

Bank Competition and Local Employment in Japan: A Causal Link

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The aim of this paper is to provide solid evidence of how competition in the local banking industry affects the condition of local employment, by using data on the banking and manufacturing industries in the 47 Japanese prefectures. The main findings are as follows. A higher concentration in local Japanese banking markets is beneficial for employment at relatively large firms at the expense of employment at small firms. This is especially true in economically less-developed prefectures. The large differences in the magnitude of the effect across prefectures suggest that the positive effect of banking concentration on employment at relatively large firms is partly offset by the conventional interest rate channel that restricts the availability of credit to all borrowers regardless of firm size in some highly competitive local markets.

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