

Study on Strategic Challenges concerning Urban Employment and Urban Functions

Summary

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2. Study Period

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3. Objectives of Study

Urban policies these days are required to recognize the employment issue as an important policy challenge, and current labor policies should take up policy issues that are closely linked to urban policies. In order to promote regional vitalization and sustainable development, urban policies that focus on employment and human potential should be established alongside the traditional urban and regional policies. Labor

policies should also address the employment disparity between urban and regional areas from a spatial viewpoint, and the development of new labor problems due to changes in regional industries.

In the midst of advancing urbanization, this study tries to identify the issues we are facing in establishing urban policies that take employment as one of their policy challenges, and to explore the basic direction of the strategy to establish such policies.

4. Main Findings

Chapter 1 of the Report (hereafter the term “Report” will be omitted when the chapter number is mentioned) provides a summary of the discussions contained in Chapters 2 to 6. With regard to the contents of each chapter, Chapter 1 examines the basic issues, the analytical discussions are developed in Chapters 2 to 4, and Chapters 5 and 6 touch upon policy issues.

Chapter 1 provides a basic and comprehensive perspective on the strategic challenges connected with both urban employment and urban functions, as well as a summary of the results of analyses of each research subject concerning urban employment, which are developed in Chapters 2 to 4. Chapter 5 gives a picture of the development of urban strategies in the European Union and Chapter 6 presents information on the development of regional employment policies in Japan. Based on our recognition of the trends inside and outside Japan, in Chapter 6 we have provided an evaluation of the current policies and presented a basic direction for future urban employment and urban policies.

A summary of our main findings is provided below.

(1) Basic issues of urban employment

A. Concurrent development of “metropolitanization” and “mini-metropolitanization”

The difference of the gini index of the 5-year cohort employed population by age from the previous term (please refer to the “trend of employed population [men and women] by region in terms of difference of the gini index of the 5-year cohort employed population from the previous term” below; using this indicator, we can get a view of the changes that have occurred in the distribution of the employed population among municipalities [i.e. the process of concentration and decentralization of the employed population in certain municipalities], for example, in the process of the employed population in the 20-24 age bracket in the year 2000 becoming that of the 25-29 age bracket in 2005) shows a noticeable trend of progressive concentration of the younger generation in larger cities (the 25-29 age bracket in particular), particularly in the

Tokyo Region, while a similar trend of concentration in larger cities is seen throughout the country. By contrast, this indicator for Non-metropolitan Regions¹ shows a small variation, which may indicate that the functional interrelationships among local communities in the regions with respect to employment have been stably maintained in terms of the distribution of the employed population.

The employment rate of the 25-29 age bracket in larger cities, such as the Special Wards of Tokyo or Tokyo Prefecture, has significantly decreased since 2000. This is because, while both the population and number of employees have been decreasing from a macroscopic viewpoint, the population in larger cities has not been shrinking as much as the number of employees has. This indicates that the younger generation retains a strong orientation to larger cities, with both workers and non-workers wishing to study, work or live anyhow in larger cities such as Tokyo. However, as a result of this behavior, the increase of the employed population is smaller than the change in the employed population of a certain cohort from the previous term at two different points in time, and therefore the impact of such increase is small. The increase is not so large as to push the nominal gini index compared to the previous term up to a positive figure, which was caused by the massive influx of young people into larger cities during the high-growth period. However, it may be said that young people's orientation toward larger cities, whether as workers or non-workers, has been "unvarying" throughout the ages, so far as it is seen in terms of structural variables.

In the Non-metropolitan Regions, the cohort difference from the previous term is marginal, and its variation range remains constantly small. This does not indicate that a significant number of employees are concentrated in the larger cities of Non-metropolitan Regions, but suggests that small local municipalities – so-called "mini-metropolises" – are maintaining their employment capacity (although the scale is small), and that a certain number of young people who are oriented toward being employed in such smaller cities are actually employed there. The employed population in the Non-metropolitan Regions compared to that of the country as a whole has turned to an increase since 1995. This is caused not only by employment in government-designated cities, but also by the accumulated amount of employment in many smaller cities, each small in size but contributing to such an increase. Community-type employment, such as agriculture, tourism and nursing-care services

¹ Non-metropolitan Regions: all areas other than the three Metropolitan Regions (Tokyo Region, Nagoya Region and Kansai Region).

Tokyo Region: 4 prefectures of Saitama, Chiba, Tokyo and Kanagawa

Nagoya Region: 3 prefectures of Gifu, Aichi and Mie

Kansai Region: 4 prefectures of Kyoto, Osaka, Hyogo and Nara

under the care insurance system introduced in 2000, which creates a certain number of jobs in proportion to the population, seems to have increased, and has provided small cities with a stable employment environment that has a certain amount of employment opportunities. In fact, a considerable number of municipalities in Non-metropolitan Regions maintain a relatively high and stable employment rate if compared to larger cities.

The employment opportunities they provide may not be of sufficient quality or value-added to cause the migration of the younger generation for employment. However, bearing the basic direction of the future urban employment strategy in mind, since it is the recent fact (after 2000) that a higher number of young people have found jobs in smaller cities than before (although this has not yet caused a big wave and remains low in terms of the number of employees), this trend should be expected to develop further. The younger generation throughout the country should be made aware of the favorable employment conditions in smaller cities, and the regional areas should be fully revitalized through the creation of urban-type service industries in these cities. With an accumulation of such measures, a number of smaller cities throughout the country can be revitalized, and such revitalization may consequently be reflected in macroeconomic indices, which could exceed those during the “Age of Regionalism” in the 1980s.

B. Expectations for interrelationship of the highly urbanized functions of larger cities on a national level

It is questionable whether larger cities, such as Tokyo, perform their highly urbanized functions sufficiently in terms of employment. The significant decrease in the employment rate in Tokyo Prefecture, the Special Wards of Tokyo, Osaka City and Fukuoka City after 2000 seems to provide evidence that larger cities have recently failed to offer sufficient employment opportunities to meet the employment demands of the younger generation throughout the country (aged between 25 and 29 years). It may also indicate in a sense that the labor market has functioned well in Tokyo, with employment demand relatively shifting from the massive numbers of the younger generation to experienced people in middle age (aged around 40).

On the other hand, the Tokyo-oriented mindset of the younger generation has not changed. Indeed, many young people, including those who were born in larger cities, live in larger cities. Young people can get by in Tokyo if they wish to lead free-wheeling lifestyles without having any regular job. However, it is important to implement an urban employment policy from the viewpoint of developing their career plans, which will prevent the younger generation in larger cities from being exposed to employment

issues in their lives.

When considering the basic direction of urban employment policy for the younger generation, it is important to discuss which policy should be prioritized on a national level, i.e. either (i) an urban employment policy that puts priority on Tokyo and other larger cities, (ii) employment measures that induce the younger generation to voluntarily move to larger cities that are the centers of regions, which is large enough as government-designated cities, or (iii) policy measures that induce them to a number of smaller cities throughout the country. It can be expected, of course, that members of the younger generation will have sufficiently sharp sense to reasonably choose their place of employment and residence. This could serve as evidence that the labor market is functioning well.

Meanwhile, how should we understand the recent drop in the employment rate of people aged between 25 and 29 in the Special Wards of Tokyo and other larger cities? We want to expect considerable improvement in the employment environment in larger cities in line with the economic recovery, since labor is in general short supply in Japan, as a result of which the employment rate for people aged between 25 and 29 will recover to a level exceeding the national average as it was before. In order to determine the feasibility of this expectation, it is necessary to study the following two points:

The first point is that the employment demand that acts as one of the elements of the highly urbanized functions of Tokyo may be undergoing a structural change whereby it is shifting from the traditional demand for the younger generation to an expanding and spreading demand for the experienced middle generation. The second point is the concern that the “Localization of Tokyo” has been underway, in the same way as in some other larger cities. As we have seen recently as a symptom in some larger cities of the size of government-designated cities in regions, the primary functions of high-level urbanization – namely, leading economic development and creating a chain of new urban functions, such as urban-type service industries – may have deteriorated. This could result from the fact that these cities put too much focus on the employment of young people who were born and raised in such cities, as a result of which young people from other regions are demotivated to move into those cities for employment.

In Japan, so far, the characteristics of the highly urbanized functions of larger cities have been prominent in leading economic development during the high-growth period. As for the low employment rate of young people in the Special Wards of Tokyo, while the governments in Europe and the US have taken up the issue of the low employment rate of young people in larger cities as one of the important challenges of urban policies, as analyzed in Chapter 5, it is possible that such a phenomenon has emerged in the

urbanization era also in Japan as one of the urban problems. If this is the case, one of the important policy challenges is how to realize urban employment policies in larger cities so that the advantages of those larger cities' urban functions can be fully utilized as the driving force of economic development in the global economy.

In realizing such policies, we can think of two different basic directions. One is the basic strategy of focusing on the functional interrelationships within the Tokyo Region block, while regions other than Tokyo should plan to revitalize the entire region, focusing on the functions of larger cities of a certain size within the regional block. The other direction is indicated by the fact that the Nagoya Region has been revitalized mainly by the manufacturing industries and has formed new highly urbanized functions. This is deemed to have resulted from the close functional interrelationship with Tokyo's highly urbanized functions. By expanding this kind of development further and achieving a social and economic development model that connects wider regions in a linear direction, such as the Tokyo-Sendai axis or Tokyo-Niigata axis, is it possible to create urban functions that are functionally interrelated in wider regions that extend beyond the limited area of the Tokyo Region? As a result, it may be possible to expect the prevention of the localization of larger cities that has provided cause for concern, to increase the functional interrelationship between larger city regions and other regions and to draw up a new urban employment strategy that can contribute to the development of society and the economy as a whole.

(2) Basic direction of urban and regional employment strategies based on analysis of regional data

In Chapters 2 to 4, the population and number of employees in each region are analyzed based on various regional data and in different ways, and the current status of regional divergence of the labor market is clarified. In this section, all of the analysis results are brought together and their implications are presented. All analysis concerns the inflow and outflow of population among regions.

A. Implications of analysis of data by region

(a) Trend of regional divergence of the labor market after 2000

Since the start of the 2000s, the population in Japan has tended to be distributed unevenly. In terms of the population by region, there has been population growth in the Tokyo Region and Tokai 2 Region,² with the population in the prefectures of the Tokyo Region and in Aichi prefecture growing. This is not the result of natural population

² Tokai 2 Region: 3 prefectures of Gifu, Shizuoka and Aichi

growth in these regions, but of the net increase in the population inflow to these regions caused by migration. Only 9 prefectures – the 4 prefectures of the Tokyo Region and Aichi, Shiga, Hyogo, Fukuoka and Okinawa prefectures – increased their population shares against the between 1995 and 2005.

In 2005, the population and labor force in Japan was concentrated in the Tokyo Region and Tokai 2 Region, where the employment absorption capacity is higher and relatively higher income is earned. The concentration was strengthened in 2006. In addition, analyzing each prefecture's balance of population inflow and outflow against other prefectures, all prefectures outside the Tokyo Region (except Okinawa prefecture) show an excess outflow of population to the Tokyo Region.

(b) Decline in total population migration

Both the amount of population migration among municipalities and among prefectures (total sum of inflow and outflow) and the ratio of said amount of migration against the total population have been on a declining trend. According to the contribution analysis, the decline in the amount of migration among prefectures is partly caused by the change in the age structure of the population, and it was confirmed that there are other unknown factors that contribute to such a decline. Such factors other than the aging of the population seem to work to diminish the expected profit of migration or to increase the cost of migration.

(c) Concentration of population in specific cities

If we look at each municipality's share of the population against the total population, it is noticeable that most of the increase in shares involves a limited number of top-ranked cities that expanded their shares against the total population. If we turn our attention to prefectures, there are many prefectures where, even though experiencing an excess outflow of population, the unevenness of the population distribution among municipalities within the prefecture has been widening due to the concentration of the population in prefectural capital cities or other major cities in the prefecture. The cities of Sapporo, Sendai and Fukuoka, which are the core cities of regional blocks other than the Tokyo Region and Tokai 2 Region, represent the excess inflow over outflow of population if compared to the total population throughout the country and that of each respective block. It can be interpreted that these core cities offer employment opportunities to the other municipalities in the block.

(d) Widening of gaps within regions

The gap in labor income within regions widened in every region between 1997 and 2002. In particular, the gap in the younger generation has become wider. This is caused mainly by irregular employment (i.e. expansion of the share of irregular employees).

Although the impact of irregular employment varies by region, there is no clear variation between large-city areas and non-large-city areas (local areas) (excluding the impact of temporary jobs filled by students). The widening of the gap caused by irregular employment of young people does not occur intensively in specific regions, but is a phenomenon that is widely spread throughout the country.

Analysis of the data of gaps within each area (i.e. in a prefecture) indicates that drops in the economic growth rate, downturns in the economy and deterioration in employment conditions tend to widen the labor income gap (including the gap among the younger generation). However, the impact brought about by these factors does not seem to be significant, which indicates that factors other than recession, etc. may have contributed to the widening of the labor income gap.

B. Factors behind the concentration of population in urban areas

(a) Migration of population and disparities in income and job opportunities

This is the first time in the past two decades that widening of the disparities in income and job opportunities and increased rate of migration from local areas (i.e. non-large-city areas) to large-city areas have occurred at the same time. According to the data by prefecture, disparities in income and job opportunities and population migration have been developing in an interrelated manner recently. Based on the assumption that population migration requires costs (i.e. direct expenses incurred in migration and opportunity costs, such as loss of income) and generates profits (i.e. a rise in income and an improvement in life environment), an empirical analysis of the migration factors among prefectures using the population inflow function shows that the profits of migration to the Tokyo Region and Tokai 2 Region seem to have increased significantly. It is also presumed that, along with the rise in expectations for profits from migration to the Tokyo Region, people may react sensitively to the income gap. If we estimate the same function of population inflow rate for Sapporo and Sendai cities, it becomes clear that they have performed the core functions of offering employment opportunities in the respective blocks where they are located.

(b) Trend of disparities in income and job opportunities

Along with various policies focusing on the issues of disparity in general, there is growing concern about regional divergence of the labor markets, which is indicated by the unemployment rate and active job opening ratio. In particular, it is commonly recognized that while the economies of the urban areas centered around Tokyo and Nagoya have been steadily recovering since 2004, other areas have experienced delays in their economic recovery and various labor market indices have not picked up.

Many indices of regional divergence (i.e. labor income gap and job opportunity gap among prefectures) that had showed a decrease in gaps during the 1990s have changed to a growing trend since 2000. Although the gaps have not expanded very rapidly, some of the indices have exceeded their peak level in the 1990s. If we break down the expansion of regional divergence into contributors at demand side, emigration and public investment (especially the latter), which had contributed to narrowing the gaps in the 1990s, have reversely contributed to expanding the gaps. However, it does not seem likely that the changes in the preparation of public capital stock among regions have contributed to the expansion of gaps through their supply capability effect (i.e. productivity effect).

If we compare the income gap (indicated by the gini index) among regions (i.e. among prefectures) to the income gap (same again) of individuals at the national level for the purpose of estimating the importance of corrective actions for the income gap among regions, the former is in the range of a sixth to a tenth of the latter. The former also represents, if compared to the income gap of individuals within a region (i.e. the regional average), a sixth of the latter. From an international perspective, the regional income gap in Japan is relatively small. However, we should pay attention to the facts that low-income earners are distributed differently among regions, that the income gap among regions has been expanding recently, and that the pace of expansion of the regional income gap is faster than the expansion of the income gap between individuals.

C Policy implications of analysis

It is pointed out that regional employment issues cannot be solved solely by migration of the population and labor force. Although the gap in labor conditions effectively promotes the migration of the labor force and population, this does not have any effect on the unemployment rate or other indicators of regional divergence. In particular, the current scale of migration of the population and labor force is too small to contribute to solving the gaps between regions. The policy implications of this are that promoting the migration of the population and labor force can be one of the important policy measures for coping with regional employment issues, but it is also necessary to implement stronger policy measures within regions. There are some reasons why the migration of the population and labor force may not proceed, such as job insecurity in the places to which people move. However, policy measures can be taken to address to these issues. As the places of relocation need not to be the Tokyo Region, and there are many cities with core functions in other regions, measures can be strengthened to promote the migration of the labor force to such cities, such as introducing jobs or supplying

information at a medium to long range (sometimes beyond the prefectural border) within regional blocks, which are already provided.

The expansion of the labor income gap within regions between 1997 and 2002 is a national phenomenon. It is also pointed out that the gap within regions tends to slow down economic growth, lead to a deterioration in economic conditions and worsen the employment conditions, thus expanding the labor income gap among individuals (and vice versa), but that this effect is not so large. This suggests that the gap in labor income may have been increased not only by the economic condition but also by a variety of other factors. These gaps in labor income will eventually lead to the concentration trend of population and labor force in larger cities, but such concentration cannot be overcome by economic expansion. Solving the income gap requires structural reform and a strategy for economic growth.

Fundamentally, the employment issues in regions cannot be separated from other economic and regional policies. As we have seen in the core cities of the regions, there are many cities that have a high employment absorption capacity even though they are local cities. If the urban-type service industries with high employment absorption capacities and growth potential are developed in these cities, it may accelerate economic growth throughout the country and resolve the employment issues in regions as well. This requires a comprehensive policy that should be prepared in coordination with the labor policy, industry policy and regional development policy.

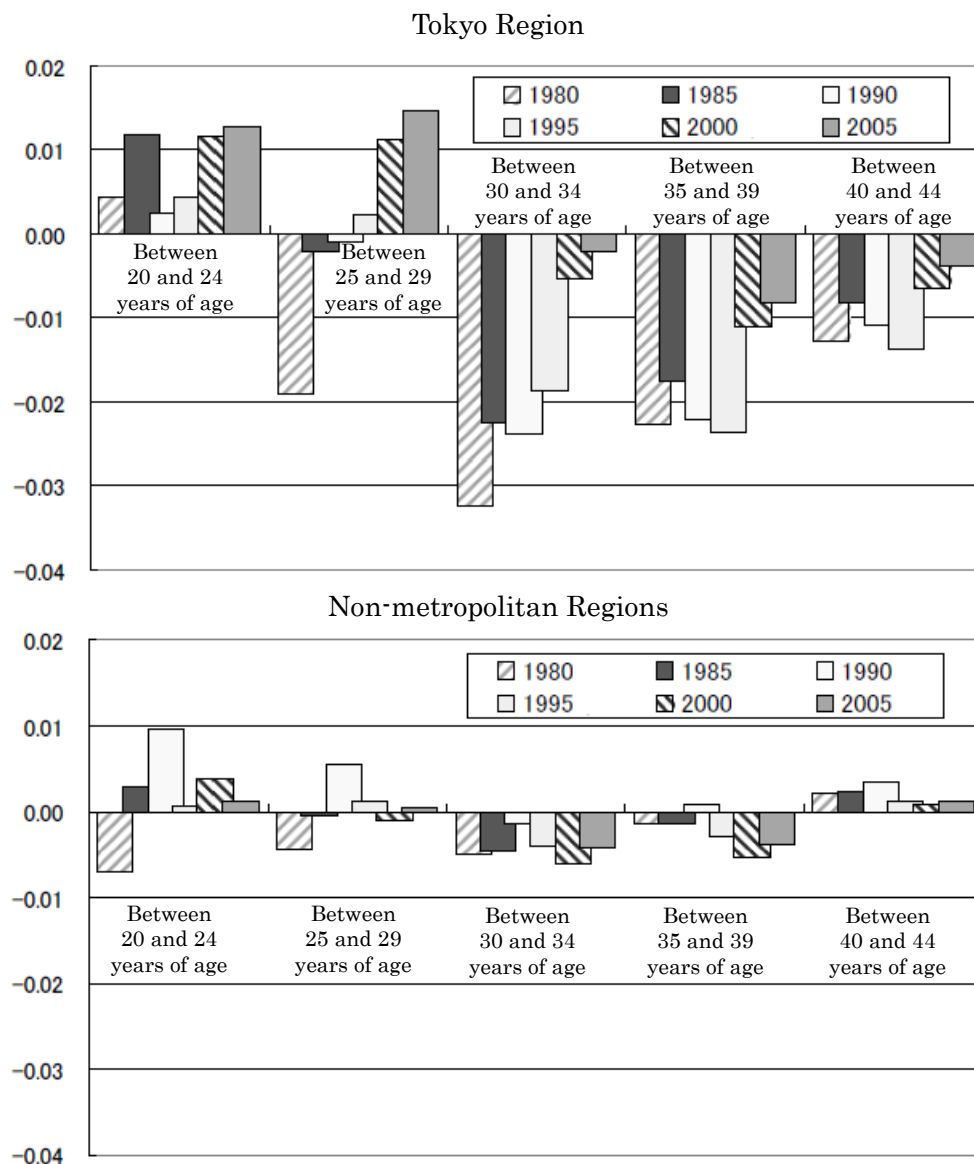
(3) Development of urban and regional employment policy inside and outside Japan

Urban and regional employment issues have become important not only in Japan but also in foreign countries (especially in Europe), where the issues are recognized as a major policy challenge. In Chapters 5 and 6, we have analyzed the development of urban and regional employment policies inside and outside Japan. First, we have explained that in advanced countries, such as in the EU, employment are one of the major subjects of urban and regional policy, having a strong characteristic to be a comprehensive policy, and that they are implemented especially in combination with the competition policy. Secondly, we have taken up the review of regional employment measures, regional revitalization policies and surveys on lifestyle, as these are examples in Japan that prove that urban and regional policies and labor and employment promotion policies absorb elements of other policies, and that both policies should be coordinated with each other in such a way.

When we consider the basic direction of future urban employment and urban policies, we should analyze examples of policies collected from inside and outside Japan, and

should make systematic connections between the important issues involved in these policy trends as much as possible. We should also recognize that it is important for the individual policy challenges rooted in different policies to be tackled along with the process being developed to seek the basic direction of policies as a whole. This process will contribute to the drawing up of appropriate and comprehensive policies.

5. Trend of employed population (men and women) by region in terms of difference of the gini index of the 5-year cohort employed population from the previous term



Source: Prepared based on the Population Census conducted by the Ministry of Internal Affairs and Communications

Note: The gini index is calculated for the employed population (men and women) of each municipality (municipalities defined by their borders as of 2005) without taking the different size of municipalities into account (i.e. by regarding all municipalities as being isometric). The difference of the gini index of the 5-year cohort employed population from the previous term means the change in the gini index of a certain age bracket, for example between 25 and 29 years of age, at a certain year compared to that of the same age bracket 5 years before (i.e. they were between 20 and 24 years of age 5 years before), which gives us an indication similar to the social increase of each cohort. The employed population is based on the number of employees of each year who belong to the municipalities defined by their borders as of 2005. There are 2,217 municipalities in Japan (each special ward of Tokyo is counted as one city).

Note: Municipalities of Non-metropolitan Regions are those excluding the municipalities of Tokyo Region (Saitama, Chiba, Tokyo and Kanagawa prefectures), Nagoya Region (Gifu, Aichi and Mie) and Kansai Region (Kyoto, Osaka, Hyogo and Nara).