

1 Local Governance for Promoting Economic and Employment Development: Challenges for Japan

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1. The Need to Improve Local Governance in Japan

Japan is at a major turning point with regard to job creation and economic development. After the burst of the bubble economy, unemployment rates in Japan continued to rise, and the economy was in danger of collapsing. While the number of job offers finally began to rise in the Tokyo metropolitan area and in the Tokai region recently, sparking some optimism in the labour market, the situation of rural economies remains unchanged and the outlook is bleak.

The marked difference in the labour market conditions in urban and rural economies may be related to different speed in economic recovery. Past experience has shown that economic recovery tends to begin in large cities and then spreads to rural economies after a certain time, and it cannot be excluded that the current disparities are caused by this time lag. On the other hand, it can also be argued that the differences are related to the fact that the job creation measures that were implemented in the past in the rural economies do not work anymore.

In the past, fiscal spending in the form of public investment created a large number of jobs for rural economies (Chapter 2). During recessions, in particular, the government implemented vastly-expansive macro-economic fiscal policies, which contributed to creating jobs in rural areas. In the first half of the 1990s when the bubble economy burst, the labour market conditions were more stable in rural areas than in urban ones, thanks to these increases in public investment for rural economies. As a result, however, the budget deficits increased: as of 2004, the cumulative budget deficits of central and local governments are approximately 1.5

times larger than Japan's gross domestic product (GDP). Fiscal policy cannot be expected anymore to play any significant role in job creation.

Another important strategic pillar of rural economies for job creation was inducement of large firms to relocate in rural areas. But this approach came to a virtual dead end with the progress in globalisation. During the 1980s, many firms set up mass-production plants in rural areas to supplement labour shortages. As the government relaxed regulations on foreign direct investment during the 1990s, however, many firms began to shift their production sites overseas, and closure or downsizing of plants that had been built in rural areas in Japan became noticeable. Rural economies could no longer attract firms simply by publicizing the advantages of cheap labour costs.

In the past, central government took the initiative in the decision-making of fiscal and industrial policies, and local governments implemented those policies in a top-down fashion. This was also the case with labour administration. Until recently, public employment service offices, which are the state's regional offices located in each prefecture, had a monopoly on job placement services. Most vocational development programmes are carried out by the Employment and Human Resources Development Organization of Japan, which operates on funding from employment insurance under the supervision of central government.

While the growing budget deficits and a progress in globalisation make it increasingly difficult to adopt the kind of job creation measures that were once implemented, the top-down approach in drawing up and implementing policies also has a number of problems. Firstly, nationally uniform measures are ineffective because factors inhibiting expansion in employment dif-

fer from region to region. Measures are needed that suit local needs. In some regions, it may be the lack of employment opportunities that prevents expansion of employment. In others, there may be employment opportunities but a lack of workers with the skills that firms need. An effective use of limited financial resources calls for measures that suit local conditions, which in turn require bottom-up decision-making rather than the top-down approach.

Secondly, the direct transplantation of the detriments of the state's vertically segmented administrative system in local administration has prevented effective coordination and integration of policies. To put it simply, a process of creating job opportunities (by the private sector), developing the human resources that are required, and matching them to job opportunities is needed to expand employment. But if these actions are not properly coordinated and there are mismatches, employment will not expand. Efficiency on the labour market requires some degree of co-ordination, and this has proved a problem in Japan. People at local and regional level, where policies are implemented, can help address it, but effective coordination is not possible without giving them some degree of authority. In this respect, too, there is a need for a bottom-up approach.

Inevitably, changing the policymaking framework raises challenges. Even if financial resources are transferred from the central government to local governments by enactment of the law, the immediate question would be to ask if the local governments have the talents capable of managing the resources that are at their disposal. Since local governments do not have the experience of drawing up policies, we can assume that such talents are limited in number. Even if the local government opts for an approach of coordinating the actions and initiatives of other actors, how many in the local government are capable of exercising such leadership? And even if some local governments succeed in designing and implementing development strategies, would that not result in increasing regional divergences? These uncertainties attend delegation of authority to local governments in Japan.

Similar problems arise at a time of a paradigm shift whether it is in Japan or any other countries. How have other countries overcome these problems? And what kind of problems have they not been able to overcome and are still pending? In light of the experience of other

countries that have already made the paradigm shift, the objective of this book is to examine effective measures and problems in carrying out regional employment development in Japan.

2. The Experience of the West

Japan's economic and labour market problems are recent compared to Western countries. While Japan experienced sustained growth and excellent labour market conditions in the 1970s and the 1980s, many countries of the West saw unemployment rising to record levels and disparities widening in the wake of plants closures and economic restructuring. This process is still going on in most Western economies, which need further to adapt in response to increasing economic integration, a phenomenon that now concerns skilled labour and high-technology and service sectors.

Europe and North America are particularly rich fields of innovations and experimentations in local economic and employment development. The challenge of policy co-ordination and adaptation to local conditions in huge territories has led to ambitious reforms in North America. In Europe, the European Union has been a powerful driver of change with its various programmes to support economic restructuring, workforce development and social inclusion, which have had to be implemented following a partnership principle, as will be seen in Chapter 4. The reforms and initiatives led in both continents have taken various forms. A sample of countries that present a wide range of contexts and types of experimentations has been selected for this research: Canada, Denmark, France, Germany, Italy, the United Kingdom and the United States.

Some of the countries surveyed have a tradition of centralised policy making. They have seen in the past years the emergence of local initiatives, the aim of which has been to complement and influence the action of government locally. This is notably the case of France, where local governments have continuously increased their involvement in local employment and economic development matters, and have moreover supported voluntary organisations' efforts in identifying and promoting creative solutions to local employment problems (Chapter 5).

Some countries have given a special role to local partnerships in dealing with economic and employment

development. They also created local organisations to deliver specific programmes in partnership with local stakeholders in view to suit local needs. A good example is the United Kingdom (Chapter 6) which has encouraged the creation of partnership-based organisations and local agencies to implement a wide range of programmes and government initiatives, from welfare-to-work to vocational training and urban regeneration. These entities have been expected to establish collaborative relationships with public services managed by central government and other local actors. The United States (Chapter 7 and 8) has seen similar developments: the federal government has long been encouraging co-ordination of workforce development and welfare initiatives by partnerships involving business and local community representatives. The Workforce Investment Boards have embodied this role since 1998. A myriad of partnerships and non-government intermediaries are also operating in the economic development and labour market fields in the United States.

Denmark (Chapter 9) has built on a culture of social dialogue in giving partnerships a key role in employment issues. Its tripartite labour market councils at regional level group representatives of employers associations, trade unions and local and regional authorities. The councils co-ordinate the implementation of labour market policy and seek to harmonise national labour market policy goals with economic development objectives in the region.

Several countries have chosen decentralisation as the way to promote local employment development. Both Canada (Chapter 10) and Italy (Chapter 11) have decentralised their public employment service and devolved responsibility for active labour market policy to the regional tier of government (regions in Italy, provinces and territories in Canada). Canada has achieved an asymmetrical decentralisation model which gives more power to some regional governments than others, depending on their willingness to take on responsibility in the management of labour market policy. Both countries have seen the emergence of area-based partnerships to promote economic development at local level.

Countries have also restructured the service delivery aspects of labour market policy. This is the case of Germany, a federal state, which has recently reformed and simplified its complex unemployment insurance

and social assistance regimes, and streamlined its public employment service structure to make access to programmes easier and more adapted to local needs (Chapter 12).

Recently, several local governments started to challenge the employment situation in Japan and took measures to promote economic development. Some good practices and remaining problems are identified and assessed in Chapter 13.

2.1. Some Lessons from the International Experience

As will be shown in Chapter 3, the main goal of institutional reforms and government initiatives to decentralise and stimulate partnerships is to bring flexibility to the local management of policies and programmes, in a way to open up the set of possibilities locally and seize economic and social development opportunities that would be lost otherwise. To foster local economic and employment development, flexibility is needed to co-ordinate policies, combine programmes and local initiatives, adjust the targets of programmes, and draw on synergies. Working at local level offers possibilities that are not available at higher administrative layers, where analysis is based on aggregates and action hampered by delays and lacks of information. The results of these reforms and initiatives should therefore be evaluated on whether they have successfully contributed to co-ordinate policies, adapt them to local conditions, foster innovation and take an integrated approach to local problems involving other stakeholders at local level. In other words, on whether they have improved local governance.

The results obtained in the West are mixed in this regard. The partnerships set up have been able to stimulate co-operation among local actors and to design local strategies. They have in many instances been able to support the development of local initiatives, channelling money or providing technical advice, and to enhance the uptake of government programmes that are relevant to the local strategies. Decentralised public employment services and local agencies created by government have been in a position to be in closer contact with other local actors and to match the various programmes with the needs of the target groups.

However, it is not clear that these reforms and gov-

ernment initiatives have allowed a strategic or integrated approach to be taken to the economic, employment and social development of the local and regional areas. Neither partnership nor decentralisation has proved particularly effective in co-ordinating labour market policy and economic development, a critical nexus for the success of local development strategies. Decentralised public employment services continue to deliver programmes aimed at the development of the labour supply (employability; productivity enhancement; integration into the labour market) with only weak connections with demand-side initiatives and strategies (endogenous development; entrepreneurship; self-employment; local innovation systems). While they have flexibility over the policy instruments they use, their targets are often set at national level in view to meet aggregate policy goals in term of employment and unemployment.

For these reasons, and others related to the administrative and accountability frameworks of public services, it proves difficult for partnerships to have any significant impact on the way policies are implemented, and to enforce the implementation by all partners of agreed area-based development strategies pursuing common long-term goals for the region. As a result, partnerships grouping different partners and focused on different aspect of policy (e.g. economic development, workforce development, social inclusion) are often set up in parallel in the same local areas, preventing from an integrated approach to be taken on these various facets of the same local issues.

These obstacles and challenges are acknowledged by government. In the United Kingdom, the government has promoted the establishment of local strategic partnerships, whose tasks are, among other things, to streamline and co-ordinate the various partnerships that have been set up in various policy areas. In the United States, some Workforce Investment Boards seek to overcome governance obstacles by engineering demand-side solutions and acting as economic development agencies for their areas. A pilot project in Storstrøm region (Denmark) aims to design an integrated development strategy to be used as a framework for both labour market policy and economic development initiatives in the region. Several countries are considering measures to encourage better co-ordination between these two policy areas in all regions.

2.2. What Lessons for Japan?

The richness of the experience of the West and the challenges still faced across OECD countries provide useful lessons for Japan.

Given the shortcomings of the various reforms and initiatives performed in the West, it appears advisable to gear Japanese reforms at improving flexibility in the management of policies rather than at full-fledge devolution or replication of a partnership model. While devolution to prefectures in certain policy areas may provide a stimulus to innovative area-based strategies, it is not certain that such reform will translate into greater flexibility and better governance that can be used in designing and implementing successful integrated development strategies. The effectiveness with which partnerships can deliver satisfactory results varies widely across the OECD and also depends on the degree of flexibility provided in the management of relevant government programmes.

A key issue for Japan is the capacity for managing economic and employment development at local and regional levels. As for any country with a tradition of centralisation, time and efforts are needed to build the necessary skills and capacity to take a strategic and integrated approach to policy development in the field. Thus in counterpart of flexibility it appears important simultaneously to ensure efficiency in service delivery and full accountability on the actions carried out in a more flexible policy framework.

Both these outcomes — greater flexibility and accountability — can be achieved using various mechanisms for co-operation and co-ordination. Clearly, what matters to local employment development in Japan today is improving local governance. What Japanese regions need are: endogenous development strategies, that can foster a knowledge base and nurture skilled workforce; possibilities to co-ordinate labour market policy and economic development, in order jointly to implement supply-side programmes and demand-side initiatives; flexibility to adapt national policies to local strategies and conditions; participation of business and civil society in strategic planning and the orientation of policies.

All this can be achieved through the introduction of various governance mechanisms, which do not require institutional change as such:

- *Decentralise within government structures.* Decentralisation does not merely mean devolution. Parts of decision-making can be scaled down to lower levels within the central administration to stimulate innovation and participation. Decision-making within the public employment service would appear particularly relevant with regard to fostering local development. Services and programmes would remain delivered by public agencies but the way they are implemented would be dependent on the overarching strategy agreed at local level.
 - *Make civil servants responsible for co-ordination.* Concrete steps should be taken to encourage civil servants to work in partnership with other policy areas, local governments, business and civil society and commit themselves to the implementation of joined-up strategies.
 - *Broaden the target setting process.* Targets set for the delivery of labour market programmes and services at local level should be set through multi-level negotiation process that involve local stakeholders (business, civil society, local governments) to make sure that implementation is coherent with local strategies.
 - *Build capacities.* Measures can be taken to foster leadership and build capacities, so that it becomes normal to design and implement common strategies to achieve long-term and sustainable goals for economic and social development at local level. This would be required not only for civil servants and economic development practitioners but also for local elected officials.
 - *Share experience.* Progress made locally and the result of initiatives and strategies should be shared among local and regional areas through networking mechanisms in order to draw on successes and avoid repeating failures. This process should be assisted by central technical services to ensure that results are analysed properly and that lessons are learned.
- Improving governance is a challenging process as it involves changing the methods used by government officers and policy-makers. But the wider OECD experience shows clearly that this is a necessary one to go through. Various mechanisms exist to make it successful for the benefit of local communities and promote growth and prosperity. They should be implemented by Japan now.