



# Comparison of the effects of homeownership by individuals and their neighbors on social capital formation: Evidence from Japanese General Social Surveys

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## ABSTRACT

This paper, using individual data from Japan, explores how the circumstances of where a person resides is related to the degree of their investment in social capital. Controlling for unobserved area-specific fixed effects and various individual characteristics, I found: (1) not only is the rate of homeowners in a locality positively related to investment in social capital, but also the rate of homeownership there increases an individual's investment in social capital and (2) the effect of local neighborhood homeownership is distinctly larger than that of an individual's when endogeneity bias is controlled for using instruments such as land price and the rental price of an apartment.

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## 1. Introduction

Recently, there has been a growing number of regional studies focusing on the issue of social capital (e.g., Glaeser and Redlick, 2008; Kilkenny, 2006; Westlund, 2007; Glaeser et al., 2002). These studies have applied an investment model for analysis of social capital formation. In this model, the accumulation of social capital depends on an individual's decision making concerning investment in social activities. Based on this individual decision making, from the view point of the spatial dimension, empirical studies have attempted to investigate how and the extent to which social capital is accumulated. These studies make it evident that homeowners are more likely to invest in social capital because of their lower mobility rates (DiPasquale and Glaeser, 1999; Hilber, 2007).

On the other hand, a household's social ties with neighbors, which can be considered a kind of social capital, lead to benefits for residents through the reduction of transaction costs and through non-market reciprocal behavior.<sup>1</sup> Residents get benefits from the community services provided by community member's collective action. Monitoring and sanctioning free riders is important to resolve the free rider problem when collective action is required. The larger the social capital is, the more effective and stronger monitoring and sanctioning are through ostracism or opprobrium, resulting in greater benefits. Social capital can be regarded as local

public goods and so only community members get the benefits from this social capital (Hayami, 2001).<sup>2</sup> Furthermore, sanctioning and monitoring mechanisms strengthened by lower population mobility lead people to invest in social capital.<sup>3</sup>

Not only an individual's characteristics, but also those of their neighbors are expected to have an important effect on a resident's behavior concerning investment in social capital.<sup>4</sup> However, the level of homeownership among neighbors has not been investigated, with the exception of DiPasquale and Glaeser (1999).<sup>5</sup> Furthermore, although investment in social capital appears to depend on socio-economic conditions, there are few investigations outside those conducted in Western countries. To compare the results from Western countries with the rest of world, it is necessary to analyze how social capital is accumulated in countries other than Western ones.

For instance, comparative studies have shown that the influence of surrounding people on individual behavior is greater in Japan than in United States (e.g., Benedict, 1946; Ames, 1981; Yamagishi,

<sup>2</sup> Because of the disappearance of this benefit when a household moves from the current address where larger social capital is accumulated, the incentive for moving is reduced leading to low residential mobility (Kan, 2007).

<sup>3</sup> Benabou and Tirole (2006) develop a theoretical model in which social reputation or pressure from other individuals such as neighbors' influences motivation for prosocial behavior.

<sup>4</sup> People are found to be less inclined to cooperate to resolve collective problems in more heterogeneous communities (Alesina and LaFerrara, 2000; Yamamura, 2008b).

<sup>5</sup> DiPasquale and Glaeser (1999) explored the effects of individual homeownership and neighbor's homeownership on social capital formation. This work, however, focused mainly on effect of individual homeownership rather than that of neighbor's homeownership.

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<sup>1</sup> Social capital was found to improve health status through non-market personal interaction (Kawachi et al., 1997, 1999).

1988a,b). In addition, the importance of social capital on the process of economic development in Japan is increasingly recognized (e.g., Yamamura, 2008a,b,c, 2009a). These reports suggest that individual investment in social capital is significantly affected by the character of neighbors in Japan, thereby affecting economic performance. From a comparative view point of regional development, Japan as a case study is thought interesting. This paper uses individual level data from Japan to investigate the effects of individual homeownership and that of neighbors; I then compare the former with the latter.

The organization of the remainder of this paper is as follows: in Section 2, the characteristics of Japanese society are outlined to provide a back ground for the study and highlight the features of social capital in Japanese society. Section 3 describes data, methods of analysis and estimation strategies. The results of the estimations and their interpretation are provided in Section 4. The final section offers concluding remarks.

## 2. Features of Japanese society

Japan appears characterized by a racially and economically homogeneous society with long-term interpersonal relationships, resulting in an abundance of accumulated social capital (Fukuyama, 1995). In line with this view, the classical work of Kawashima (1963) focuses on Japan's cultural preference for informal mechanisms of dispute resolution and asserts that the harmonious nature of Japan discourages people from litigation. Contrary to this view, a number of works have argued that the reluctance for litigation in Japan can be explained by individualistic reasons rather than a harmonious nature when people are confronted with conflict (e.g., Ginsburg and Hoetker, 2006; Haley, 1978; Ramseyer, 1988; Ramseyer and Nakazato, 1989, 1999). Monitoring and sanctioning each other's behavior plays a greater role in improper actions such as free-riding in a tightly knitted community (Hayami, 2001). Monitoring and sanctioning improper behavior is considered to be stronger in Japan than in the United States (Ames, 1981). Such mechanisms can theoretically be explained by game theory, which is in line with individualistic behavior (Greif, 1993; Kandori, 1992). These facts lead us to conjecture that the "harmonious nature" assigned to the Japanese is heavily based on the monitoring and sanctioning system and is not inconsistent with rational individuals.

The classical work of Benedict (1946) points out that the cultural collectivism in Japanese society is "externally" sustained by a system of mutual monitoring and sanctioning rather than "internally" sustained by an internalized value system. According to Yamagishi (1988a,b), Japanese society provides a system of mutual monitoring to reduce the incentives for free riding. However, Americans have a higher level of generalized trust than Japanese in situations where mutual monitoring and sanction do not exist (Yamagishi and Yamagishi, 1994; Yamagishi et al., 1998). This is contrary to the seemingly general view of trust among Japanese (Fukuyama, 1995). What comes out of these works is that Japanese people are more likely to be affected by long-term interpersonal relationships even if they are more individualistic than Western people. Social norms stemming from monitoring and sanctioning within the Japanese community are considered a crucial factor enhancing collective actions such as responding to a census (Yamamura, 2008b) and voting behavior (Yamamura, 2008e).

The characteristics of neighbors influence the degree to which a community functions well. Neighbors are thus expected to play a major role in an individual's decision making concerning investment in social capital. Hence, Japanese society is considered as an ideal case to analyze how and the extent to which the presence of neighbors has an influence on investment in social capital when

an individual's characteristics are controlled for. Furthermore, it is interesting to compare the effects of individual homeownership and neighbor homeownership on the formation of social capital in Japan.

## 3. Data and methods

### 3.1. Data

This paper uses JGSS data, which are individual level data.<sup>6</sup> The JGSS surveys adopted a two-stage stratified sampling method and were conducted throughout Japan in 2003. JGSS was designed as the Japanese counterpart to the General Social Survey in the United States. This survey asks standard questions concerning an individual's and his/her family characteristics through face-to-face interviews. This data covers information related to one's marital and demographic (age and gender) status, annual income,<sup>7</sup> years of schooling, age, number of children, kind of residence, characteristics of respondent's residential area,<sup>8</sup> size of residential area, and prefecture of residence. According to the population size of a geographical area, sampling points were divided into three groups; (1) large cities, (2) other cities, and (3) villages and towns. Data were collected on 3663 adults, between 20 and 89 years-old. The variables used for regression estimations are shown in Table 1, which provides definitions and basic statistics. I see from this that over half of the sample was collected from the medium-sized cities. One fourth of the sample is from villages and towns. Respondents did not respond completely to all questions, and therefore, the number of samples used for the regression estimations range between 1693 and 1545.

DiPasquale and Glaeser (1999) defines the local group as each city-size category in each state, and calculate the local homeownership by calculating average homeownership rate in each group. Following DiPasquale and Glaeser (1999), I define the local group as follows<sup>9</sup>: as explained above, sample points consist of 47 prefectures. Sample points were also divided into 3 groups categorized by population size. Hence, prefecture-population groups can be divided into 141, which are defined as local areas in this paper. Nevertheless, actually large cities exist only in 12 prefectures. One prefecture (Tokyo) does not contain town and village. Hence, there are 105 prefecture-population groups. Based on these groups, the rate of homeowners is calculated. Table A1 in Appendix A presents the rates of homeowners in each group.

Putnam (2000) indicates that social capital is defined as the features of a social organization such as networks and norms, and that social trust facilitates coordination and cooperation. Hence, social capital can be interpreted in various ways; thereby causing ambiguity and criticism about its measurement and the definition (e.g., Paldam, 2000; Durlauf, 2002a,b). It is necessary to use various

<sup>6</sup> Data for this secondary analysis, Japanese General Social Surveys (JGSS), Ichiro Tanioka, was provided by the Social Science Japan Data Archive, Information Center for Social Science Research on Japan, Institute of Social Science, The University of Tokyo.

<sup>7</sup> There are 19 income categories. (1) None, (2) less than 700,000 yen, (3) 700,000–1 million yen, (4) 1–1.3 million yen, (5) 1.3–1.5 million yen, (6) 1.5–2.5 million yen, (7) 2.5–3.5 million yen, (8) 3.5–4.5 million yen, (9) 4.5–5.5 million yen, (10) 5–6.5 million yen, (11) 6.5–7.5 million yen, (12) 7.5–8.5 million yen, (13) 8–10 million yen, (14) 10–12 million yen, (15) 12–14 million yen, (16) 14–16 million yen, (17) 16–18.5 million yen, (18) 18.5–23 million yen, and (19) 23 million yen or over.

<sup>8</sup> There are 5 area categories; (1) area where a number of factories are located, (2) area where a number of stores and offices are located, (3) old residential area (residential area from the pre-war period), (4) new residential area (including new towns developed after the war), and (5) farming/fishing village.

<sup>9</sup> It should be noted that a local group as defined in this paper does not reflect a geographical scale. Considering a geographical scale is beyond the scope of this paper. This is an issue remaining for future work.

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