

## **Regional Employment Strategies and Job Creation Activities in Municipalities**

### **Summary**

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#### **Outline**

This report summarizes the results of an analysis of data collected through questionnaire surveys on ongoing job creation activities as well as their effects and problems in municipalities, to obtain an overview of the present status of job creation activities in such municipalities and future challenges.

The analysis is based on results of questionnaire surveys on mayors of cities, towns and villages and results of questionnaire surveys on municipal officials in charge of employment problems as well as matching data derived from them. We identified types of employment strategy visions in terms of what visions municipalities have about regional development and regional job creation, what sorts of regional employment strategies have been developed to give concrete shape to those visions, and what roles the national and local governments are expected to play in job creation, and then analyzed how these patterns are related to the outline of job creation measures designed and implemented by each municipality, the outline and effects of regional revitalization plans, the outline and effects of designated special zones for structural reform, and the outline and evaluation of new package projects.

## 1. Awareness of Issues in This Study

With the main actors in regional employment measures shifting from the national government to local governments, employment measures in regions are undergoing significant change. Against this background, regional employment measures have been undertaken by each region and transformed into those that make use of regional resources and characteristics.

Following the change of government after the general elections in the summer of 2008, the focus of decentralization reform has also shifted from “decentralization” to “regional autonomy.” With the change from the idea of “the central government transferring powers to local governments” to the idea of “local governments acting as central players, cities, towns and villages” are expected to play more important roles than before under the regional autonomy.

As for employment policy, meanwhile, regions have become the main actors for their regional employment measures, which are being transformed into those that take advantage of respective regional characteristics based on prevailing regional conditions. With the enactment of the revised Employment Measures Act in 2000 and the Act on Promotion of Job Opportunities in Certain Regions in 2001 as well as the revision of the Employment Security Act in 2003 allowing municipal governments to provide job placement services, high expectations are now placed on the implementation of employment policies by municipal governments. In addition, following the revision to the Act on Promotion of Job Opportunities in Certain Regions in 2007 based on the enforcement of the revised Employment Measures Act in the same year, municipal governments subject to employment measures have been reorganized from the four regional types of (i) an area for promotion of increased job opportunities, (ii) an area for promotion of competence development and employment, (iii) an area for supporting job hunting, and (iv) an area for high skills utilization and job stability, into the two types of (i) an area for employment development and promotion (an area under particularly severe employment conditions (prefectures)), and (ii) an area for voluntary job creation (an area with the strong eagerness for job creation (cities, towns and villages, etc.)). This indicates the awareness of “selection and concentration” in regional job creation as well.

Regarding regional employment policy to date, Saguchi (2004) is critical of previous regional employment policies for having tended to be “job creation overshadowed by industrial development policies or employment measures as symptomatic treatment”<sup>1</sup>.

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<sup>1</sup> The following observation is based on Kazuro Saguchi (2004), “Chiiki Koyo Seisaku toha nani ka – Sono Hitsuyousei to Kanousei [What is regional employment policy? – Its necessity and possibility],” Naohiko Jinno

Saguchi argues that it is important that regional employment policy is implemented with local residents as the main players, taking advantage of the proximity to local residents, reflecting the necessity of everyday life and collecting information on job offers and job applications.

Based on this argument, we examined (i) what sorts of regional employment strategy visions cities, towns and villages have, and what methods they view as important in order to give concrete shape to such visions, (ii) what measures these municipalities are taking to create jobs. Given that employment is the derivative demand of production, we extended the scope of examination to include regional industrial policies concerning the attraction of enterprises and initiation of businesses and public relations and promotional activities related to tourism and local indigenous products, (iii) what sorts of problems the municipalities are facing in their job creation activities and what sorts of support from the central and prefectural governments are needed for cities, towns and villages to create jobs, and (iv) what effects have been produced by the national government's measures to support job creation activities by prefectures or cities, towns and villages. We addressed specific policy measures such as plans for designated special zones for structural reform and their effects, job creation promotion projects based on regional proposals (package projects) and regional job creation promotion projects whereby subsidies are granted to municipal governments for their proposed plans (new package projects), and analyzed the effects of these measures.

## **2. Method of Study**

### **(1) Method of Survey**

We adopted questionnaire surveys as the method of research. The questionnaire surveys consist of four types: (i) survey on prefectural governors, (ii) survey on prefectural officials in charge of employment problems, (iii) survey on mayors of cities, towns and villages, and (iv) survey on municipal officials in charge of employment problems. Surveys on the 23 wards of Tokyo. (iii) Survey on mayors, and (iv) survey on municipal officials in charge of employment problems covered cities, towns and villages as of October 1, 2008.

Survey sheets for (i) survey on prefectural governors and (iii) survey on mayors of cities, towns and villages were sent out directly to the governors and mayors, while survey sheets for (ii) survey on prefectural officials in charge of employment problems and (iv) survey on municipal officials in charge of employment problems were sent out

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(2004) et al. eds., "Jiritsu shita Chiiki Keizai no Dezain: Seisan to Seikatsu no Kokyo Kukan [Design of independent regional economy: Public space for production and living]," Yuhikaku Publishing Co., Ltd.

to officials in charge of employment problems of municipalities concerned. When municipalities did not have sections (officials) in charge of employment problems, we asked related municipal sections (officials) to reply to the questionnaire surveys. When sections (officials) in charge of employment problems could not reply to all survey items listed, we asked multiple sections to complete the replies together.

## **(2) Survey Items**

Survey items in each survey were composed to find out mainly the following points:

- (1) Survey on prefectural governors: What visions they have about regional development and regional job creation; what are regional employment strategies to give concrete shape to these visions; what roles they think the national and local governments should play for job creation. These were the key questions asked.
- (2) Survey on prefectural officials in charge of employment problems: Changes in employment conditions; existence or nonexistence of job creation plans; outline and problems of job creation measures that prefectures have designed and implemented independently; outline and effects of regional revitalization plans; outline and effects of plans for designated special zones for structural reform.
- (3) Survey on mayors of cities, towns and villages (almost identical with the questions asked in the survey on prefectural governors): What visions they have about regional development and regional job creation; what are regional employment strategies to give concrete shape to these visions; what roles they think the national and local governments should play for job creation.
- (4) Survey on officials of cities, towns and villages in charge of employment problems: Changes in employment conditions; existence or nonexistence of job creation plans; outline and problems of job creation measures that prefectures have designed and implemented independently; outline and effects of regional revitalization plans; outline and effects of plans for designated special zones for structural reform; outline and evaluation of new package projects.

## **(3) Survey Period**

September 15-30, 2008.

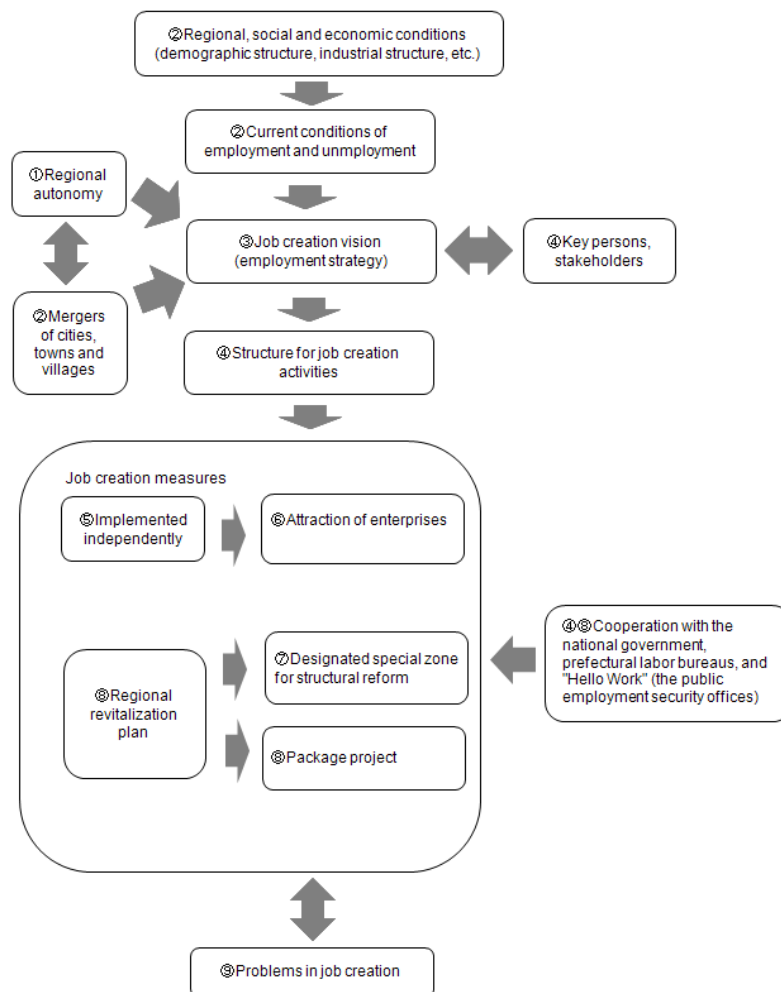
**(4) Numbers of Questionnaire Sheets Sent and Replies Collected****Table 1. Numbers of Questionnaire Sheets Sent and Replies Collected and Response Rate**

	Survey on prefectural governors	Survey on prefectural officials in charge of employment problems	Survey on mayors of cities, towns and villages	Survey on officials of cities, towns and villages in charge of employment problems
①No. of questionnaire sheets sent	47	47	1810	1810
②No. of replies collected	30	33	661	851
③ Response rate (②÷①)×100	63.8%	70.2%	36.5%	47.0%

**3. Composition of the Report and Outline**

This report is designed to obtain an overview of the current status and future challenges of job creation activities of municipalities, and is composed of the items listed in Figure 1. ① to ⑨ correspond to chapters of this report. A one-way arrow indicates a causal linkage, while a two-way arrow indicates an interrelationship.

**Figure 1. Flow of Analysis**



**Chapter 1 Introduction** gives an overview of past studies and describes methods of study and research.

**Chapter 2 Outline of Municipalities Responding to Questionnaire Surveys** gives an overview of the basic attributes of cities, towns and villages that are subject to our analysis. The average picture of municipalities responding to the questionnaire surveys is for a population size of a little less than 70,000 people, and two-thirds of these municipalities experienced mergers in the “Great Heisei Mergers” of municipalities. The demographic composition is almost the same as the national average, but the aging of population is advancing faster in towns and villages than in cities. The industrial structure by the number of employees is little changed from the national average. The ratio of people working in the primary industry is higher in towns and villages than in cities, while the ratio of those engaged in the secondary industry is almost the same in

cities and towns, but lower in villages. The ratio of people employed in the tertiary industry is high in cities, but low in towns and villages. The employment situation has improved in 15% of the municipalities surveyed, stayed unchanged in 37% and worsened in 40%. Municipalities witnessing the deterioration of the employment situation cited local companies being too small to offer enough jobs and jobs being lost due to the withdrawals and bankruptcies of companies, as well as decreasing public works projects as reasons for the deterioration.

In **Chapter 3 Visions and Types of Regional Employment Strategies of Municipalities**, we examined employment strategies of cities, towns and villages in accordance with regional employment conditions and attempted to identify types of municipal employment strategies. Our previous survey found that many municipalities did not have visions for their employment strategies. However, we assume that many candidates running in mayoral elections following the Great Heisei Mergers have included job creation in their election manifestos.

Thus, we attempted anew to confirm what sorts of employment strategy visions municipalities have. In doing so, we identified the three types of municipal employment strategies as shown in Table 2, from the viewpoints of policy positioning of job creation, what sorts of job creation are given importance, what are strategic industries, and who are the main actors to lead job creation activities.

These employment strategies define the structure of job creation activities by municipalities and the planning of specific job creation measures.

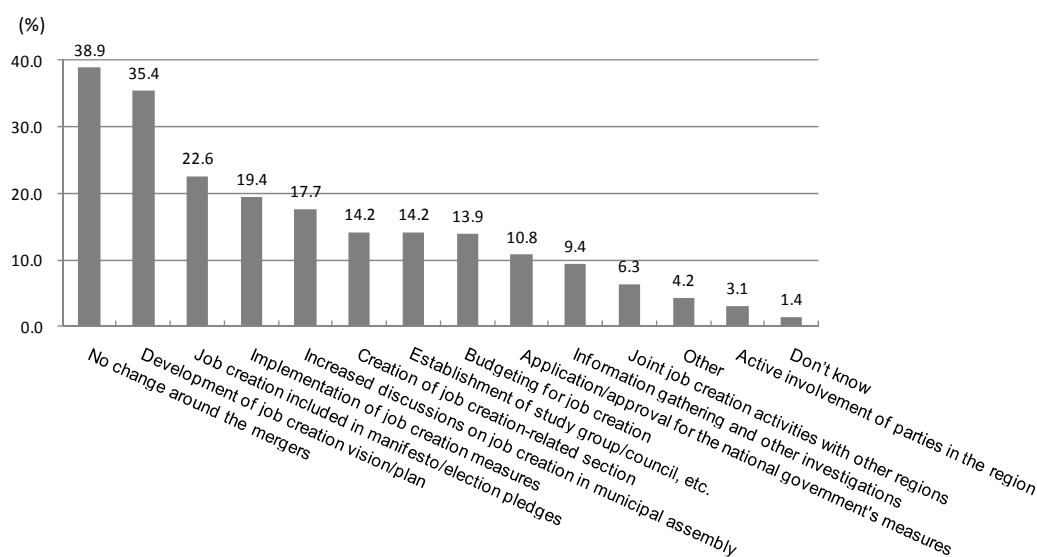
**Table 2. Types of Employment Strategies of Municipalities**

	% of municipalities	Positioning of job creation	Priority method of job creation	Main actors for job creation	Strategic industries
Type 1	65.7%	Many municipalities view job creation as one of multiple tasks	Many municipalities give importance to exogenous employment creation	Many municipalities count on prefectural governments' initiatives in job creation	Many municipalities count on manufacturing industries for job creation
Type 2	29.2%	Many municipalities view job creation as the top priority	Many municipalities give importance to both endogenous and exogenous employment creation	Many municipalities think cities, towns and villages should take the initiative in job creation	Many municipalities count on wholesale/retail, restaurants/lodging, medical services, welfare and information/communications sectors for job creation
Type 3	5.1%	Many municipalities view job creation as one of multiple tasks	Many municipalities give importance to endogenous employment creation	Many municipalities count on the national government's initiatives in job creation	Many municipalities count on manufacturing, construction and agriculture, forestry and fisheries industries for job creation

In **Chapter 4 Structure for Job Creation Activities in Municipalities**, we obtained a broad overview of structures municipalities have for their job creation activities. The mergers of municipalities have provided momentum for their job creation activities. Of cities, towns and villages that went through the mergers, 35% developed employment

strategy visions upon the mergers, 20% started job creation activities upon the mergers, and 15% newly created sections responsible for job creation upon the mergers. However, nearly 40% of municipalities that experienced the mergers had no changes in their job creation activities (see Figure 2). In addition, we prepared the matching data from data gathered in the questionnaire surveys on mayors and officials of municipalities in charge of employment problems, and examined the relationship with employment strategy visions.

**Figure 2. Changes in Job Creation Activities following Municipality Mergers (Multiple Replies, N=291)**



In Chapter 5 through Chapter 8, we covered the achievements and effects of job creation activities by cities, towns and villages. Job creation activities examined in these chapters cover broader areas than usual job creation efforts, including the attraction of enterprises, support for job seekers and assistance in the marketing of local indigenous products.

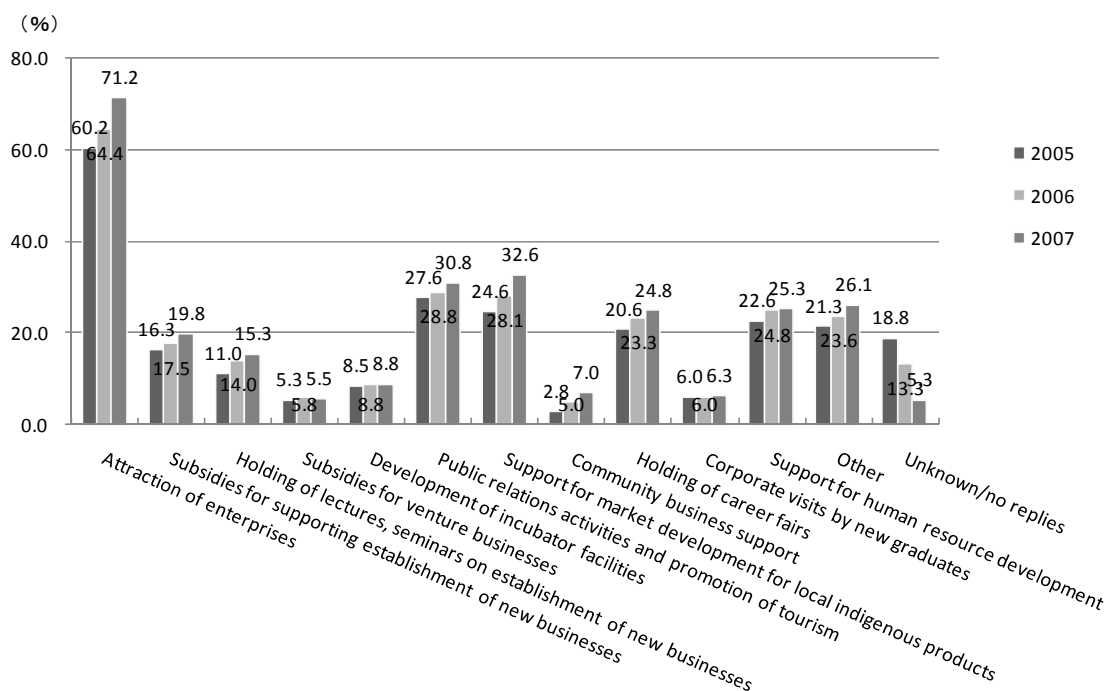
In **Chapter 5 Job Creation Measures Implemented by Municipalities**, we examined whether municipalities implemented job creation measures on their own, and if so, what sorts of job creation measures they implemented. We found that of municipalities that replied to the questionnaire surveys, about 47% implemented job creation measures on their own. Among job creation measures, many municipalities invited enterprises to set up operations in their regions, and a relatively large number of municipalities helped promote tourism and local indigenous products, supported



marketing efforts and provided various support for job seekers. While the ratio of municipalities engaged in job creation activities is increasing, the ratio of job creation measures other than the attraction of enterprises is 30% at most (see Figure 3). Furthermore, a regression analysis confirmed that whether municipalities are implementing job creation measures has been defined by the classification of municipalities as well as the characteristics of their employment strategies.

Then, how effective were job creation measures implemented by municipalities on their own? As far as the questionnaire survey results suggest, a high ratio of municipalities implementing a variety of job creation measures replied that “the employment situation is improving,” but the causal relationship is not known. As for the subjective evaluation of independent job creation measures by municipalities, while they generally regard measures for exogenous job creation, such as the attraction of enterprises, in a positive light, the evaluation of these measures is low relative to other job creation measures.

**Figure 3. Job Creation Measures of Cities, Towns and Villages (Multiple Replies)**



In Chapter 6 Job Creation through the Attraction of Enterprises, we looked at the state of efforts by municipalities to attract enterprises, track records of attraction and impacts on the employment situation. During the several years leading up to the global recession, competition among local governments for the attraction of enterprises heated up so much that the situation was characterized as the “enterprise invitation boom.”

Not only municipalities that are host to industrial clusters but also municipalities lacking employment opportunities offered a variety of preferential measures in their bids to invite enterprises to set up operations in their regions. In particular, high expectations were placed on the industrial location by manufacturers of electric and electronic components and automotive manufacturers that come with a range of supporting industries as job creation measures substituting public works projects. Our questionnaire surveys found the attraction of enterprises as having the highest ratio of implementation among job creation measures.

Municipalities engaged in activities to attract enterprises actually invited on average 7.3 companies to set up operations in their regions. We made an analysis of variance of the impact of municipalities' measures to attract enterprises on the actual number of enterprises attracted. As a result, the coefficient of specialization in manufacturing industries (the proxy variable for industry accumulation) was statistically significant. It was also confirmed that municipalities that mounted active invitation campaigns, such as making rounds of visits to candidate companies, in line with their employment strategies actually attracted a significantly larger number of enterprises than municipalities that targeted an unspecified large number of companies through their websites. We could not confirm any difference in the number of attracted enterprises that can be traced to the existence or nonexistence of preferential measures such as "grants, subsidies and other financial incentives" to these companies.

In **Chapter 7 Designated Special Zones for Structural Reform as Employment Measure – Consideration of Participation and Results**, we rigorously examined the job creation effects of designated special zones for structural reform. According to the questionnaire survey results, municipalities that are implementing only designated special zones related to industry and employment account for only about 1% of cities, towns and villages responding to our surveys, and a relatively large number of municipalities have in place regional employment measures including job creation measures of their own and the national government's regional revitalization plans as well as designated special zones for structural reform. An empirical analysis showed that while municipalities with relatively favorable regional employment conditions tend to take advantage of designated special zones for structural reform and municipalities with severe employment conditions have the higher probability of implementing regional revitalization plans, municipalities with vulnerable fiscal bases in either case participate in the national government's schemes and that the leadership of the mayors concerning job creation and the commitment of local government employees to job creation increases the probability of the implementation of independent job creation

measures statistically significantly. It is suggested that assuming that observable factors such as regional employment conditions and fiscal strength are steady, municipalities that cannot have job creation measures of their own are making use of the national government's schemes such as designated special zones for structural reform and regional revitalization plans in their regional employment measures.

Secondly, an analysis using the results of the questionnaire surveys in 2006 and 2008 on municipalities that have set up designated special zones for structural reform indicated that municipalities that are implementing job creation measures of their own to supplement designated special zones, such as the attraction of enterprises, support for the establishment and initiation of new businesses, and the building of regional cooperation among industry, academia and government have the higher job creation effects of designated special zones that they recognize through their continued activities after the approval of designated special zones. This appears to suggest that deregulation measures alone do not offer sustained favorable effects on employment.

When the system for designated special zones for structural reform is evaluated as a regional job creation measure, the above results show that the participation structure for the special zone system to date has not been conducive to favorable effects on employment. It can be construed as a call for the supplementary use of job creation measures backed by fiscal measures. Since FY 2005, fiscal measures have come to be taken, such as special taxation measures and the provision of subsidies, and this can be construed as the change in policy made to enhance the effects of employment measures. It may be said that the use of deregulation measures based on actual regional conditions in combination with these steps is being called for.

In **Chapter 8 Analysis of Job Creation Effects of Regional Revitalization Plans and Package Projects**, we addressed regional revitalization plans as well as job creation promotion projects based on regional proposals (package projects) and regional job creation promotion projects whereby subsidies are granted to municipal governments for their proposed plans (new package projects). Package projects that provide support for regions with unfavorable employment conditions under the method of contest for plans are close to job creation measures that give importance to independent activities of municipalities as pointed out on various occasions.

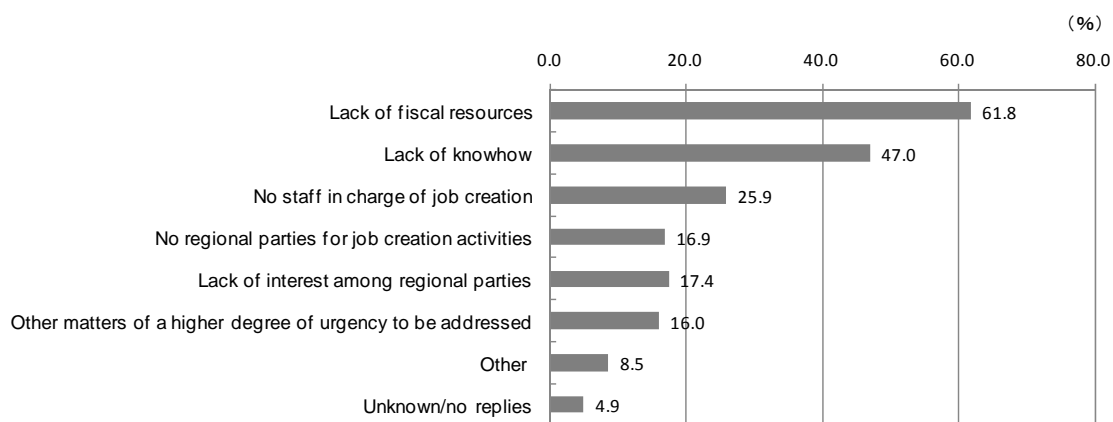
Then, what effects were observed in municipalities that implemented these package projects? We deal with this point in the previous research, but were not able to clarify the achievements partly because the research was conducted soon after the launch of these projects. The latest research approached the issue of the effects of new package projects not only in terms of their job creation effects but also from multiple aspects,

including the incubator effect of the planning power of job creation measures and the network formation effect.

First of all, we found that 20% of municipalities that responded to our questionnaire surveys have applied and were approved for regional revitalization plans and 9% applied and were approved for package projects or new package projects. Municipalities that applied and were approved for package projects have a higher composition ratio of cities, towns and villages categorized as Type 2 of the three types of employment strategies (those municipalities that regard job creation as the top priority, give importance to both endogenous and exogenous job creation, think cities, towns and villages should take the initiative in job creation in such sectors as wholesale/retail, restaurants/lodging, medical services, welfare and information/communications), and this is consistent with the policy intentions of this measure. As a high ratio of approved municipalities regard agriculture, forestry and fishery sectors and restaurants/lodging as strategic industries, they are believed to be seeking job creation by taking advantage of regional resources. In addition, municipalities approved for package projects have more concrete employment strategies than municipalities that were not approved. A regression analysis of factors that determine municipalities' evaluation of package/new package projects indicate that the higher the achievements of "accumulation of knowhow of job creation measures" and "job creation/human resources development" are, the higher the evaluation of package projects is. Furthermore, package projects are evaluated highly when endogenous job creation is given importance, when cities, towns and villages take the initiative in job creation and when prefectural governments take the initiative in job creation.

In **Chapter 9 Problems in Job Creation by Municipalities**, we examined challenges municipalities are confronted with in their job creation activities. Both the previous and latest surveys show that the challenges municipalities face in their job creation activities are fiscal resources, lack of knowhow and lack of human resources (see Figure 4).

**Figure 4. Problems in Municipalities' Job Creation Activities (Multiple Replies, N=851)**



In considering how these factors are related to the status of implementation of independent job creation measures, we found that municipalities that have the problems of “lack of human resources” and “lack of fiscal resources” are not implementing job creation measures of their own. And municipalities that implement job creation measures of their own tend to point to the problem of “lack of job creation knowhow.” Problems confronting municipalities differ depending on the status of their job creation activities.

What is necessary is the kind of support that addresses the lack of human resources before implementing job creation activities and continues to help foster human resources in regions even after implementing job creation measures while also providing job creation knowhow.