, most of the public rejected it anyway. Hence, women's organisations simply feared to lose members by campaigning openly. Second, especially smaller associations were dependent on the support of the local priest, be it by providing places to meet as the parish hall or by encouraging women to join. The most severe offence against women's working outside home opportunities was the Conditions of Employment Act of 1936, which empowered the Minister of Industry and Commerce to restrict the number of women employees for any industry. The act aimed at reducing male unemployment rates as female employment was seen as endangering jobs for men and thus their earning capabilities, jeopardising their role as head of the family according to the bread-winner model. These arguments are economically insensible as lower paid female employment will not be transferred completely into the same amount of higher paid male employment due to cost reasons and there is a traditional gender specification for industries, as women take more action in caring related fields and mostly do preliminary work in male dominated sections. In the new Constitution of 1937, women having public domestic duties as citizens is no longer found, instead their duties within the home are emphasised as irreplaceable contribution to the State's welfare and thus the State had to ensure their position at home by not engaging women, especially mothers, into the workforce. A recognition of women's work at home was long desired by many women's organisations, but with the aim of rewarding this effort by family allowance and health care opportunities. By this constitution equality has turned into an abstract concept again and the 'natural' role of women as mothers and homemakers, propagated by the Catholic Church, was clearly stated. Although there was protest, this was accepted by the vast majority of devout Catholic women. (Beaumont, 1997)

This strong mindset can be ascribed to the fact that there was no conception of separation between the state and the church and thus the Catholic Church influenced the legislation of the Irish Free State through different channels. This influence became obvious already in 1925, when the government denied a private members' bill for public decision on divorcing after a statement of the Catholic Church. On the one hand, the Catholic Church advised the government. As the government represented a predominantly Catholic population, the Catholic hierarchy saw itself as authorized to address the government directly with issues and to voice criticism and the opinion of

the Catholic Church on topics publicly. In addition, among the personal advisors of the head of state were always members of the Catholic clergy. On the other hand, social teaching was prevalently conducted by the church and not seen as part of the government's agenda. Although the using of Catholic teaching as justification for eroding women's political rights and limiting their opportunities, thus reducing them to their 'natural role' as wife and mother, was not commonly accepted, the general influence of Catholic teaching on legislation, e.g. to hold up morality, was accepted by the vast majority of Irish population, men same as women. (Beaumont, 1997) This raises the question, why this thinking seems to be rooted so deeply in the Irish mindsets.

The Origin of the Catholic Mindset and How It Anchored Deeply in Irish Heads

The idea of women's natural role as homemakers and caregivers is as old as humanity itself, but in the case of Ireland it was especially fostered under the influence of Victorian Britain. Victorianism saw humans capable to reach a new level of civilisation and morality for the sake of all. For that reason, it has demonised everything related to dark and primeval forces and anarchic and explosive instincts, such as sexuality. Thus, controlling sexuality, mainly through bonding it to marriage, was seen as upholding the social order and contributing to civilisation. As many other times in history, it was the womanhood that was to be controlled. Victorianism created a picture of the ideal woman as kind, considerate, sensible and pure-hearted, on the one hand, and self-sacrificing and unselfish to the man she loves and the children she has with him. Self-sacrifice was the synonym for femininity. (Harrison, 1977) A good woman had to be emotional, almost childlike, listening to the heart rather than using her brain and obtain her pleasure from sacrificing herself to loved ones, such as parents, siblings, her husband and children. (Rowbotham, 1989) Social control was exercised rather by the state nor by intervention of the Church, like the Inquisition in medieval ages, but by society itself. The supervision of ordinary individuals by family, school, neighbours and parishioners was the crucial measure to put pressure on women to behave the way they should. On the one hand, sexual transgressive women, mainly meaning sexually active unmarried women, were stigmatised as nymphomaniacs, adulterers or prostitutes. On the other hand, women matching the picture of the ideal woman became household angels and moral saviours. These women were conveyed that they are responsible for the family home, which is the basis of the civilised society. (Gay,

1998) Women were even hold responsible for social interaction with the opposite gender. The way she behaved towards a man would influence his behaviour, not generally meaning that a woman could turn a rude man into a good and handsome husband, but definitely that by the way she looked at him, she could cause a man raping her or being violented towards her by her own fault. (Rowbotham, 1989) This system of social control is an amplifying one as the different actors are interconnected, meaning that the misbehaving of a girl in public will be ascribed to her family or schooling and thus enforces not only the pressure on herself but although on her family and school, which will increase the pressure on her in consequence again, too.

What was crucial to solidify this idea of restraining oneself, was the upcoming distinguishing of classes. Self-restrain was anticipated as social welfare increasing and thus as part of the process of becoming bourgeois by distinguishing oneself from the arrogant, corrupt and lazy aristocrats, only caring about themselves and their indulgence, on the one hand, and the rude peasantry and working class, not willing to resist primeval forces and instincts, on the other hand. "It was this sense of distinction that prevented the middle classes from responding to their drives and impulses and from abandoning their emotional controls." (Inglis, 2005, p. 17) In addition, this distinction also had enormous impact on the daily social life of middle-class women. By establishing itself as the new ruling class, the bourgeoisie women were able to occupy new tasks, like letter-writing, reading, sketching, drawing and visiting and conversating with friends of their own class and stage in life, for them. (Perkin, 1993) These new activities required a different type of education than before. It is not that needlework and knitting were replaced, but women's education became broader. It was the opinion that this helped them to find pleasure in fine arts rather than in following instincts and thus it helped to become the ideal woman, sacrificing herself for the sake of others. Nevertheless, it is to mention that it was not desired that a woman is more mind-based than heart-listening. Soon this new lifestyle swapped over to the working-class women, and even so they may not have the same opportunities of education and time for fine arts, they could at least adjust their outward appearance and the public behaviour and hence this moral superiority also settled in the working-class. (ibidem)

As ruling nation, the British long had enormous impact on the Irish life and thus it is not surprising that Victorianism was the popular culture in Ireland, too. It was especially adopted by a new class of tenant farmers to distinguish themselves by moral

superiority and raised their daughters in this mind setting. (This new class was able to develop because of the introduction of potato growing to cover self-supply with only a small area of land) By the population explosion between the mid eighteenth century to the mid nineteenth century, these attitudes had spread over the whole country and had settled in the minds of the majority of the new population. The role of women as wife, mother, homemaker and caregiver, had become naturally. Due to the Great Famine the opportunity to marry became curtailed hardly and thus the opportunity to become mother. As often in human history, a thing becomes more desired the harder it is to get. Hence, the effort of becoming and being an ideal woman increased even further as it was thought that this would increase the chance to get a man to marry the woman. In terms of economics, if the good, in this case the men, runs short, the price of the good, in this case the effort of women, increases. During the nineteenth century, the position of the society as watchdog intensified as one transgressive action of a daughter could ruin her whole family. It was the time when external constraints and internal self-control was combined. A crucial point in the Irish history, the seed of self-restraining and sacrificing oneself for others, especially the own family, fall on very fruitful Catholic ground in Ireland. The Catholic Church promoted and enforced this thinking and behaviour in every aspect. What especially helped the Catholic Church was its monopoly position in school across Ireland. Even if the school was not run by the Catholic Church itself, and that was only a minority, primary teachers were appointed by the local parish priest and secondary schools were generally run on a denominational base. Many of the teaching staff were members of religious congregations. In addition, the Catholic Church was the only institution offering training for women to become a teacher. Most prominent is the Mary Immaculate Teacher Training College in Limerick, which was run by the Sisters of Mercy. Even today it is one of the educational centres for becoming a teacher, although it is no longer run by nuns. The Catholic Church was not only the offeror of social teaching it although influenced politics. During the occupation of Ireland by Britain, the powerful Catholic Church was able to voice criticism. Statements of the Church were more than welcomed by the voiceless, suppressed population. As mentioned above, with the Irish Free State the influence of the Catholic Church did not disappear. In 1923, the government passed a censorship on Hollywood films to avoid moral erosion on request of the Church, which was soon after expanded to published material. (Beaumont, 1997) In many other nations the achievements of controlling their own fertility by

avoiding of pregnancy due to the usage of contraceptives or knowledge started the emancipation process and paved the way for feminism movements. That did not take place in Ireland, although it was banned by the government, the Catholic Church had already anchored the refusal of family limitation measures so deeply in the Irish minds, that the population denied them itself. (Beaumont, 1997) With controlling social schooling and acceptedly affecting policy over generations the Catholic Church was able to influence the mind of society deeply and lasting. (Inglis, 2005)

The Legacy of This Mindset and Its Impact on Today's Life and Policy

Despite the deeply anchored Catholic Mindset of the Irish population, emancipation process and feminist movements took place since the 1970s. Within not even half a century Ireland experienced what other nations has taken more than the double of the time. Most noteworthy, Irish women has fought back their franchise as equal citizens, increased their role from mother and wife to valued employees, with female labour participation rates of lower than ten percent in the 1970s to above fifth percent in the 2010s (Government of Ireland, 2018) and abandoned harassment of single mothers, especially of women giving birth to their babies out of wedlock, with the proportion of five percent raised to almost thirty-five percent in the millennium. (Inglis, 2005) The mind changing process that made women challenging the traditional, Catholicism based, image on themselves was especially reinforced by the media. In addition, the disclosure of scandals within the Catholic Church, such as the knowledge about the practices in Magdalena Laundries, the child abuses by priests or corruption of clericals, eroded the position of the Catholic Church further and thus eased the Catholic mindset.

However, it is still anchored deeply in the mind of the Irish population, although not obviously or even consciously. Just to mention the labour market aspects, female labour participation rates were biased over all years as they do not included unpaid work of women in family run businesses and women “engaged on home duties”, which accounted for almost thirty percent of all Irish women in 2012, regardless if they desire to work or not. (Barry and Conroy, 2013) This last group of people not working because they are “engaged on home duties” was made up of women by ninety-eight percent in 2012, meaning that only two percent of men were too busy with caring responsibilities to pursue a profession. In addition, there is a high share of women changing to part-time positions as soon as they become involved in caring responsibilities. (Barry and

Conroy, 2013) The Global Financial Crisis of 2008, started in the USA as subprime loan crisis in 2007, revealed how deeply the Catholic mindset is still in the heads of the Irish. After the Irish announcement to be in a severe recession, the Irish citizen gave a majority of votes to the Christian democratic party instead of to the social democratic party as in the elections of the previous years. Furthermore, the measures of this government were accepted willingly although most of them sharply reduced the employment opportunities for women and their income capabilities, just to mention the reduction in childcare benefits and cut backs in groups mainly consisting of women, such as low paid workers.

Conclusion

In conclusion, over the last centuries the Victorian image of an ideal woman could anchor deeply in the mind of the Irish. This picture was fostered by externalities during the nineteenth century, but especially by the Catholic Church through controlling social teaching and influencing policy impacted the social mind. Although equality of citizenship for men and women were given by the Irish Free State Constitution already in 1922, it eroded soon after and the real emancipation process of Irish women started not before the 1970s. The growing media and the misconducts of Catholic clergy enforced the Irish women's movement. Nevertheless, the Catholic mentality is still in the head of the Irish population, which became particularly obvious during the Global Financial Crisis as it were women who had to sacrifice for the sake of all and measure to increase equality were the first to be paused.

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About the Author

Jana-Larissa GRZESZKOWIAK

Jana-Larissa Grzeszkowiak is a doctoral candidate at the Ruhr University Bochum, Germany and engages herself with macroeconomic development in contemporary Japan. She holds a Master of Science in Economic Policy Consulting with specialisations in Regional, International and Development Economics and Environmental, Resource and Energy Economics and a Bachelor of Arts in Economics and Politics of East Asia. Her research areas include General Economics, particularly Growth Models, Economic and Political Development in East Asia, and International Relations.



She is an associate of the Euro Asia Centre of the Kemmy Business School of the University of Limerick since her research stay, funded by the European Union. During her time at the Hertie School of Governance Berlin, Germany, as research staff member she contributed to projects on shareholding structures of local government in North-Rhine-Westphalia, Germany.

She has affiliation with the Ionad na Gaeilge Labharta of the University College Cork, Ireland, due to recurring courses in the West Kerry Gaeltacht, funded by the Irish Government. As a member of eonar GmbH, providing services for academia and education, she is engaged as student advisor for the University of Digital Technologies in Medicine and Dentistry in Luxembourg.

Email:

jana-larissa.grzeszkowiak@dtmd.eu

jana-larissa.grzeszkowiak@rub.de

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