

Research on the Status of Local Job Creation

Summary

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Objectives and Method of the Study

This is an interim report on study being conducted as part of a project research. It is a follow-on report to the Research Report No.31 “A Study Using Macro Data with Respect to Analyses on the Regional Structure of Unemployment and Employment” (May, 2005).

Based on the macro data analysis over the last 20 years, our previous report pointed out that regional employment/unemployment disparities have been stable despite varied business cycles. Relative disparities have become smaller, but absolute disparities have not, which indicates structural regional gaps.

Recently, the Japanese economy overcame a long and serious recession following the collapse of the economic bubble. The economic growth rate became positive in 2002 and that growth has been sustained. This favorable change is observed mainly in metropolitan areas and their suburbs, but other regions are still struggling, creating a polarized situation.

The objective of this report is to analyze the regional disparities in job creation that have become apparent recently. For the macro data, we analyzed industries and job creation in each prefectural and municipal region, enabled by the publication of the results of Establishment and Enterprise Census 2004.

We also analyzed the mismatch between job openings and applications at the regional level by comparing data from “*Hello Work*” Public Employment Security Offices in 2001 and 2004.

Meanwhile, we also conducted a hearing survey at the prefectural and municipal levels. By comparing regions with successful industries/job creation with regions that are not, we analyzed how job creation, such as by means of attracting companies to the region, are planned, what type of administrative groups are planning/implementing policy, and how effective those policies are. To confirm the validity of our hearing survey results, we also conducted a questionnaire survey of the municipalities.

Our study and analysis at the prefectural and municipal levels are still insufficient, partly because the publication of the required macro data were quite recent and so they remain as a general analysis of changes over recent years. Thus, this report is an interim report in preparation for the final report of our project research.

Outline of the Study Research

(1) Status of Regional Job Creation

To assess the disparities among regions, first we compared the active job opening ratios of each prefecture (2002/2005.) Prefectures that largely exceeded 1x, where job openings and job applications balanced out, were: Aichi (0.75x to 1.64x), Gunma (0.73x to 1.39x), Tokyo (0.70x to 1.38x), Mie (0.66x to 1.37x), and Fukui (0.74x to 1.30x). Other prefectures with higher active job opening ratios were Tochigi, Okayama, Kagawa, Hiroshima, Gifu, Toyama, Shizuoka, and Yamaguchi.

In contrast, prefectures with stagnating active job opening ratios were: Aomori (0.29x to 0.40x), Okinawa (0.30x to 0.43x), Kouchi (0.43x to 0.47x), Kagoshima (0.41x to 0.54x), Akita (0.41x to 0.56x), Hokkaido (0.47x to 0.57x), Nagasaki (0.42x to 0.58x), Iwate (0.40x to 0.59x), Miyazaki (0.42x to 0.61x), and Saga (0.42x to 0.63x.) These numbers indicate that these areas are showing weak economic recovery. As one can see, the disparities in employment among regions have become larger.

On the other hand, it can be argued that the prefectural level is too large to assess regional job creation. Commuting areas should be included when considering labor supply, and it is more realistic to assess job creation at the municipal level. Thus, we examined the change in the number of employees at the municipal level (Establishment and Enterprise Census 2001/2004.) Municipalities with a high rate of increase where the increase is greater than 500 employees were: Mikazuki-mura in Hyogo (No.2), Kikyuu-machi in Kumamoto (No.5), Tomiya-machi in Miyagi (No.7), Miyata-machi in Fukuoka (No.10), and Taki-machi in Mie (No.15).

These municipalities are all located in prefectures that were able to attract companies by creating and developing industrial sites. Virtually, these prefectures took all the initiative to attract companies, causing a high increase of employment at the municipal level. Thus, the success of the job creation through attraction of companies is greatly affected by the effectiveness of the measures by prefectural authorities.

(2) Factor Analysis of Regional Job Creation

To improve regional employment issues, employment development in each region is important as well as the solutions to balance out the mismatch. Chapter 2 analyzes the factors causing the increases in the numbers of employees based on data and the hearing survey results on changes in each prefecture in recent years. The results are summarized below.

First, when conducting factor analysis of the differences between the rate of increase for private establishment employees at the prefectural level and at the national level since the late 1990s, we found that differences in the “region specific factor,” which represents the change independent from nation-wide industry trends, have increased steadily. As previous studies have pointed out, this indicates that regional employment growth rates do not reflect the regions’ industrial share. Particularly, in recent years, the differences in regional job growth rates have become larger, caused by disparities in natural resources, geographical locations, infrastructures, and quality of labor.

Second, when analyzing employment change ratios for each key industry in the regions with manufacturing industry agglomeration, we found that, the risk of employment change is larger in specialization- and monopolization-type agglomeration, while on the other hand, region specific employment increase is observed in correspondence with the degree of agglomeration. For example, in Shiga Prefecture, where manufacturing industries are doing remarkably well, it is obvious that jobs are supported by its geographical, natural, and cultural “advantages,” and the sustenance of existing agglomerations and diversified industrial sites by strengthening industry-academic-government collaboration by attracting universities and research institutions. This indicates that, in the face of the development of overseas deployment of manufacturing industry, it is important for municipalities with manufacturing industry agglomeration to internalize the employment (to develop as local production bases) from existing externally dependent employment.

Third, in service industry agglomeration areas, the more they are specialized in service, the larger the employee increase by “industrial structure factor” which reflects

the national trend of the number of service industry employees. Also, as seen in manufacturing industry agglomeration, the relative specialization index shows that the risk of employment decrease is high in specialization- and monopolization-type of agglomeration concentrated in specific service industries, except Tokyo where accumulation of growth-type service industries is notable. Our analysis indicates that in Okinawa Prefecture, which actively promotes the information and communication service sector, it is important for policy to include relations with local industry and to improve the quality of local human resources for the mid- and long-term so as to create jobs for “emigrating” type service industry not bounded to regional demand.

However, there are many remaining challenges to validate our conclusion in this chapter. First, we need to gather more examples of sustained agglomeration of manufacturing industries, and company attraction and industry fostering measures for agglomeration of service industries, as shown in Shiga and Okinawa cases. Furthermore, we must analyze the quality of employment, since recent data shows regional employment increases do not necessarily indicate decreases in the unemployment rate. Lastly, this chapter includes two prefectures which have some of the highest ratios of population increase and have growing potential regional demand for services and other industries. Population decreases have been observed in many other areas, and we need to examine the factors of employment decrease in those areas and desirable regional policies to correspond to the situation.

(3) Municipal Response to Regional Employment Issues and Related Challenges

Chapter 3 discusses how municipalities are responding to employment issues and facing challenges while decision-making of regional employment policies are shifting from the national to local governments. We conducted a questionnaire survey targeting municipal personnel who are in charge of employment issues to identify the municipal response to the issues at the regional level. The results showed that policy responses are varied among municipalities, and many towns and cities are not implementing employment measures.

Through regression and path analysis of the survey data, this chapter examines the presence of policies, the vision of policies and plans for job creation, municipal effort and organization, the status of policy and measure implementation at the municipal level, and the relations of policy-maker human resource needs.

As a result, we learned that municipalities do not have any specific visions or plans for regional development or job creation, or specific department (personnel) in charge for job creation, which are influenced by the fact that human resource needs are not met.

However, in municipalities that are committed to fostering of human resources by offering training and actively hiring personnel from other prefectures, the human resource needs are relatively met.

While the authority of municipalities is expected to become stronger in the future, regional leaders must plan and implement job creation policies that utilizes regional characteristics. For this purpose, fostering regional leaders is an urgent task, and it is necessary to clarify goals in implementing regional employment strategies and plan for policies and measures to realize these goals.

(4) Change in Employment Rates, Mismatch, and Insufficient Labor Demand at Public Employment Security Offices

Chapter 4 discusses how the number of job openings and applicants can be increased to efficiently improve employment rates, by recalculating 2001 and 2004 data, originally by Public Employment Security Offices and by occupation (medium groups), into employment areas and occupation (medium groups).

We first divided the job applicants in each employment area in both years into the following groups: 1) successful at finding a job; 2) unable to find a job due to occupational mismatch; 3) unable to find a job due to other mismatch; and 4) unable to find a job due to insufficient labor demand. We obtained the active job opening ratio, the employment rate, and the shift and degree in the change of the mismatch ratio during 2001 to 2004 and compared the results in each of the employment areas. The results show that each employment area shifted differently for the active job opening ratio, employment rate, and mismatch ratio, even when the active job opening ratio increased at the same rate.

To identify the reasons behind the above results, we analyzed the relations between 1) the active job opening/application ratio and the occupational mismatch, and 2) the active job opening/application ratio and other mismatch. The first analysis indicates that the occupational mismatch ratio increases when the active job opening ratio increases less than 1x, and it decreases when the active job opening ratio increases more than 1x. This is probably the reason why the occupational mismatch ratio shifts differently among employment areas, when the active job opening ratio increases. On the other hand, our second analysis indicates that the other mismatch ratio increases when the active job opening ratio increases less than 1x, and it decreases when the active job opening ratio increases or decreases more than 1x. This is probably one of the reasons why the active job opening ratio and “other” mismatch ratio shift differently among the employment areas.

Based on the discussion above, we then examined how the number of job openings/applications could be increased to improve employment rates efficiently. We found that it is possible to improve employment rates by increasing job openings/applications in a weak economy, but it could also raise the occupational mismatch ratio and other mismatch ratio.

Our analysis also indicates that, when the economy is booming, it is logically possible to improve employment rates by increasing job openings in jobs with a 1x or more active job opening ratio, and by increasing job applications in jobs with less than 1x or more than 1x while improving other factors. These results indicate that efficient improvement of the employment rate in poor business conditions is difficult even though that is when it is most needed.

It was also shown that, as a second-best solution, employment rates can be improved by increasing job openings/applicants, if not efficiently. Results of the econometric analysis indicates that the growth of the job opening/applicant in several types of jobs effectively lead to the improvement in the number of employment.

Lastly, apart from policy measures mentioned above, the importance of the policies such as vocational training was pointed out, through which the degree of the growth in active job openings/applicants for various jobs can lead to an increase in employment. Such policy can extend the scope for efficiently improving the employment rate.

(5) Regional Characteristics of Public Job Placement Service

Upon revision of the Enforcement Ordinance for Employment Security Law in 1997, greater vigilance has been given to the user rate and the matching efficiency of free public job placement service. One may wonder if free public job placement service are no longer important since the private job placement business is growing and part of the free public job placement service is being outsourced to private sector. As it is well known, Public Employment Security Offices play a large role in many local areas where both the population and the number of establishments are small. There are also some areas where an efficient and accurate matching system has been established by Public Employment Security Offices, and consequently there is little room for private job placement companies to play a role.

Chapter 5 discusses the current status and future of Public Employment Security Offices by using statistical data to compare the services before and after deregulation and their regional characteristics. The results are as summarized below.

Firstly, high user rates of Public Employment Security Offices have been maintained following deregulation. As of 2003, approximately 40 percent of the unemployed cite

public job placement service as the most important method of getting a job; this is an increase compared to the number before deregulation. The number of people who actually found a job through public job placement service is 22.5 percent of the total employed population, showing a 3.1 percent increase from 1996, the year before deregulation.

Second, the reason why the ratio of people using Public Employment Security Offices to enter the job is lower than the ratio of people using them for job application is in relation to differences in target population of the statistics and unemployment benefits. It does not necessarily mean job application method at public job placement service is inferior.

Third, when one measures the service's matching efficiency in terms of employment rate and rate of filled job vacancies, the matching efficiency was high in rural regions (particularly cold, snowy regions such as Hokkaido and Iwate), and low in metropolitan regions (Tokyo and Chukyo regions). Hokkaido, Iwate, Ishikawa, and Niigata ranked high both in employment rates and rates of filled vacancies. Tokyo, Saitama, Chiba, and Kanagawa (Tokyo region) and Aichi (Chukyo region) ranked low.

Last, we examined the effect of regional efforts on the matching efficiency of public job placement service. Although no specific effects were confirmed, we identified that the macro-employment environment, such as active job opening ratio and unemployment rate, academic background and age within the employed population, and industry type of the employee, have significant influence on matching efficiency.

The above results indicate that public job placement will not suffer major setbacks. The user rate may continue at the current high level or even increase, by strengthening complimentary and cooperative relationships with private job placement services based on the development of IT systems. Although regional disparities of the public job placement service's matching efficiency were identified, they are mainly caused by the macro-employment environment, population and industry structures of the regions, but not by the presence/absence of specific efforts in each region. Further detailed examination is necessary to evaluate the effect of efforts by individual job placement services.

(6) Regional Employment Policies in the EU

Chapter 6 focuses on the European Employment Strategy in the European Union (EU), which promotes regionally-decentralized employment policies. The employment situation in Europe was stagnant for a long period since the late 1970s. In 1997, the

EU initiated the European Employment Strategy to improve and develop the employment situation in EU nations.

The European Employment Strategy is characterized by its basic policy of being a regionally-decentralized system which values each region's unique circumstance, needs, and independence; it also values the use of regional resources. To this end, a new concept called a "Third System" has been introduced in Europe. This is a new type of organization which is not a governmental entity or private company, expected to create employment both directly and indirectly by being involved in the regions which have specific needs in terms of environment, welfare, individual services, and information.

The second characteristic is related to using a "Third System", which is an attempt to depart from the labor market dependent to employment absorption of manufacturing industry, and to focus on job creation in new areas of tertiary industries, such as information, welfare, education, and services. Many job creation policies in Japan are to attract manufacturing companies or to develop infrastructure to that end, which is a policy that has been implemented traditionally to create employment, playing significant role in stimulating regional economies up until present. However, as it is not easy for some regions to attract manufacturing companies, there are disparities in the employment situation between regions succeeded in company attraction and those which did not.

As was seen during the Heisei recession or the bursting of the "IT bubble" economy, there is a risk of factories and businesses closing down due to business conditions. As a result of the so-called "hollowing out of the industry" in the late 1980s and 1990s, labor-intensive manufacturing industries, which create a large number of jobs, moved to Asian countries. Therefore, even if manufacturing companies could be attracted, high employment rates should not be expected. Job creation in areas other than manufacturing will be an important challenge in the future, and Europe's example will be a good reference for Japan.

(7) Supporting Policies for Regional Job Creation

Regional job creation has progressed in many ways, from attracting corporations that strongly affect job creation to community businesses that have a small effect, but that utilize regional resources spontaneously. We categorized the kinds of job creation into five different types by scale and speed. The first type is "corporation-attraction type development," which can create a large number of jobs at a good speed.

The second type is "industry cluster type development," which can create good number of jobs, but takes considerable amount of time to do so. In this type,

industry-academia-government collaboration brings related industries together like clusters of grapes.

The third type is “venture business type development.” This type can create jobs at a good speed, but the number of jobs is not very large. These businesses have the potential to grow into large firms, and municipalities support the fostering of this type of development. It should be noted that by boosting deregulation, venture companies have been growing in the agricultural field, which is regarded as a declining industry.

The fourth type is “third-sector company type development” where the public sector and private corporations co-fund and operate. This type of job creation has experienced many bankruptcies in the past. Many of the successful examples, however, indicate that development plans are adjusted to each regional situation; therefore, job creation takes time and the number of jobs created is not very large.

The fifth type is “community business type development.” This type occurs in remote regions with low population and develops small, but profitable businesses using local resources.

A regionally-decentralized policy system, which is currently being promoted, may rapidly cause regional disparities in industries and employment if no support measures are taken. Support measures corresponding with each job creation type is necessary to promote regional industry and job creation.

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