

## Measures for Supporting Regional Job Creation in Japan

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As regards measures for supporting regional job creation in Japan, the central-government-led policies that were drawn up during the period of rapid economic growth and that relied on public works spending continued until the 1980s. The recessionary measures in the 1990s, however, resulted in the central and local governments to accumulate huge budget deficits, and it was no longer possible to adopt the policy measure of promoting regional development through public works spending. As a result, in the economic recovery phase that began in 2003, the economic gap between large urban areas where private firms are recovering and rural areas that depend on the decreasing public spending is rapidly expanding. Faced with these widening regional divergences, the government is making a policy change from the central-government-led, institutionalized policy for regional recovery to a decentralization policy where regional communities voluntarily draw up and execute their policies for regional development.

### **I. Changes in Regional Development Policies**

#### **1. Policy up until the 1990s**

A period of rapid economic growth began in 1965 after a period of confusion in the wake of the Second World War. During this period of economic growth, clusters of heavy and chemical industries rapidly developed along the Pacific belt connecting the three major metropolises of Tokyo, Nagoya and Osaka. In addition to this industrial development policy, the labor policy also promoted labor movement from rural areas to metropolises. The annual influx of people into the three major metropolises exceeded 1 million in the 1960s. This large labor movement into large urban areas, however, resulted in overpopulation in metropolises and depopulation in rural areas, and correction of regional economic divergences became a political issue.

With the policy concept of “balanced development of the national land,” the new National Comprehensive Development Plan, which was drawn up in 1969, aimed to decentralize firms that were concentrated in large urban areas. In response, the policies for correcting regional divergences were also changed

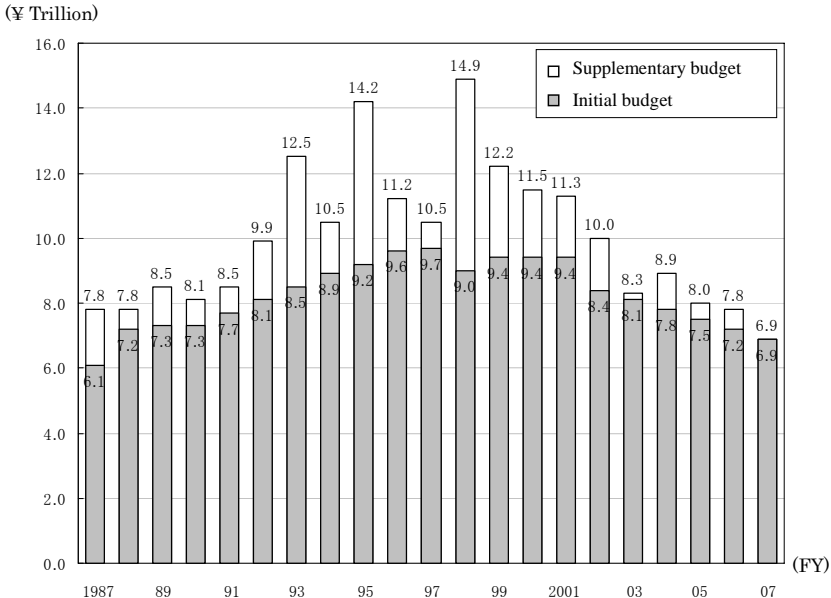
to one that aimed to move labor demand to rural areas. The successive measures adopted in the 1970s provided for favorable treatment for plants that relocated from large urban areas to rural areas and to designated regions that did not have any significant industrial cluster, and thus building of plants in rural areas was promoted.

The policy for decentralization of firms was already started by the Law for the Promotion of New Industrial Cities, which was enacted in 1962, and relocation, firstly, of heavy and chemical industries into rural areas was promoted. Moreover, the Technopolis Act, which was enacted in 1983, promoted location of process and assembly industries in rural areas. The enactment of the Act for Multipolar Development of the National Land in 1988, together with the enactment of the Brain Location Act, attempted to promote decentralized location of the software development industry in rural areas.

Aside from the series of policies for increased labor mobility, policies for specific regions were also implemented. With the effect of the first oil crisis (1973), Japan's economic growth substantially slowed down, and consequently a large number of job leavers arose in specific regions. Emergency employment measures were implemented as temporary measures for the job leavers. These emergency employment measures were also adopted at the time of the second oil crisis (1979) and at the time of the recession caused by the appreciation of the yen in the mid-1980s. In the 1980s, however, regional employment measures, which were temporary measures for job leavers in depressed industries and regions, began gradually to take the form of medium- to long-term measures for employment development.

In projects for development of regional employment carried out from 1982 through 1986, model regions, which were mostly depressed regions, were selected, and regional employment promotion conferences composed of representatives of municipalities, public employment services, vocational training schools, and workers' and employers' groups drew up guidelines for employment development. Furthermore, the Regional Employment Development Promotion Act, which was enacted in 1988, was, unlike the temporary laws for regional employment, a permanent law for medium- to long-term employment development. The law consolidated the model regions into three types of regions. A system for subsidizing wages for regional employment development was the centerpiece of the law.

Japan experienced the bubble economy at the end of the 1980s, but after

**Figure 1. Changes in public-works-related budget**

Source: Ministry of Finance.

the burst of the bubble, it fell into a serious recession. Large-scale public works spending was adopted as a recessionary measure, and the public fixed capital formation totaled close of ¥400 trillion during the 1990s. If we look at the changes in the public-works-related budget, we can actually see that it peaked in fiscal year 1997 in terms of the initial budget (¥9.7 trillion) and in fiscal year 1998 in terms of the overall budget including the supplementary budget (¥14.9 trillion).

The large-scale public investment of the 1990s amounted to more than 40% of the total investment since 1955, but because it was not accompanied by commensurate economic growth and increase in tax revenues, it set the country's finances into a critical situation. After 1999, the public-works-related budget was substantially reduced. In fiscal year 2006, the overall budget declined to ¥7.8 trillion, 52.4% of the peak (Figure 1).

The reduction in public works resulted in the deteriorating employment situation in rural areas and rapidly increased the number of unemployed people. Moreover, as a result of a surge of plant relocation to China and other countries as the yen appreciated, regional communities were faced with the hollowing

out of the manufacturing industry, and the number of employees in the manufacturing industry declined considerably. It declined from 15.69 million at the peak in 1992 to 12.22 million in 2002, a substantial decrease of 3.47 million employees. The number of unemployed people and the unemployment rate in 1990 were 1.34 million people and 2.1%, respectively. In 2002, the number of unemployed people and the unemployment rate deteriorated to 3.59 million and 5.4%, respectively (Ministry of Internal Affairs and Communications, Labour Force Survey).

Because regional development policy up until the 1990s required local governments to prepare plans that fitted the specifications set by the central government in order to obtain subsidies and favorable tax treatment, regional development plans were uniform and regional characteristics were ignored. Therefore, regional development in different parts of the country became extremely similar to one another, and there were hardly any regional characteristics.

Resort development based on the Act for Development of Comprehensive Resort Areas, which was enacted in 1987, is a typical case. Because major development companies in Tokyo and Osaka were responsible for the basic work of drawing up the basic concepts of most large-scale resorts for prefectural governments, the facilities that were constructed or planned in different locations of the country had extremely similar concepts. The third sector (organizations jointly funded by the local government and private firms) manage the constructed resorts, but because the recession substantially pushed down the actual demand in comparison with the original demand forecast, most of these resorts have either failed or have been in financial difficulties in recent years.

Up until the 1970s when regional social infrastructure was still underdeveloped, the uniform regional development policy of public works spending had a relatively large policy effect. However, by the 1990s when the physical social infrastructure was well developed and the industrial structure was rapidly changing, the effect of such a policy substantially declined.

## **2. Decentralization Policy after 2000**

As a way out of the deadlock in the central-government-led regional policy, decentralization of the administrative system and a conversion to regionally initiated industrial and employment policies were promoted after 2000, starting

with the enforcement of the Omnibus Decentralization Act in 2000. This law abolished the system of agency-delegated functions whereby local governments implemented the central government's policies by delegation, clarified the roles of the central government and local governments, and transferred authority over various duties from the central government to prefectural governments and from prefectural governments to municipalities. In parallel with the "tripartite" reform for realignment of financial resources of the central and local governments (transfer of tax revenue sources, reduction of national subsidies, and review of the local allocation tax), a new direction has been set for decentralization of industrial and employment policies as well.

The Koizumi Cabinet, which came into power in 2001, pushed through policies for disposal of bad debts and for structural reform and began on a path of financial reconstruction through reduction in public works spending. Moreover, it made a policy change that gave more emphasis to large cities through the abolishment of the Act on Restriction of Factories, which restricted location of plants in urban areas, and enactment of the Act on Special Measures for Urban Regeneration, which promoted redevelopment of metropolises, in 2002.

The benefits of economic recovery were felt noticeably in urban areas. In rural areas, the effect of economic stagnation from reduced public works spending was greater than the policy effect of decentralization, and regional divergences are widening. Faced with these widening divergences as well as defeat at the House of Councillors election, the government made regional regeneration an important policy issue and made a policy change from the central-government-led uniform regional policy of the past to a policy where local governments, such as prefectural governments and municipalities, familiar with the local situation and needs would voluntarily draw up their own plans and carry out regional regeneration.

The central-government-led regional policies on industry and labor of the past had a similar policy stance in that they aimed to transfer labor demand from urban areas to rural areas and promote industrial development and job creation in less developed regions. At the regional level, however, it was rarely the case for economic development, vocational abilities development, and job placement to be carried out hand in hand, and coordination among different regional policies had been an issue.

For regional communities to obtain subsidies and favorable tax treatment,

they also had to prepare applications that satisfied detailed specifications of the central government. Therefore, the system hardly allowed regional communities to exercise their own initiative. Even though the abovementioned concept of the regional employment promotion conference in projects for regional employment development in the 1980s was the rudiments of decentralization policy, the constraints of administrative procedures prevented such conferences to fulfill their functions for decentralization.

As regards labor policies, the amendment of the Employment Policy Act of 2000 provided for local governments' obligation to make an effort in having their own employment policies. This was the first time in history that employment policies were regarded as local governments' policies. In response to the decentralization of the administrative system, regional employment policies in recent years stress (i) regional initiative and (ii) industrial and employment development by utilizing regional resources (strengths). With the objective of specifically promoting employment development in coordination with local governments, the Regional Employment Development Promotion Act was amended in 2001, and the method for selecting regions covered by the law was changed from selection by the central government to selection by prefectural governments.

On the other hand, the Industrial Cluster Project initiated by the Ministry of Economy, Trade and Industry in 2000 attempted to prepare an environment conducive to innovation centered on formation of regional human networks and through this to realize endogenous regeneration of regional economy. As of today, 19 regions are selected for the project, and measures for (i) formation of industry-government-university human networks, (ii) support for technological development based on regional characteristics, and (iii) preparation of facilities for supporting entrepreneurs are being carried out through the cooperation of the Regional Bureaus of Economy, Trade and Industry, small- and medium-sized enterprises (some 5,800 firms), and university researchers (220 universities).

The moves towards revitalization of regional economy based on the ingenuity of regional communities are further reinforced by the Special Zones for Structural Reform (2002-) and the Program for Promotion of Regional Regeneration (2003-). The Special Zones for Structural Reform attempt to promote regeneration of regional economy not by financial measure as is usually the case but by introducing regulatory exceptions in specific regions

based on proposals drawn up voluntarily by local governments.

In response to the changes made in the entity carrying out regional policies, decentralization of employment policies has also been advanced. The amendment of the Employment Security Act of June 2003 allowed local governments to engage in free job placement services, which had been provided only by public employment security offices up until then. Specifically, local governments may, by notifying the Minister of Health, Labour and Welfare, provide free job placement services in relation with their duties pertaining to (i) policies for supporting users of welfare services, (ii) policies for promoting location of firms, (iii) policies for improving the welfare of their citizens, and (iv) policies for development of industry and economy.

### **3. Expansion of Measures for Assisting in the Programs Proposed by Regional Communities**

With the rapid shift in regional development policies in recent years from central-government-led policies to decentralization policies, local governments no longer prepare plans that meet the specifications set by the central government, but they prepare their plans and the central government assesses the feasibility of the plans and assists in their realization.

As regards regional job creation, the Ministry of Health, Labour and Welfare is carrying out the Project for Promoting Regional Job Creation. In this project, a council for regional job creation of a municipality that is working voluntarily on job creation submits proposals for programs for creation of job opportunities, vocational abilities development for jobseekers in its region, provision of information and counseling for jobseekers, and so on. The ministry will then select, in a contest and from all the programs that have been submitted by the councils, programs that are likely to have an effect on job creation, and commissions the execution of the programs to the councils. Subsidies will be paid to the selected programs for up to three years. The number of municipalities that were allowed to participate in the contest was 66, 101 and 67 in fiscal year 2005, 2006, and 2007, respectively.

The Ministry of Internal Affairs and Communications has also started to implement a similar measure. The ministry has launched the Program for Supporting Regional Communities That Are Making Efforts, in which local allocation tax is granted to local governments that have plans for implementing their own projects. These projects include those for regional administrative

reform, discovery and branding of local produce, measures to counter declining birthrate, relocation of companies into the region, settlement of people in the region, promotion of tourism and exchange, downtown redevelopment, support for the independence of young people, promotion of safety and security in urban areas, and environmental preservation. In the first and second rounds of application submission in fiscal year 2007, 1,181 and 1,802 local governments submitted applications, respectively. The percentage of local governments submitting applications among all local governments was 63.0% and 96.2% for the first and second rounds, respectively.

The Ministry of Economy, Trade and Industry is implementing measures for regional regeneration through the Program for Supporting Small- and Medium-sized Enterprises to Utilize Regional Resources and the Enterprise Location Promotion Act. As for the support provided through the Enterprise Location Promotion Act, the aim is to provide support, based on the law, to local governments that are voluntarily and systematically working on the formation and regeneration of industrial clusters by inviting firms to relocate in their region and thereby strengthen the foundation for independent development of the regional economy. As of today, 28 programs of 20 prefectures are approved. Besides the Ministry of Health, Labour and Welfare, the Ministry of Internal Affairs and Communications, and the Ministry of Economy, Trade and Industry, similar measures for assisting in regional development are being carried out by the Ministry of Land, Infrastructure and Transport as well as the Ministry of Agriculture, Forestry and Fisheries.

## **II. Present State of Regional Job Creation**

### **1. Actual State of Regional Divergences in Employment**

Economic recovery at a time when public works investment is being reduced is widening the gap between large urban areas and rural areas. Moreover, in rural areas too, there are regions where the employment situation is relatively favorable and regions where the employment situation is bad. While divergences between large urban areas and rural areas are caused by differences in the concentration of firms and population, the regional divergences within rural areas are mainly brought about by the regional maldistribution of industries. Table 1 examines how regional industrial structures differ in different regions. A comparison of the composition of



**Table 1. Composition of employees by industry in unfavorable and favorable regions (%)**

	Nationwide		Unfavorable regions (total)		Favorable regions (total)	
	2004	2006	2004	2006	2004	2006
Agriculture, forestry and fisheries	0.4	0.4	1.2	1.2	0.5	0.5
Mining	0.1	0.1	0.2	0.1	0.1	0.1
Construction	8.4	7.0	11.3	9.1	8.8	7.4
Manufacturing	19.1	16.9	11.9	10.1	26.1	23.2
Electricity, gas, heat supply and water	0.4	0.5	0.4	0.5	0.4	0.5
Information and communications	2.7	2.8	1.5	1.6	1.2	1.3
Transport	5.4	5.0	5.6	4.9	5.1	4.8
Wholesale and retail trade	23.5	21.2	25.1	21.9	22.1	20.0
Finance and Insurance	2.7	2.5	2.8	2.3	2.4	2.1
Real estate	1.9	1.8	1.6	1.4	1.2	1.2
Eating and drinking places and accommodations	9.3	8.3	9.9	8.7	8.4	7.6
Medical, health care and welfare	8.0	9.5	10.5	12.2	7.6	9.1
Education, learning support	2.6	5.0	2.1	5.1	2.0	4.6
Compound services	0.7	1.2	1.3	1.8	0.9	1.3
Services (not elsewhere classified)	14.9	14.8	14.7	14.0	13.1	13.5

Source: Ministry of Internal Affairs and Communications, *2007 Establishment and Enterprise Census*.

employees by industry in regions with unfavorable employment situation and regions with favorable employment situation (in 2004 and 2006) shows that there are significant differences in the composition of employees.

In Table 1, seven regions with particularly severe employment situation were chosen as regions with unfavorable employment situation (i.e., Hokkaido, Aomori, Akita, Kochi, Nagasaki, Kagoshima, and Okinawa), and ten regions, excluding Tokyo, Nagoya, and other metropolises, were chosen as regions with favorable employment situation (i.e., Gunma, Tochigi, Shizuoka, Gifu, Mie, Toyama, Fukui, Okayama, Hiroshima, and Kagawa).

Firstly, if we compare the composition of employees in unfavorable and favorable regions in 2006, we find that the industries in which the composition of employees is high in the unfavorable regions are agriculture, forestry and fisheries (+0.5 point), construction (+1.7 points), wholesale and retail trade (+1.9 points), eating and drinking places and accommodations (+1.1 points),

and medical, health care and welfare (+3.1 points). On the other hand, the industry in which the composition of employees is high in the favorable regions is the manufacturing industry (+13.1 points).

Secondly, if we compare the figures of 2006 with those of 2004, we see that in both types of regions, the percentages decreased in construction, manufacturing, wholesale and retail trade, and eating and drinking places and accommodations; while they rose in the tertiary industry of medical, health care and welfare and education and learning support. The trend, it appears, is that the industry's role in promoting increase in employment is shifting from the manufacturing industry to the tertiary industry. It is probable that even in rural areas with small concentration of population, an increase in employment in the manufacturing industry had an effect in inducing an increase in employment in the tertiary industry.

As seen above, it is not too much to say that, as seen from the number of employees, the difference in the industrial structures of unfavorable and favorable regions is the difference mainly in the weight of the manufacturing industry. In regions where the employment situation is severe, there is not much concentration of the manufacturing industry, while the share of the tertiary industry, such as wholesale and retail, restaurants and accommodations, and services, and that of government-dependent industries, such as construction, which is related to public works spending, and medical, health care and welfare, which is related to the public health and nursing care insurance, are large. In terms of industrial structures, the difference between whether the share of the manufacturing industry or that of the tertiary and government-dependent industries is large has a significant influence on the regional divergences in the employment situation.

## **2. Return of the Manufacturing Industry Back into Japan and Job Creation**

We have elucidated above that the difference in the industrial structures of unfavorable and favorable regions is mainly the difference in the weight of the manufacturing industry. It is becoming clear in recent years that Japan's manufacturing industry is moving back into Japan. As a result of rapidly transferring production bases from Japan to China and other countries during the 1990s, domestic employment quickly decreased in Japan, and there were concerns about the so-called hollowing out. In fact, the number of employees in the manufacturing industry began on a downward trend after it peaked at

15.69 million in 1992. By 2005, it decreased to 11.42 million. There was a decline of as many as 4.27 million employees during this period. It is not too much to say that the majority of unemployed people, the number of whom began to rapidly increase from the latter half of the 1990s, came from the manufacturing industry.

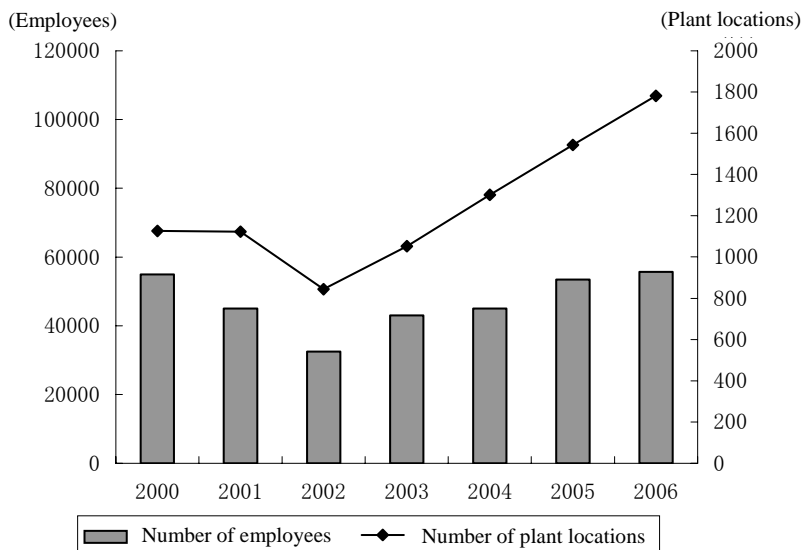
However, from the need to quickly and flexibly respond to rapid technological innovations and variability of output, there is a growing trend to domestically manufacture state-of-the-art products and products that require frequent model changeovers. Even for products assembled in overseas production bases, much of the essential parts fitted into those products are manufactured in and sent from Japan. Therefore, as the cycle of technological innovations and model changeovers becomes shorter, the likelihood for the parts and products that are susceptible to such changes to be manufactured within Japan rises.

As it is already apparent, the number of employees is now trending upwards after it hit bottom in 2002, and it was the manufacturing industry that supported this trend. Employment in the manufacturing industry had been on a continual decline since 1993, but it began to increase in the October-December quarter in 2005 as a result of the economic recovery and the return of production bases to Japan and has since maintained the upward trend. By industry, the addition of the manufacturing industry to the medical, health care and welfare and service industries, which had propped up the increase in employment, had a substantial effect on the recent increase in employment.

It is generally said that industrial development brings with it the service economy, and with this the employment structure is realigned to incorporate the tertiary industry. The recent increase in employment, however, appears to be brought about by both the manufacturing and service industries. Therefore, the effect on job creation of the return back into Japan of the manufacturing industry, which with the overseas transfer of its production bases had caused concerns about hollowing out, is quite significant.

The return of the manufacturing industry can be confirmed by the recent changes in the number of plant locations. Figure 2 shows the number of plant locations in Japan and its effect on job creation. Both the number of plant locations and jobs had been on a decline since 1992, but are now trending upwards after they hit bottom in 2002. The upward trend of the number of plant locations is particularly noticeable and suggests that the number of plants

**Figure 2. Changes in the number of plant locations and number of employees expected to be employed**

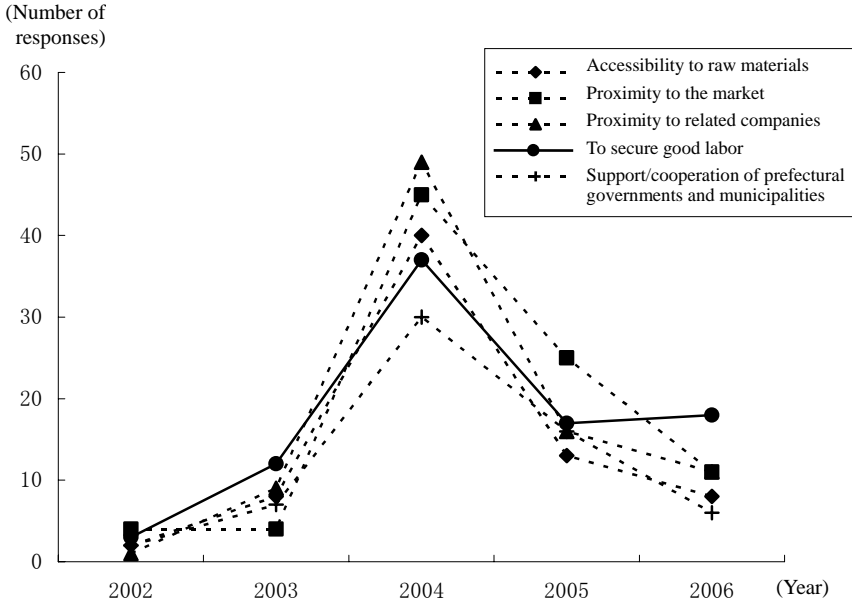


Source: Ministry of Economy, Trade and Industry, *Annual Survey on the Trends of Plant Location*.

locations by small- and medium-sized enterprises is increasing following on the plant locations by large firms.

If we examine the reasons for the locations of firms, the number of which is trending upwards, there are some interesting trends. Figure 3 shows the changes in the reasons for selecting domestic locations. Since the number of firms responding to the survey differs greatly for each year, comparison of the number of responses is meaningless. If we look at the order of responses given in each year, we find that whereas responses such as “proximity to related companies” and “proximity to the market” are placed at the top before 2006, the response of “to secure good labor” is placed at the top in 2006.

In the past, companies relocated in order to place themselves within a business network in the proximity of their related firms and market, but more recently an increasing number of firms are moving into new locations in search of labor. This suggests that the possibility is increasing for companies to move into rural areas that have not felt the benefits of economic recovery and where the employment situation is difficult.

**Figure 3. Reasons for selecting domestic locations (multiple answers)**

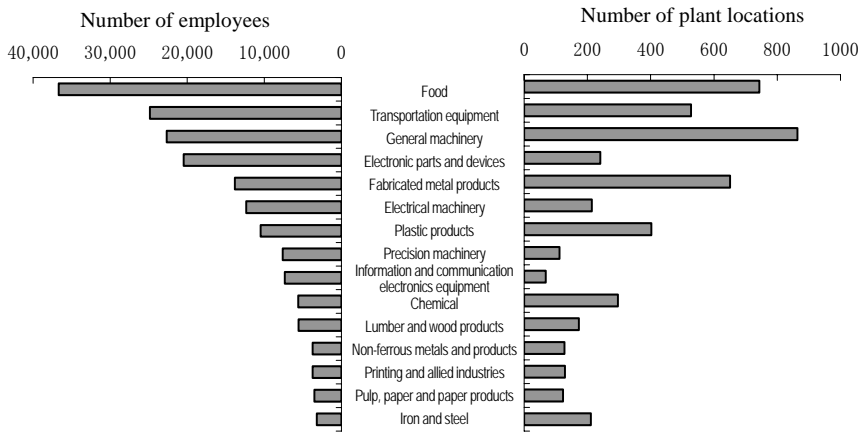
Source: Ministry of Economy, Trade and Industry, *Annual Survey on the Trends of Plant Location*.

### 3. Characteristics Related to Job Creation within the Manufacturing Industry

The effect of the manufacturing industry to create jobs has played an important role in the recent turnaround in the employment situation. If we look at each subcategory of manufacturing, however, there are significant differences in the job creation effect of different industries.

Firstly, if we look at the expected number of employees to be employed by industry, the food industry had the greatest employment effect, followed by transportation equipment, general machinery, electronic parts and devices, fabricated metal products, and electrical machinery. On the other hand, as for the number of plant locations, the order of industries was slightly different from that of employment with general machinery industry having the largest number of plant locations, followed by food, fabricated metal products, and plastic products (Figure 4).

**Figure 4. Number of plant locations and number of employees expected to be employed by industry (2003-2006)**



Source: Ministry of Economy, Trade and Industry, *Annual Survey on the Trends of Plant Location*.

As seen above, as regards the situation of plant locations and job creation, food, transportation equipment, general machinery, and fabricated metal products represent industries with large number of plant locations and employment, and regional communities can consider these industries as top candidates for relocation in their regions. The fact that both the number of plant locations and employment is large suggests that many small- and medium-sized enterprises are operating in these industries. The presence of diverse industries and firms also mean that these industries have relatively strong resistance to economic downturns. Even if a regional community succeeds in having plant locations in their region, if they have attracted firms in unstable industries that might close down or withdraw in a short time, the damage that the community would sustain at a time of recession would be greater.

Industries that represent this instability are electronic parts and devices and electrical machinery. These electronics industries have powerful competitors in South Korea, Taiwan and China, and there is a strong likelihood that they would be entangled in cutthroat price competition in a wide range of products. Therefore, with the exception of firms that have an advantage as regards technology development or market share, an increase in production would not equate with an increase in profits, and there is a high probability for firms that

have lagged behind in cutting costs to record considerable losses even though production is increasing and be forced to close down or withdraw their plants. The plants of large firms are no exception. It is essential for a regional community planning to persuade firms to locate in their region to do so strategically by considering regional characteristics and industrial characteristics.

To strategically induce firms to locate in their region, the local government must have the ability to plan and make proposals. Because local governments have become used to the central-government-led regional policy, however, there are not many people within the local government who can plan their own programs by taking into consideration the particular situation of their region. As the arrangement regarding regional policies is rapidly changing in recent years from having regional communities prepare plans that fit the specifications of the central government to having the central government evaluate regional communities' own plans and proposals that take into consideration the actual situation in their regions, the training of a large number of people within the regional communities who can plan and implement their own regional policies has become an important policy issue as well.

While inducement of locations of companies in the region has the greatest effect on regional job creation, not all regional communities can do so because of their geographical conditions or lack of infrastructure. Such communities are locally undertaking job creation on a smaller scale through small businesses and community business as well as business development by NPOs and agriculture. We are beginning to see many successful cases of this type of job creation, which has been propped up by the recent measures for supporting regional communities.