

# Present Situation and Issues of Municipal Employment Strategy

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## I. Introduction

The environment surrounding regional employment measures has been changing rapidly during the past several years.<sup>1</sup> For instance, more and more local governments have replaced the central government as the policy maker. It is because it has become difficult to support employment in regional communities by expanding public works, as financial situation has deteriorated due to prolonged recession. As for laws and regulations, the Comprehensive Decentralization Act (2000) has clearly defined roles between the central government and local governments and set forth a policy to transfer authority to municipalities. Municipalities have become the principal player in regional employment measures, and more and more policies take into consideration the situation of each region. Furthermore, it is expected that employment policies will be implemented by municipalities based on the Revised Employment Measures Act (2000) and the amendment of Employment Security Act (2003).

It is expected that employment issues would have high priority among all policies and require an urgent measure at municipalities where the unemployment rate is high. The reasons for unemployment are likely to be different by municipality depending on the social and economic background, and measures should be adopted taking these reasons into consideration. If some municipalities take appropriate measures for employment and some, facing the same situation, do not, what factors separate them? It is expected that municipalities will take more initiative in employment policies. But what are really the issues? It is the objective of the present study to confirm how municipalities, facing very different employment situation, are coping with employment issues in this period of transition.

Existing studies on regional employment focus on qualitative research,

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<sup>1</sup> The following description is cited from Itoh and Yugami (2005, 341ff.). Higuchi (2005) and Higuchi and Giguère (2005, 11-12) were also consulted in organizing the survey result.

mainly on collection of successful cases. They do not reveal an overall picture. They do not verify the results of qualitative analysis by testing them quantitatively. I wish to understand the present situation of regional employment strategies by referring to vision and leadership of regional development by implementing a survey targeted at municipality mayors. The present study was also motivated by these factors.

The quantitative approach by a questionnaire survey is used as the survey method. Two questionnaire surveys were conducted; one targeted at prefectural governors and municipality mayors, the other at officials in charge of employment issues at prefectures and municipalities. Only the data of municipality mayors and municipal officials are analyzed.

Section II summarizes the historical trend of existing studies. Section III summarizes present employment situation of municipalities. Section IV examines visions of municipalities on job creation strategy. Section V gives an overview of employment measures and organizations. Section VI examines issues and problems in implementing measures. It focuses especially on whether local governments have the necessary human resources to cope with job creation by themselves and human resource development of policy makers. The final section summarizes the discussions and present issues for regional employment strategy.

## **II. Issues of Studies on Regional Employment Policies**

It should be questioned what employment policies are at the regional level. Saguchi (2004) points out that there is no common understanding about this issue due to diversity of regional employment issues. Though regional employment issue is diverse, almost uniform measures are taken nationwide. Therefore, it is regarded that there is no need for each region to have its own employment measures. It is because municipalities, regional organizations and people have not taken the initiative. It is only recent that some municipalities started to have their own employment measures in planning their own job creation plan. However, officials in charge of employment issues do not realize that they have more alternatives in making policies and do not effectively incorporate municipalities in drawing up and implementing employment policies although they usually have contact with citizens. Saguchi brings the following points to attention:

- (i) It is more effective to cope with employment problems in cooperation with other organizations, including private entities with a public nature such as NPO, as employment issues have become diverse.
- (ii) In cooperation with other organizations rooted in the same region, it is important to pay attention to both demand and supply sides and to cope with the issue with care.
- (iii) A municipality should take the leadership in employment measures of the locality and realize a fair and sustainable system.
- (iv) It is required to establish a strategic center for regional employment measures, equipped with research, study and policy draw-up capabilities.

Saguchi's discussion starts from the point that regional employment measures tend to become "employment development as a small part of an industrial promotion measure or a makeshift employment measure." In fact, there is a close relation between regional employment policy and regional industrial policy. Suzuki (2004) points out the following. Based on the assumption that there is an industrial accumulation in a region, it is necessary for the municipality to draw up an industrial policy to cope with the industrial accumulation in order to grade up the regional industrial policy. And it is necessary for municipal officials to improve specialty skills. A regional industrial policy should be implemented based on the natural environment and existing industrial accumulation in the region. A regional industrial policy is not necessarily the same as a strategic industrial policy of the central government such as high-tech industry development. As industrial accumulation tends to cover a number of municipalities, both prefectural and municipal industrial policies will be necessary at the same time in the future. Therefore, it is inevitable to decentralize regional industrial policy. It is required to have municipal officials with coordination skills to make a development plan to match the regional industrial accumulation and to incorporate regional researchers and technicians in a joint industry-university research. It would be inevitable to train specialists with special skills to cope with specific administrative issues.

Higuchi (2005) contends that regions should take the initiative in job creation and make an employment strategy in order to train and allocate necessary and motivated people. Financial resources have been transferred to local governments and the authority of municipalities has been reinforced. Under these circumstances, Higuchi points out that regions will require leaders

to make and implement a policy. It is necessary to train leaders and to have a regional human resource strategy for regional revitalization. Higuchi also argues that municipalities should set a clear target of the strategy, discuss who will take the initiative and how they should promote cooperation, discuss strategy to realize the target, and revise it based on impact verification.

Saguchi (2006) sets the following conditions for a regional employment policy: (i) Local governments should take the initiative in the planning and execution and be responsible for the results; (ii) the policy idea is specified, and there are consistent and systematic measures to realize it; and (iii) the policy idea has its own significance and is not just a part of an economic policy or regional development in general. That is to say, there should be promotion of effective support both to the demand and supply sides, in addition to usual support for human resource investment and support for companies to stimulate labor demand, focusing on organizations that act as agents in the labor market at the regional level. According to Saguchi, it is important to determine to what extent private companies can participate in a regional policy, to decide the target of the policy from the point of view of efficiency, fairness and sustainability, and then to decide which entity should be responsible for the policy. He also argues that public employment services (Hellowork) should be involved in regional policy and measures in an active and flexible way.

They all insist that regional human resource development is inevitable in dealing with regional industrial policy and regional job creation policy in the future. The importance of human resource development at the regional level has been often pointed out by surveys, including Nippon OMNI-Management Association (2004), Nakamuara (2004) and Inatsugu (2006). Ito (2005) says that the central government and central government agencies should organize and expand the system of education and human resource development to improve planning skills in dealing with employment issues. He then states that heads of local governments should have strong leadership and his/her staff should prepare a plan on industrial development and job creation to suit the characteristics of their own regions.

Many existing surveys and researches on regional employment are based on case studies. Many of those cases are either successful cases or cases of pioneer regions that have gained much attention. The followings are the characteristics of the typical cases: (i) Many cases are endogenous job creation “making use of regional resources”; (ii) regional players take the initiative in

many cases; (iii) in some cases, the administration takes the initiative in dealing with regional job creation. In others, the private sector leads regional development with assistance from the administration; (iv) the role of the third sector and NPOs is important; (v) human resource development at the regional level is one of the main pillars; (vi) many region communities make use of external human resources; and (vii) the effectiveness of the undertaking is assessed in few cases. These are the common points.

In the section below, we examine whether these points can be confirmed quantitatively.

### **III. Employment Situation of Municipalities**

Firstly, the employment situation of municipalities replying to the questionnaire is examined based on the unemployment rate and effective job offer-job seeker ratio. The average unemployment rate of municipalities is 4.1%, both according to the unemployment rate by municipality in the 2000 Population Census and the Japan Institute for Labour Policy and Training's questionnaire survey conducted in 2004. Figure 1 is a statistical map of the unemployment rate by municipality replying to the questionnaire. The map demonstrates disparity among municipalities even within the same prefecture.

Figure 2 is a statistical map of the effective job offer-job seeker ratio. The average ratio of villages is higher than that of cities and towns, but dispersion of village data is larger.

### **IV. Regional Employment Strategy of Municipalities**

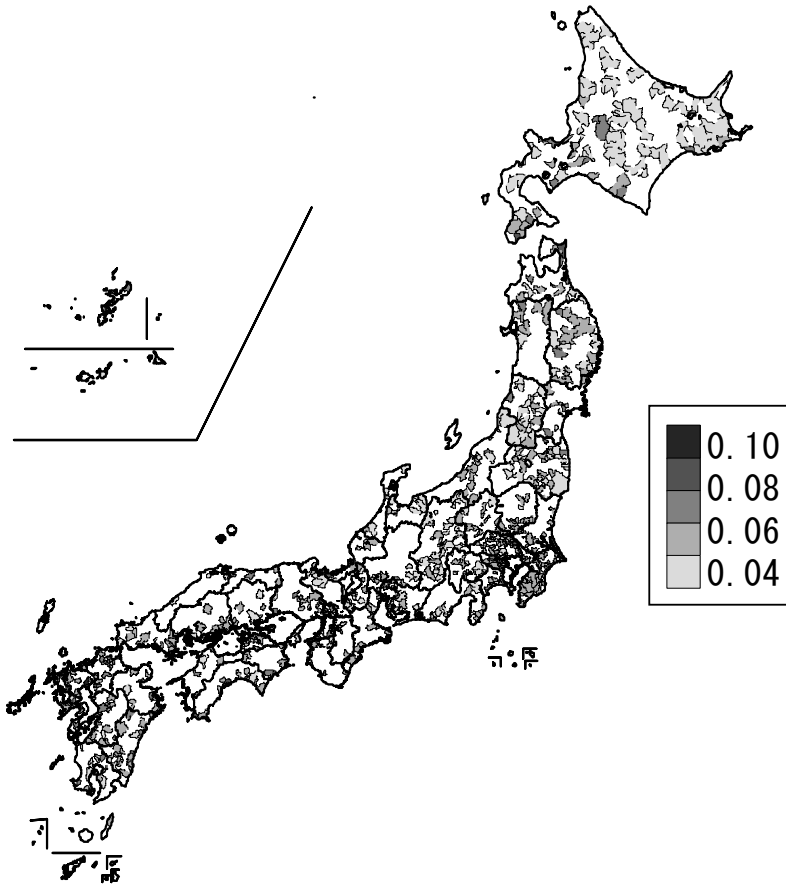
This section examines how mayors and officials of municipalities regard employment issues and how they are coping with them.

#### **1. Position of Employment Issues in Regional Development**

Figure 3 shows the results of the cross tabulation by municipality based on how mayors regard employment issues. Generally, many municipalities see the issues as "one of the regional development issues." The ratio of municipalities placing employment issues as the top-priority issue is higher in towns than in cities and higher in villages than in towns.

Employment/unemployment indicators such as the unemployment rate and

**Figure 1. Statistical map of unemployment rate**



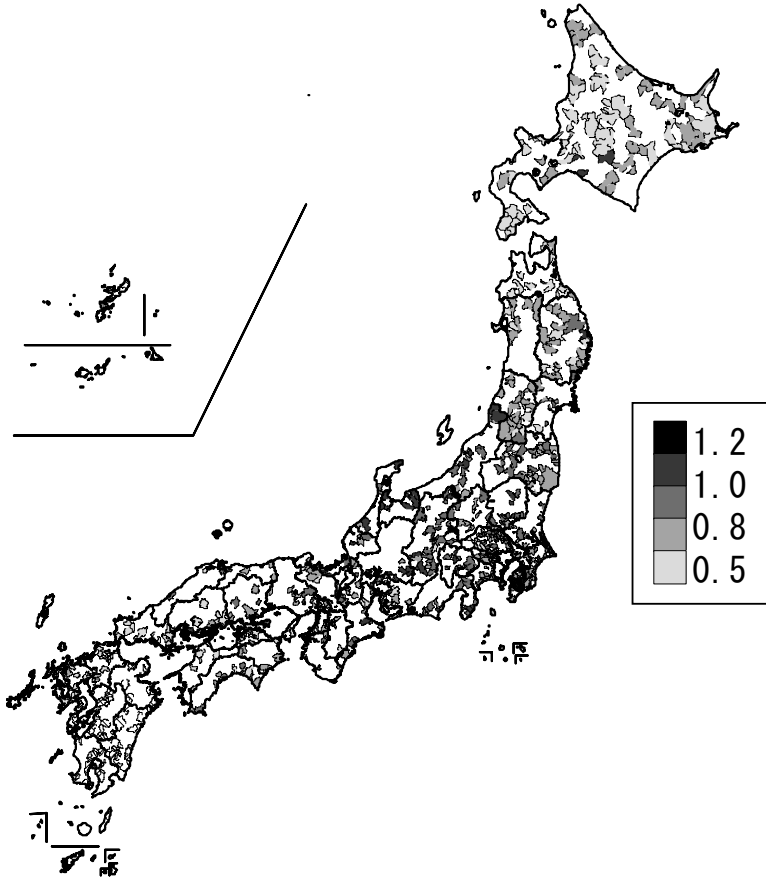
Note: The unemployment rate from *the 2000 Population Census*. Municipalities that did not respond to the survey are shown in white.

effective job offer-job seeker ratio is related to municipal divisions but not to how the mayors regard employment policies.

## **2. What Type of Job Creation Is Given Priority?**

What kind of strategies do municipal mayors consider important as a strategy to solve regional employment issues? Figure 4 is compiled from the results of cross tabulation by municipal group. A different group of mayors places importance to different measures. Villages tend to place importance to

**Figure 2. Statistical map of effective job offer-job seeker ratio**

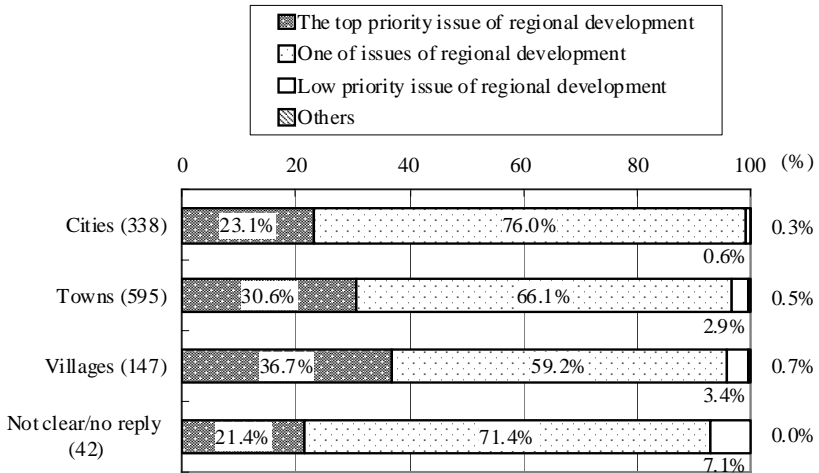


Note: Municipalities that did not respond to the survey are shown in white.

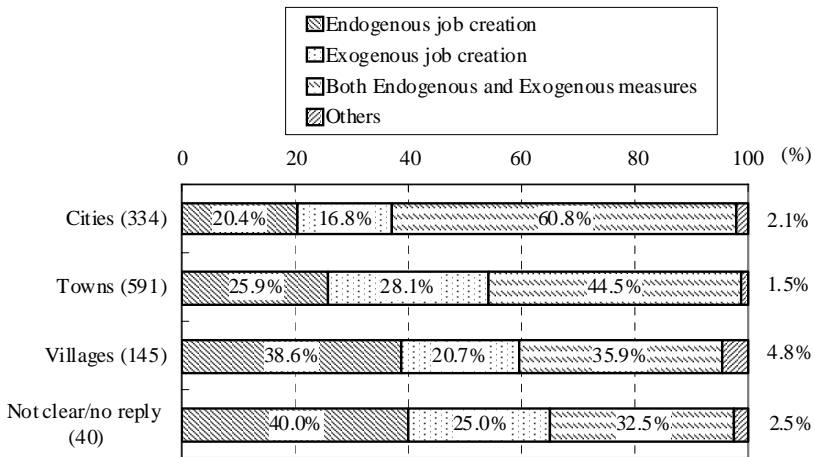
endogenous job creation more than cities and towns do because of the reasons given below replied in the free response method. Some mentioned geographical constraints, i.e., there is not adequate land even though they wish to take exogenous job creation measures such as inviting companies to relocate in their regions. Some say that they are not able to provide workers for the relocated companies.

On the other hand, there is a tendency of a municipality to place importance on exogenous job creation measures if the municipality has already succeeded in inviting companies to build an industrial accumulation or it faces a limit to

**Figure 3. Position of employment issue among all issues of municipalities**



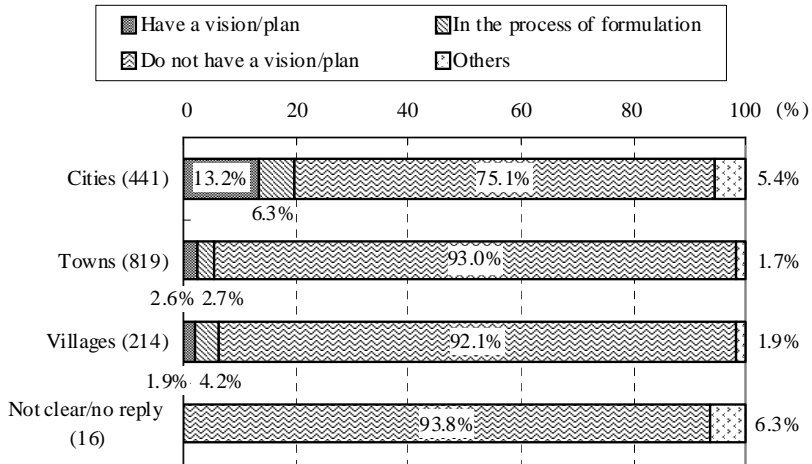
**Figure 4. Important strategies for solving regional employment problems for mayors of municipality groups**



job creation by local companies. Furthermore, municipalities placing equal importance to endogenous and exogenous measures say inviting companies in growth industries by use of tax incentives and land subsidy is expected to be more effective in creating jobs than relying on existing companies to contribute to revitalization of the economy.



**Figure 5. Existence/nonexistence of visions and plans on promoting employment**



### 3. Existence/Nonexistence of Vision and Plans on Job Creation

Whichever type of measures is given the priority, do the measures substantiate municipalities' vision on job creation?

Figure 5 is a summary of replies on existence/nonexistence of visions and plans on promoting employment by municipality group. Overall, the majority of municipalities replied that they do "not" have a vision or plan. Even in cities where the ratio of those with a vision or plan is relatively high, it is only 13%. In towns and villages, the ratio is less than 3%. Though there is a plan on regional industrial policy, the target is not clear as to how much employment they expect to create. The relation between industrial policy and job creation policy is not clear either.

The upper part of Table 1 shows the estimated results of a log linear model of the level (central government, prefecture or municipality) at which mayors consider job creation should be undertaken and existence/nonexistence of a vision and plan. Similarly, the lower part of the table shows the log linear model of the level at which municipal officials in charge consider job creation should be undertaken and existence/nonexistence of a vision and plan. In the case of the "central government," the main effect is positive and statistically significant. In the case of "municipalities," it is negative and statistically significant. In the case of "have a vision/plan" and "in the process of

**Table 1. Existence/nonexistence of vision and plan and principal player of job creation (Log linear model)**

	Vision/plan of job creation			Main effect
	Have a vision/plan	In the process of formulation	Do not have a vision/plan	
<i>Expected principal player of job creation in the view of mayors</i>				
Central government	0.315 (-1.596)	-0.252 (-0.988)	-0.008 (-0.060)	0.513*** (-4.201)
Prefectures	0.007 (-0.032)	0.303 (-1.183)	-0.052 (-0.363)	0.069 (-0.508)
Municipalities	-0.867*** (-2.599)	0.323 (-1.111)	0.093 (-0.562)	-0.330** (-2.082)
Main effect	-0.411*** (-2.793)	-0.981*** (-5.895)	2.357*** (-26.887)	
<i>Expected principal player of job creation in the view of officers in charge</i>				
Central government	0.802 (-0.677)	-0.461 (-0.427)	1.544* (-1.712)	2.560*** (-3.028)
Prefectures	1.006 (-0.817)	0.445 (-0.398)	1.606* (-1.694)	1.609* (-1.800)
Municipalities	0.191 (-0.155)	-0.622 (-0.548)	0.666 (-0.713)	1.846** (-2.102)
Chamber of commerce and industry, society of commerce and industry, etc.	0.511 (-0.393)	0.125 (-0.106)	1.866* (-1.877)	1.099 (-1.166)
Main effect	7.13E-17 (0.000)	0.511 (-0.495)	1.946** (-2.230)	

Note: Standardized effect is shown in parentheses. \*\*\* is statistically significant at the 1% level, \*\* at 5%, and \* at 10%.

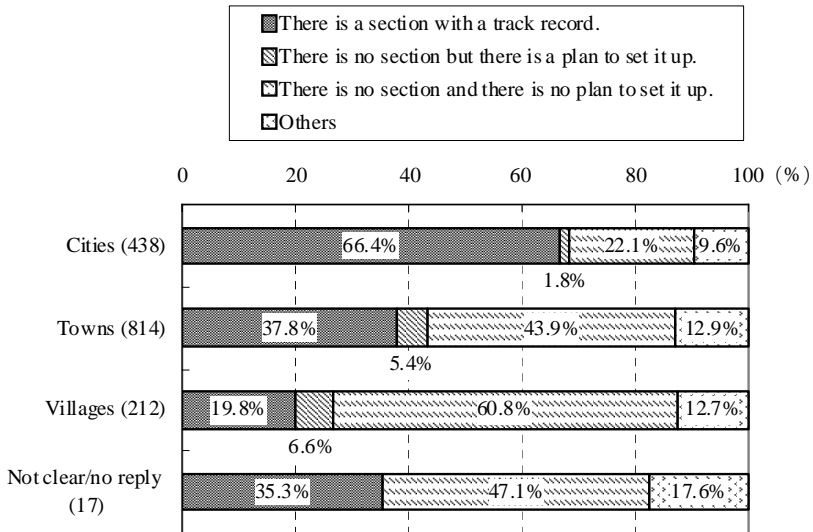
formulation” of a vision or plan on job creation, it is negative and statistically significant, while in the case of “do not have a vision/plan,” it is positive and statistically significant.

The interaction effect of municipal mayors considering that creating jobs should be undertaken at the municipal level and existence/nonexistence of a vision and plan is negative and statistically significant. Although municipal mayors think it better that job creation is undertaken at the municipal level, they may not be able to set a concrete vision or plan on how to go about and realize job creation.

Next, in the case of officials in charge of employment issues, regardless of organizations they consider job creation should be tackled by, the interaction effect of replies of “nonexistence” of a vision or plan is positive and statistically significant. (It is not significant for municipalities.)

It seems contradictory that those municipalities considering that job

**Figure 6. Existence/nonexistence of a section to deal with job creation measures at municipalities**



creation should be undertaken at the municipal level do not have a vision or plan. But a problem lies in the gap between their recognition for the need for them to take the leading role in job creation at the municipal level and the lack of a clear vision on how their regional communities should be. It is considered that assistance to fill this gap will be one of the roles that the central government and prefectures should take in the future. Municipalities should be able to take the initiative in implementing measures for employment based on a clear vision and plan.

**4. Section in Charge of Job Creation Measures at Municipalities**

Figure 6 shows the share of municipalities installing a section that deals with job creation measures. A majority of cities have a section with a track record. Meanwhile, 40% of towns and 60% of villages do not have a specific section and do not have a plan to establish such a section in the future either. In this regard, there is disparity among municipality groups in their stance to deal with job creation.

What is the difference between municipalities with a specific section (official) and those without? Table 2 shows the estimated results of a log linear

**Table 2. Existence/nonexistence of vision/plan and of official in charge of job creation (Log linear model)**

	Section that deals with job creation			Main effect of existence/nonexistence of vision/plan
	With a track record	Plan to set up	No plan to set up	
Vision/plan on job creation				
Have a vision/plan	0.800*** (-3.771)	-0.125 (-0.689)	-0.482*** (-4.377)	1.307*** (-12.601)
In the process of formulation	-0.511 (-1.038)	0.320 (-0.939)	-0.138 (-0.615)	-1.203*** (-5.646)
Do not have a vision/plan	-0.201 (-0.715)	-0.006 (-0.027)	0.683*** (-4.792)	0.222 (-1.609)
Main effect of the section	-0.891*** (-4.525)	-0.623*** (-4.104)	2.399*** (-25.299)	

Note: Standardized effect is shown in parentheses. \*\*\* is statistically significant at the 1% level, \*\* at 5%, and \* at 10%.

model. The interaction effect of “existence of vision/plan” and “existence of specific section” is positive and statistically significant at the 1% level. Meanwhile, interaction effect of “existence of vision/plan” and “non-existence of a specific section” is negative and statistically significant at the 1% level. Therefore, it is considered that there is a relation between existence of a vision or plan on job creation and existence of a specific section with a track record.

The interaction effect of “nonexistence of vision/plan” and “existence of specific section with a track record” is negative and is not statistically significant. The interaction effect of “nonexistence of vision/plan” and “non-existence of specific section” is positive and statistically significant at the 1% level. Therefore, it is considered that existence/nonexistence of a vision or plan leads to existence/nonexistence of a specific section as well as municipalities’ stance on job creation.

Existence of a vision or plan and a specific section is not sufficient to create employment in a region. What is required of such a section is to substantiate the vision or plan and make a framework for creating jobs. Many municipalities say that making use of local resources is an important point in drawing up a vision or plan. But it is a problem that this is not connected systematically with actual creation of employment. It would be expected of municipalities in the near future to play the role of devising a framework for connecting the two and to substantiate such a framework (The Japan Institute

of Labour 1997, 8-9).<sup>2</sup>

In all three municipality groups, the section of commerce and industry (tourism) or section of commerce, industry and labor are in charge of job creation measures. This may be because regional employment issue is closely related to regional industrial promotion, and creating jobs is regarded as an extension of regional industrial promotion.

## **V. Implementation of Job Creation Measures and Its Factors**

### **1. Implementation of Job Creation Measures**

Figure 7 and Figure 8 show implementation of job creation measures in fiscal year 2003 and 2004, respectively. “Company invitation,” “subsidy to venture companies” and “others” were popular measures in fiscal year 2003. At the same time, more than 50% of towns and nearly 70% of villages replied that they had done “nothing special.” The trend is the same in 2004. The most popular measure was “invitation of companies” with 30% of municipalities, followed by “subsidy to venture companies” and “others.” The proportion of municipalities replying that they had done “nothing special” was also high in fiscal year 2004.

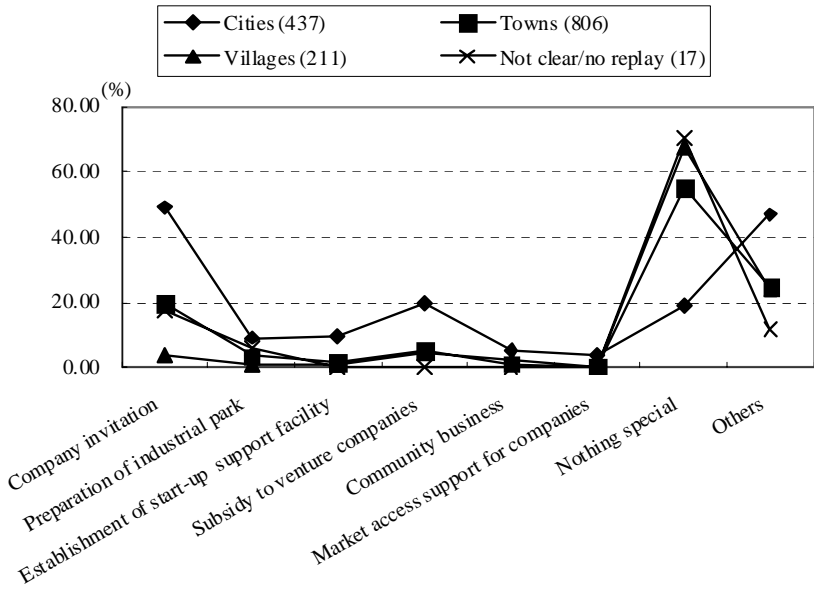
### **2. Factors for Implementation of Job Creation Measures**

A regression analysis is made to identify determinant factors for implementation of job creation measures by setting implementation of measures as an explained variable (“implemented” = 1 and “not implemented” = 0). Explanatory variables are municipality group (city as the base, towns and villages as dummies), population (population of 30,000 to 100,000 as the base), ratio of service industry to manufacturing industry (ratio of service-sector employees/total employees to manufacturing-industry employees/total

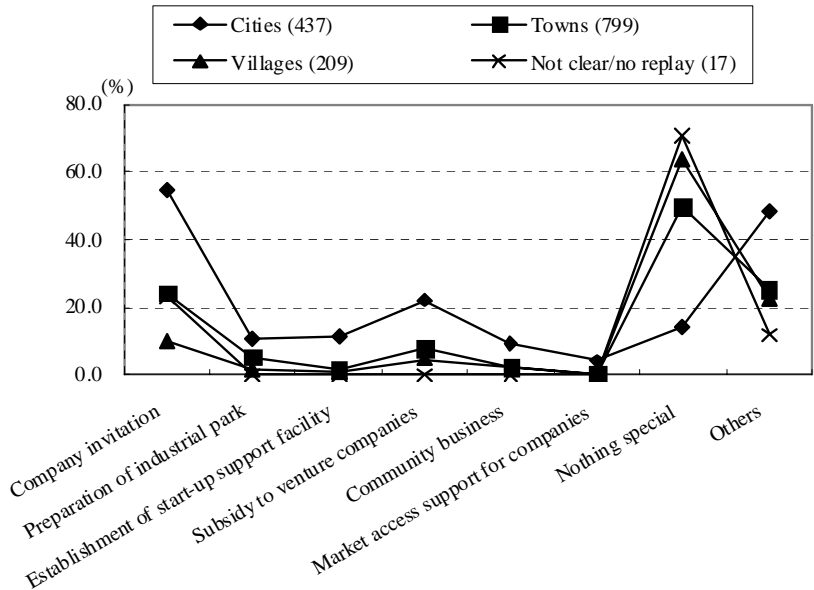
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<sup>2</sup> Other replies can be grouped into four: (i) Other section takes care of the issue concurrently; (ii) there is a section but it has no track record; (iii) it is not clear as the municipality will merge with other municipalities very soon; and (iv) others. Municipalities of case (i) are considered to have a division to deal with job creation though it is not specifically dedicated to the task. The reason of a section without a track record at municipalities of case (ii) will be examined later when analyzing issues regarding improvement of job creation measures.

**Figure 7. Measures implemented in fiscal year 2003**



**Figure 8. Measures implemented in fiscal year 2004**



employees),<sup>3</sup> policy issue dummy (employment issue as the highest priority issue = 1, otherwise = 0) and vision dummy (existence of a vision/plan on job creation = 1, otherwise = 0). Table 3 summarizes the results of a binary logistic regression analysis.

Table 3 shows that municipalities giving employment issues the top priority have a positive and statistically significant coefficient in “invitation of companies,” “preparation of industrial park” and “other measures.” It is considered that they are implementing measures. Meanwhile, the coefficient of “not implementing measures” is negative and statistically significant. Therefore, considering employment issue as the top priority issue is considered to have some kind of impact on implementation of measures.

As for the variable “existence of vision/plan,” the coefficients of such measures as “invitation of companies,” “company subsidies,” and “others” are positive and statistically significant. Therefore, it is considered that “existence of vision/plan” has an impact of promoting the implementation of these measures.

As for municipality groups, the coefficient of the “villages” is negative and statistically significant as regards implementation of the measures for “company invitation.” It is considered, as it was already discussed, that villages are not likely to invite companies as much as cities do because of their geographical conditions and the limited number of workers they have for the new companies, as the proportion of the population of senior citizens is high, which is an issue not explicitly dealt with here. On the contrary, the coefficients of the “towns” and “villages” are positive and statistically significant as regards the variable of “not implementing any special measures.”

As for the population size, “30,000 to 100,000” is set as the base, and anything smaller than this size is negative and statistically significant as regards measures such as “invitation of companies” and “preparation of industrial park.” This means that municipalities with a fewer population than the standard have not implemented measures. Meanwhile, municipalities with a larger population than the standard have positive and statistically significant coefficients as regards measures such as “establishment of start-up support facility,” “subsidy to companies,” “support of community business,” and “market access support.” This means that municipalities with a larger population

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<sup>3</sup> This variable indicates how much a region’s economy relies on the service industry.

**Table 3. Regression analysis of implementation of job creation measures in fiscal year 2003**  
(Binary logistic regression model)

	Company invitation	Preparation of industrial park	Establishment of start-up support facility	Subsidy to venture companies	Community business operation support	Market access support for companies	Nothing special	Others
Constant	-0.738***	-3.401***	-3.812***	-1.915***	-3.421***	-4.457***	-0.674***	-0.378
	0.254	0.514	0.692	0.355	0.688	0.928	0.257	0.233
	0.478	0.033	0.022	0.147	0.033	0.012	0.510	0.685
Employment as top priority dummy	0.437*	1.269***	0.062	0.068	-0.162	0.604	-0.730***	0.520**
	0.227	0.338	0.442	0.318	0.562	0.613	0.262	0.215
	1.548	3.556	1.064	1.070	0.851	1.829	0.482	1.682
Vision dummy	0.491*	0.457	0.721	0.782**	0.405	-0.039	-1.262***	0.599**
	0.277	0.458	0.448	0.320	0.582	0.789	0.453	0.273
	1.635	1.579	2.056	2.187	0.487	0.962	0.283	1.821
Service/manufacturing ratio	0.587*	0.909	-0.078	0.421	-0.290	1.138	-0.985***	0.361
	0.352	0.681	0.846	0.493	0.913	1.214	0.340	0.315
	1.798	2.483	0.925	1.524	0.748	3.120	0.374	1.434
Town dummy	-0.317	-0.100	-1.119	-0.758*	-1.054	-15.641	0.868***	-0.621**
	0.293	0.584	0.875	0.443	0.726	2397.547	0.293	0.283
	0.728	0.905	0.327	0.469	0.349	0.000	2.382	0.537
Village dummy	-1.567***	-0.093	-18.542	-0.579	-0.148	-30.647	1.451***	-0.810*
	0.578	1.014	4730.355	0.705	1.038	4702.823	0.410	0.420
	0.209	0.911	0.000	0.561	0.862	0.000	4.266	0.445
Population dummy (less than 5,000)	-0.968**	-1.187	1.350	-0.406	0.906	-1.066	0.739*	0.331
	0.480	1.007	1.386	0.700	1.096	4783.575	0.390	0.407
	0.380	0.305	3.857	0.667	2.474	0.344	2.093	0.718
Population dummy (5,000 to 10,000)	-0.746**	-1.609*	0.863	-0.623	-16.701	14.461	0.363	0.180
	0.359	0.914	1.181	0.586	3408.770	2397.547	0.330	0.328
	0.474	0.200	2.391	0.536	0.000	1906845.8	2.093	1.198
Population dummy (10,000 to 30,000)	-0.678**	-0.236	0.829	-0.367	1.213*	-15.103	0.427	-0.353
	0.299	0.589	0.853	0.443	0.710	2465.837	0.293	0.286
	0.508	0.790	2.291	0.693	3.364	0.000	1.438	0.703
Population dummy (100,000 to 300,000)	0.429*	0.406	2.344***	-0.065	1.224**	1.336**	-0.380	0.116
	0.238	0.417	0.523	0.321	0.541	0.592	0.317	0.237
	1.535	1.501	10.424	0.937	3.401	3.804	0.684	1.123
Population dummy (over 300,000)	0.473	-0.061	2.854***	1.323***	0.127	0.505	-1.380*	-0.231
	0.400	0.798	0.624	0.425	1.110	1.137	0.760	0.402
	1.605	0.941	17.358	3.756	1.135	1.658	0.525	0.794
-2 log-likelihood	893.543	321.795	258.892	534.141	220.241	127.604	879.177	1005.144
Pseudo R2	0.157	0.100	0.262	0.117	0.102	0.199	0.211	0.081

Note: The figures on the first line of each cell are coefficients, those on the second line are standard errors, and on the third line are Exp ( $\beta$ ).  
\*\*\* is statistically significant at 1% level, \*\* at 5%, and \* at 10%.



have implemented these measures.

The same trend is confirmed by the analysis using 2004 data (omitted here for want of space). In addition to municipality group, population, and the ratio of the service sector, how the municipalities consider job creation and what setup is in place to implement the measures also have a positive impact, even though such an impact is limited.

Next, the relation between existence of a specific section that deals with employment and implementation of such measures is examined by regression analysis. The explanatory variable is existence of a section that is in charge of the measures. If municipalities have a section in charge of such measures with a track record, the variable is 1, and otherwise it is 0. It should be noted that “existence of vision/plan” is excluded in the estimated results.<sup>4</sup> The explained variable and other variables are the same as above. Table 4 is the summary of the estimated results.

As for measures implemented in fiscal year 2003, the coefficients of “invitation of companies,” “subsidy to venture companies” and “others” are positive and statistically significant for municipalities with a section with a track record. These municipalities have experience of implementing some kind of measures in comparison to municipalities without such a section. As for municipalities planning to set up such a section, only the coefficient of “invitation of companies” is positive and statistically significant at the 10% level. They have actually implemented the measure of “invitation of companies” more than municipalities without such a section. The other items are not statistically significant. As for the item of having done “nothing special,” the coefficient is negative and statistically significant. That means that among the group of municipalities with such a section with a track record, there are a fewer number of municipalities that have not implemented any measures in comparison to the group of municipalities without such a section.

The coefficients of the town dummy and village dummy are both negative. This shows that fewer towns and villages have implemented measures compared with cities. This is the same with the existence/nonexistence of a vision.

As for the results of 2004 (omitted here for want of space), municipalities

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<sup>4</sup> This is because the estimated results were not sufficient when both “existence of vision/plan” and “existence of a specific division that deals with job creation measures” are explanatory variables.

**Table 4. Regression analysis of implementation of job creation measures in fiscal year 2003**  
(Binary logistic regression model)

	Company invitation	Preparation of industrial park	Establishment of start-up support facility	Subsidy to venture companies	Community business operation support	Market access support for companies	Nothing special	Others
Constant	-1.152***	-3.316***	-3.945***	-2.035***	-3.852***	-4.263***	-0.170	-0.809***
	0.280	0.517	0.721	0.390	0.748	1.005	0.279	0.258
	0.316	0.036	0.019	0.131	0.021	0.014	0.844	0.445
Employment as top priority dummy	0.399*	1.286***	0.580	0.078	-0.186	0.252	-0.715***	0.510**
	0.231	0.340	0.442	0.320	0.562	0.681	0.269	0.220
	1.491	3.617	1.060	1.081	0.830	1.287	0.489	1.666
Existence of a specific division dummy	0.619***	-0.119	0.283	0.246	0.765	-0.269	-0.893***	0.776***
	0.175	0.337	0.387	0.254	0.466	0.563	0.173	0.163
	1.858	0.888	1.327	1.279	0.101	0.744	0.409	2.173
Service/manufacturing ratio	0.506	0.946	-0.134	0.407	-0.430	0.870	-0.916***	0.332
	0.356	0.682	0.848	0.496	0.925	1.277	0.349	0.320
	1.658	2.574	0.874	1.502	0.651	2.386	0.400	1.393
Town dummy	-1.147	-0.150	-1.047	-0.766*	-0.920	-15.572	0.701**	-0.505*
	0.298	0.588	0.880	0.453	0.725	2417.035	0.300	0.288
	0.863	0.861	0.351	0.465	0.399	0.000	2.016	0.604
Village dummy	-1.304**	-0.151	-18.424	-0.516	0.194	-30.546	1.147***	-0.570
	0.583	1.019	4755.610	0.717	1.057	4752.959	0.422	0.430
	0.271	0.860	0.000	0.597	1.214	0.000	3.150	0.566
Population dummy (less than 5,000)	-0.908*	-1.195	1.330	-0.370	0.921	-0.980	0.664*	-0.287
	0.483	1.002	1.386	0.705	1.096	4841.451	0.398	0.413
	0.403	0.303	0.337	0.691	2.511	0.375	1.942	0.751
Population dummy (5,000 to 10,000)	-0.717**	-1.625*	0.849	-0.593	-16.717	14.560	0.335	0.183
	0.362	0.913	1.179	0.591	3382.369	2417.035	0.337	0.333
	0.488	0.197	2.336	0.553	0.000	2104798.9	1.397	1.201
Population dummy (10,000 to 30,000)	-0.654**	-0.240	0.805	-0.432	1.219*	-14.968	0.407	-0.377
	0.303	0.587	0.852	0.450	0.706	2487.362	0.300	0.290
	0.520	0.787	2.236	0.649	3.335	0.000	1.502	0.686
Population dummy (100,000 to 300,000)	0.498**	0.375	2.325***	-0.097	1.204**	1.538**	-0.420	0.078
	0.242	0.418	0.522	0.321	0.539	0.637	0.322	0.242
	1.645	1.455	10.231	0.907	3.335	4.653	0.657	1.081
Population dummy (over 300,000)	0.447	-0.071	2.793***	1.262***	0.007	0.720	-1.321*	-0.385
	0.404	0.800	0.625	0.427	1.111	1.167	0.770	0.408
	1.564	0.931	16.325	3.531	1.007	2.055	0.267	0.681
-2 log-likelihood pseudo R2	870.873	320.419	258.038	525.317	216.879	120.661	844.563	972.257
	0.172	0.101	0.263	0.124	0.115	0.200	0.248	0.120

Note: The figures on the first line of each cell are coefficients, those on the second line are standard errors, and those on the third line are  $\text{Exp}(\beta)$ . \*\*\* is statistically significant at 1% level, \*\* at 5%, and \* at 10%.

with such a section with a track record have positive and statistically significant coefficients as regards “company invitation,” “preparation of industrial park,” “establishment of start-up support facility,” “subsidy to ventures,” “market access support for companies,” and “others.” That means that more municipalities with such a section with a track record implemented the measures compared to municipalities without such a section. As for having done “nothing special,” the coefficient is also negative and statistically significant. That means that fewer municipalities with such a section with a track record have not implemented any measure compared with municipalities without such a section.

The coefficients of towns and villages are negative and statistically significant, which means that they have not implemented job creation measures as much as cities have. As for the item of having done “nothing special,” the coefficient is positive and statistically significant.

Having a section for job creation measures leads to implementation of some kind of measures. This result is logical and may not need to be pointed out. It is considered that setting up a section (or an official) is the first step in dealing with creating jobs at the municipal level.<sup>5</sup>

## **VI. Issues of Regional Employment Strategies**

### **1. Reinforcement of Efforts for Regional Job Creation**

What kind of policy does each municipality have regarding tackling job creation? Figure 9 summarizes the responses. The ratio of municipalities insisting it is necessary to reinforce efforts is highest in cities, followed by towns and then villages.

What kind of problems and issues does each municipality face in strengthening measures? The responses were given using the free descriptive method. Replies were as follows: (i) Lack of human resources (48 cities, 62 towns, 20 villages, total of 130 municipalities); (ii) shortage of financial

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<sup>5</sup> Developments regarding regulatory exceptions in the special zones for structural reform and approval of regional renovation plans are being watched with keen interest. As regards cities, 24% and 14% have applied for the status of the special zone for structural reform and for approval of regional renovation plans, respectively. There are few towns and villages that have applied.

**Figure 9. Need to reinforce efforts in job creation**



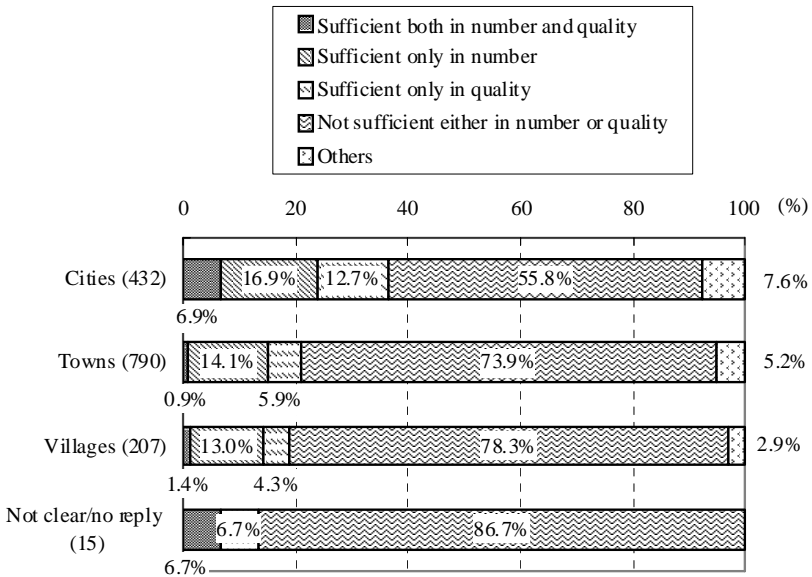
resources (budget) (45 cities, 45 towns, 5 villages, total of 95 municipalities); (iii) lack of information (43 cities, 38 towns, 6 villages, total of 87 municipalities); and (iv) lack of know-how on employment measures (32 cities, 37 towns and 9 villages, total of 78 municipalities).<sup>6</sup> “Human resources” here could mean both human resources of municipal officials as policy makers and human resources in general in the locality and local companies. Moreover, human resources can be divided into the quality and volume of the resources. As for information, the municipalities gave examples such as statistical information on employment/unemployment, industrial policy, concrete methods and know-how of job creation, regional promotion measures, and information on job offers and job seekers.

## 2. Situation Regarding How the Issues Are Addressed

The largest number of municipalities said that securing human resources was the priority issue for the future. This section examines in detail the number and quality of officials planning employment measures. Figure 10 is the

<sup>6</sup> Free descriptive answers were treated as multiple replies.

**Figure 10. Sufficiency of officials in charge of employment measures**



summary of the cross tabulation of existence/nonexistence of such officials and municipality groups.

Overall, the majority of municipalities replied “not sufficient either in number or quality.” Such a ratio is highest at villages, followed by towns and then by cities.

Multinomial logistic regression analysis is done to examine determinant factors for existence/nonexistence of human resources at municipalities. Explained variable is “existence/nonexistence of human resources.” Explanatory variables are the dummy variable of population (30,000 to 100,000 as the base), the dummy variable where “existence of vision/plan on job creation = 1,” the dummy variable where “existence of a section of job creation measures = 1,” the dummy variable where “participation in training and willingness to continue training = 1,” and the dummy variable of municipality group (city as the base). Table 5 shows the estimated results. The coefficients of “existence of vision/plan” are positive and statistically significant. As regards “existence of a section,” the coefficients are significant when “sufficient both in number and quality,” “sufficient only in number,” “sufficient only in quality.” In other words, municipalities with a vision of job

**Table 5. Result of multinomial logistic regression analysis on sufficiency of policy makers**

Explained variables: Explanatory variables	B	Standard errors	Significance	Exp (B)
Sufficient both in number and quality:				
Constant	0.511	2.178		
Population dummy (less than 5,000)	0.236	1.268		0.789
Population dummy (5,000 to 10,000)	-0.392	1.161		1.480
Population dummy (10,000 to 30,000)	-0.246	0.914		1.279
Population dummy (100,000 to 300,000)	0.453	0.517		0.635
Population dummy (over 300,000)	0.898	0.770		0.407
Dummy of existence of vision	0.964	0.511	*	0.381
Dummy of existence of a section	1.993	0.647	**	0.136
Town dummy	-0.686	0.911		1.985
Village dummy	0.297	1.268		0.743
Training dummy	1.336	0.656	**	0.263
Sufficient only in number:				
Constant	0.493	1.226		
Population dummy (less than 5,000)	0.148	0.521		0.863
Population dummy (5,000 to 10,000)	-0.375	0.457		1.455
Population dummy (10,000 to 30,000)	0.121	0.382		0.886
Population dummy (100,000 to 300,000)	-0.068	0.328		1.070
Population dummy (over 300,000)	0.202	0.590		0.817
Dummy of existence of vision	0.295	0.362		0.745
Dummy of existence of a section	1.309	0.235	***	0.270
Town dummy	0.010	0.378		0.990
Village dummy	0.205	0.561		0.815
Training dummy	0.817	0.475	*	0.442
Sufficient only in quality:				
Constant	0.830	1.639		
Population dummy (less than 5,000)	0.295	1.009		0.744
Population dummy (5,000 to 10,000)	0.905	0.721		0.405
Population dummy (10,000 to 30,000)	0.948	0.515	*	0.387
Population dummy (100,000 to 300,000)	-0.022	0.416		1.022
Population dummy (over 300,000)	0.889	0.595		0.411
Dummy of existence of vision	0.481	0.426		0.618
Dummy of existence of a section	1.382	0.365	***	0.251
Town dummy	-1.607	0.569	***	4.987
Village dummy	-0.928	0.893		2.529
Training dummy	1.388	0.512	***	0.250
	-2 log-likelihood		266.304	
	$\chi^2$		121.928	
	p value		0.000	
	pseudo R2		0.190	

creation and a track record already have sufficient human resources both in quality and number. When only the coefficient of municipalities with a section responsible for job creation measures is significant, it means that there is lack of balance either in the number or quality of the human resources.

As for the training dummy, the coefficients were positive and significant in all cases.

### **3. How to Secure Human Resources to Deal with Employment Issues**

What is the difference between municipalities that “already have sufficient number and quality of officials in charge of employment issues” and other municipalities in how they secure human resources (Table 6). The upper row of each municipality group shows how municipalities that “already have sufficient number and quality of officials in charge of employment issues” have recruited officials who plan employment measures. It should be noted that the sample size of municipalities having sufficient officials both in number and quality is small. The majority of them replied that “they were transferred from other section within the same office, and they were self-taught without receiving any special training.”

As for municipalities “not securing sufficient human resources either in number or quality,” a quarter replied as a method of securing resources, “transfer from other section within the same office and provided with special training,” and about 20% said, “transfer from other section within the same office and have them educate themselves without providing any special training.” Many municipalities replied that they expect to be able to hire experienced people from the central government, prefectures and private companies. Some municipalities have advertised for candidates for the post though the number of such cases is small.

“Others” account for over 40%. Most of them have written in their responses that they have “no plans for securing such officials” or have “no special plans.” Many municipalities do not have a prospect of securing such officials. Others wrote that they “cannot afford to employ such staff” or “it is an issue for the future.”

As for the methods of training human resources, municipalities that have participated in training and wish to continue the training in the future have a higher ratio of already having secured resources than those without actual experience of or future plans for participation in training. The difference

**Table 6. Methods of securing officials in charge of employment issues by municipality group (%)**

<i>Sufficiency/deficiency of human resources by municipality group</i>	Experience in the central government and prefectures	Experience in the private sector	Transferred from the municipal office and received special training	Transferred from the municipal office and trained themselves	Recruited from outside	Others
Cities						
Sufficient	10.0	10.0	10.0	70.0	6.7	6.7
Deficient	10.5	15.3	28.8	18.3	4.4	44.1
Towns						
Sufficient	0.0	0.0	0.0	57.1	0.0	42.9
Deficient	4.5	9.8	22.7	24.4	4.9	43.6
Villages						
Sufficient	33.3	33.3	0.0	33.3	0.0	33.3
Deficient	4.0	9.4	22.1	16.8	4.7	53.0
Not clear						
Sufficient	0.0	0.0	0.0	0.0	0.0	100.0
Deficient	0.0	20.0	0.0	30.0	10.0	40.0

between the two groups as regards the response, “have not secured sufficient number or quality of officials,” is especially large.

There is a similar trend in the relation between “whether or not a municipality employs experienced people from other regions if it cannot find them in its own region” and the “situation regarding securing officials in charge of employment issues.” That is to say, in case experienced people are employed as administrative officials from other regions, the ratio of not having secured sufficient resources either in number or quality becomes relatively low.<sup>7</sup>

<sup>7</sup> The cross tabulation between existence/nonexistence of a section that deals with job creation measures and who they think should be the principal player of creating jobs indicates that the ratio of municipalities having such a section selecting “the central government and prefectures” as the principal player was higher than that of municipalities without such a section. The cross tabulation between existence/nonexistence of a vision on job creation and who they think should be the principal player of employment also indicated the same result. (Both cases are significant at the 1% level.)



## VII. Overall Picture of Regional Employment Strategy

Based on the above discussion, it can be said that having a vision or plan on employment measures would lead to planning policy on employment measures, and a section that deals with the measures is set up in order to substantiate such a vision and plan. The section then implements various employment measures. On the other hand, establishment of such a section becomes possible by the existence of human resources with specialized knowledge. The need for such human resources with specialized knowledge will enhance the need for training on the planning and implementation of employment measures. In order to have such officials, a municipality either educates them within the municipality or introduce outer resources. It is considered that introduction of outer resources will stimulate existing officials and enhance quality of human resources.

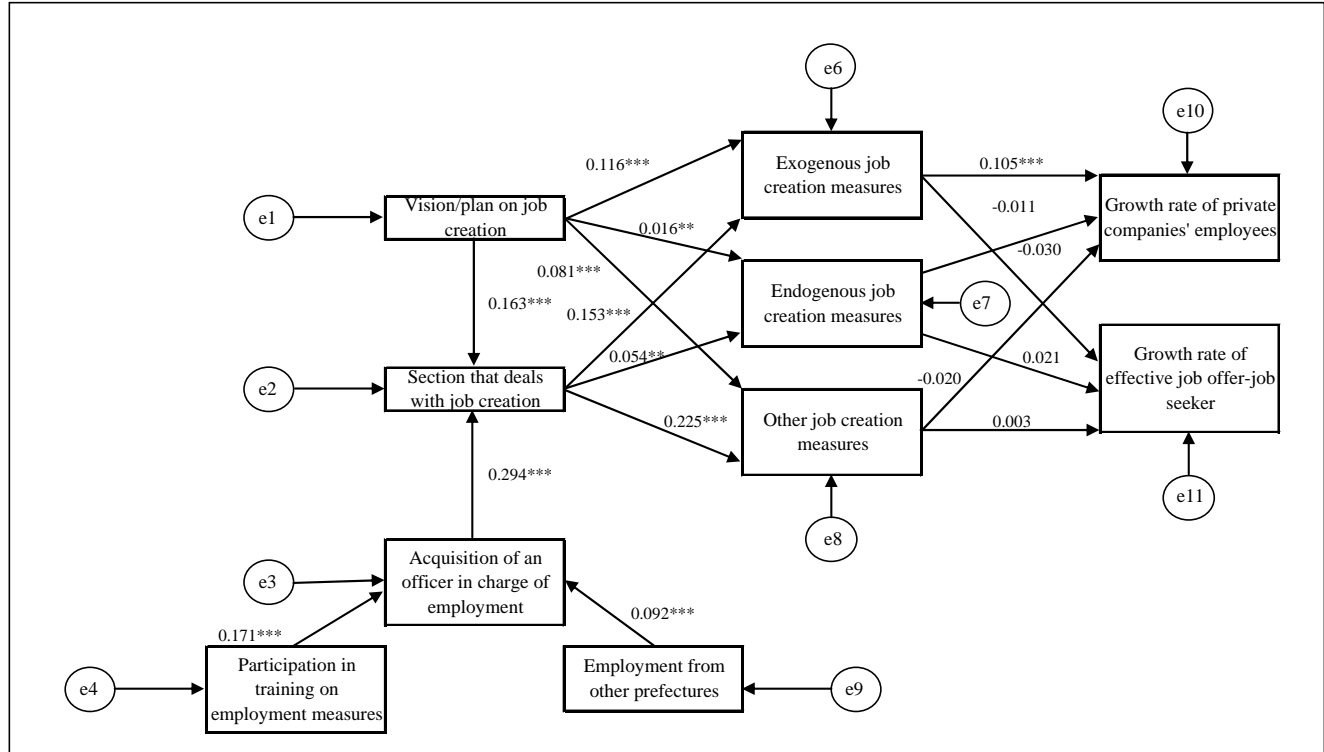
Geographical environment and economic and social factors such as population structure, industrial structure and financial situation of each municipality has a significant influence. But, the above-mentioned factors have influence as well in planning and implementing policies at municipalities. Therefore, if municipalities' role becomes larger in regional employment policy, it would become important to foster human resources (policy makers), including key persons, of municipalities.

Figure 11 is a path diagram showing the overall structure of the relation of variables based on factor analysis on implementation of employment policies (principal factor method, varimax rotation, standard of eigenvalue 1). The results of factor analysis are summarized as (i) exogenous job creation policies (company invitation and industrial park preparation, cumulative contribution rate of 14.286%), (ii) other policies (market access support, other measures, subsidies, cumulative contribution rate of 28.571%) and (iii) endogenous job creation policies (start-up support facility preparation, community business support, cumulative contribution rate of 42.852%). Then a path analysis is made setting score of each component as an explanatory variable.

The path coefficient of "nothing special" is calculated at -0.121 for existence/nonexistence of a vision or plan and -0.143 for existence/nonexistence of a section for job creation. In both cases, the coefficient is negative and significant at the 1% level. Indirect effect is 0.017.

The factor analysis excludes the item "nothing special" in order to focus on

Figure 11. Path diagram of employment creation of regions



Note: Figures are standardized coefficients, and  $e_i$  are error variable. \*\*\* is statistically significant at 1% level, \*\* at 5%, and \* at 10%.

policy implementation. It is considered that there is a time lag for a policy impact to be realized. It should be noted therefore that there is a possibility that impact of company invitation plan implemented before 2003 has been shown in the present analysis.

It is considered that a vision or plan on job creation has an impact on implementation of measures by two routes.<sup>8</sup> One is the direct effect of whether or not to implement measures. Having a vision or plan leads to implementation of some kind of measures. The other route is indirect. Having a vision or plan leads to setting up a section responsible for coordinating in the actual planning and implementation of the vision or plan. By the establishment of this section, some form of job creation measures is implemented.

On the other hand, in order to set up a section that deals with employment policies, municipalities must have secured a staff to support it at the municipal level. Having a sufficient number and quality of personnel at the municipal level would enable establishment of a specific section comprised of personnel with a high level of expertise to deal with employment problems.<sup>9</sup>

What are the measures to secure human resources? In reality, it may not be possible to hire a lot of extra staff due to financial constraints. This paper examined two measures. One is capacity development through training and seminars on job creation, information collection and accumulation of know-how. The other is exchange of people with a high level of specialization from the outside when necessary and to hire them when possible. It takes time for a municipality to train staff on its own. Thus, in the meanwhile, municipalities can secure various types of people by hiring them from the outside and by exchanging people with outside organizations such as other prefectures. Municipalities may also be able to expand their human network through training and seminars. It seems important for municipalities to foster highly specialized human resources to deal with employment issues in the

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<sup>8</sup> The direct effect ( $\beta$  coefficient) of municipalities to undertake job creation on its own and municipalities having a clear vision or plan is 0.078 (significant at the 1% level). This relation may apply not only to job creation but also to regional promotion and town development and industrial policy.

<sup>9</sup> The indirect effect that preparation of a vision or plan of job creation will have on the implementation of the measures, through establishment of a section that deals with such measures, is 0.012 for exogenous job creation measures, 0.001 for endogenous measures, and 0.028 for other measures.

future.

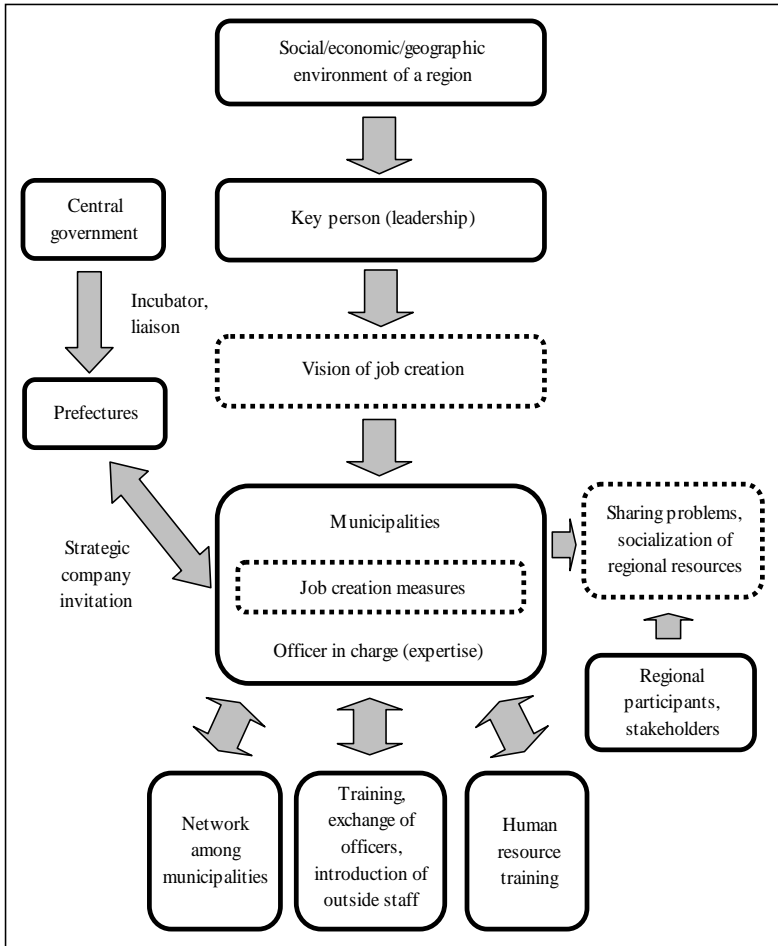
The rate of implementation of a vision or plan on job creation, the rate of implementation of the measures, and the rate of fostering human resources are all low in towns and villages compared with cities. They are not capable of dealing with employment issues at present, but not a few of them replied that they intend to look for new development through mergers with other municipalities. In fact, they have many constraints in implementing employment policies on their own, such as financial resources, population, and the number of staff. It may be necessary to collect and verify the actual cases to examine whether these cases were exceptionally successful, whether there are other similar cases, and whether the impact is temporary or sustainable.

### **VIII. Conclusion: Proposals on Regional Employment Strategy**

The above discussions lead to the conclusion shown below. Having a vision and plan on employment measures will lead to implementation of job creation measures. A section that deals with the measures will be set up to substantiate the vision and plan on employment measures. Next, establishment of the section on the measures will be made possible by availability of staff with specialized knowledge. The need for such a staff enhances the need for training on planning and implementation of employment measures. By employing a wide range of personnel, municipalities will try to meet various needs of their personnel, which will stimulate other staff members and enhance the quality of the overall personnel. (Figure 12)

It is necessary for municipalities to have a vision on regional economy and regional employment to deal with regional job creation in the future. Municipal mayors and officials in charge of employment issues realize the importance of employment issues, but only a few municipalities have a clear vision as to what kind of a region they want to become. Prefectures have a vision and municipalities should also have one. Whether there is a local key person with leadership in drawing up a vision makes a difference. Also it would be important to train personnel responsible for policy making, including officials in charge of employment issues, in planning and implementing industrial and employment policies that make the most of regional characteristics. There is a limit to fostering generalist-type personnel, and it would be necessary to foster specialists and introduce outside personnel.

**Figure 12. Overall picture of regional employment strategy**



It is not realistic to expect a uniform response as the situation differs between that in major cities and other municipalities. It is necessary to divide municipalities into several groups based on their regional characteristics.

Secondly, a vision on employment is closely related to the industrial policy and regional development policy of individual municipalities. But in reality, it is not clear how industrial vision and employment vision are related. Therefore, it is important to pay attention to both the industrial vision and employment vision.

Thirdly, it is said that there is not much variety in job creation and employment measures at the municipality level.<sup>10</sup> Records of municipal job creation measures tell us that implemented measures do not make use of unique regional resources. Meanwhile, it is important to consider what kinds of employment measures are possible at the municipal level in spite of the constraint of shortage of staff on employment measures. It is necessary to think about securing policy makers in addition to employment measures.

Fourthly, it is said that there is a need to hire experts and specialists as policy makers. What is required is not a specialist with specialized knowledge in a limited field. It would be necessary to examine how many municipalities would be able to foster such personnel by themselves, how much they can train them, and whether and how much it is possible to utilize outside personnel under the present system.

Fifthly, it is necessary to consider a vertical network of the central government and prefectures and a horizontal network of neighboring municipalities. In dealing with regional job creation, it is necessary to examine what roles the central government, prefectures and municipalities should play in the future.

Sixthly, it is pointed out that municipalities are required to enhance the capacity of policy planning and policy formation. If we take the special zones for structural reform and regional renovation plans as examples of municipal policy planning, whether they could come up with the ideas in a short period of time was the touchstone of the municipalities' capability for planning. Up to now, prefectures and municipalities had different roles as regards policy planning and formation. But it is considered that municipalities will be expected to play the same role as prefectures in the future.

Under these circumstances, the effect of the Regional Job Creation and Promotion Program, which consists of the Regional Job Creation Back-up Program, Regional Proposal Job Creation Promotion Program, and Regional Foundation Subsidy, will gain much attention. In the questionnaire survey, it

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<sup>10</sup> This was also pointed out in the interview survey on municipalities. As examples of other measures that municipalities implemented, many municipalities in the questionnaire survey mentioned the Emergent Job Creation Fund Program, employment incentive, start-up seminar for job seekers and job changers, guidance, employment counseling, organization of various courses, internship and financing fund and services.

was pointed out that the know-how to substantiate visions and plans of creating job and to support municipalities that do not have sufficient information and human resources is considered as an issue for municipalities. The program is considered to function as an incubator due to the following reasons: (i) It focuses on the use of regional resources as regional communities take the initiative in dealing with job creation; (ii) a vertical network is built as the labor bureau and municipalities cooperate in the entire process from planning to implementation of the project; (iii) a horizontal network is built by several municipalities situated adjacent to each other as they undertake projects jointly; and (iv) it meets the needs of municipalities as they will be able to have access to information on cases of other regions and to other relevant information.

It will be a future task to measure the impact of the Regional Job Creation and Promotion Program. It will be necessary to examine under what conditions employment was created effectively by taking into consideration the economic and social environment of municipalities and the program content. In the future, regional leaders will be needed to plan and implement job creation measures to make the use of regional characteristics. To do this, it will be urgently required to foster regional leaders, make clear the vision (target) for regional employment strategy, and decide what policy and measures should be taken.

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