



# The role of social trust in reducing long-term truancy and forming human capital in Japan

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## ABSTRACT

This paper attempts to examine how social trust influences human capital formation using prefectural level data in Japan. To this end, I constructed a proxy for social trust, based on the Japanese General Social Surveys. After controlling for socioeconomic factors, I found that social trust plays an important role in reducing the rate of long-term truancy in primary and junior high school. Results suggest that social trust improves educational quality.

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## 1. Introduction

Social capital draws much attention from researchers in the field of social science (Putnam, 1993, 2000). In terms of economics, social capital, which includes social trust, improves efficiency by reducing transaction costs, resulting in economic growth (Knack & Keefer, 1997; Zak & Knack, 2001). From another point of view, economic growth in part depends on physical and human capital formation. Previous works provide evidence that social trust is positively associated with school enrollment rates (Papagapitos & Riley, 2009) and growth of schooling (Bjørnskov, 2009). Through human capital formation, social trust also makes a contribution to economic growth.

In contrast to developing countries, school enrollment rates are high in developed countries. Taking Japan as an example, the secondary school enrollment rate was about 99% in 2000, indicating that quantity of education is sufficient. It is more important to improve the quality of education in Japan. According to a white paper, as shown

in Fig. 1, the rate of long-term truancy has risen since the 1990s.<sup>1</sup> Even though the scale is different between primary school and junior high school, it appears that both primary and junior high school truancy rates doubled within a fairly short period of time.<sup>2,3</sup> This suggests that a problem in educational quality exists.

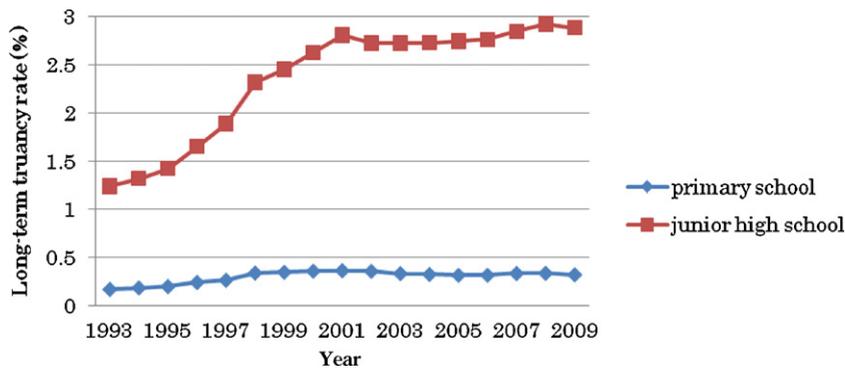
<sup>1</sup> The definition of truancy rate before 1993 was (students who are truant for over 50 days)/(total number of students). This is different from the post-1993 definition (Students who are truant for over 30 days)/(total number of students). To be consistent with the most recent information, I have used the post-1993 definition.

<sup>2</sup> The prosperity between the mid 1980s and the beginning of the 1990s is often called the “bubble economy”.

<sup>3</sup> This seems to reflect the period of depression after 1992 when the prosperity of the bubble economy came to an end in Japan. The number of business bankruptcies steeply increased in this period because of macro-level economic stagnation. The economic recession caused many people to face difficulties and suffer distress. It has been reported that the suicide rate increased rapidly in this period (Chen, Choi, & Sawada, 2009). It is possible that distress is one of the determinants of school truancy and suicide. On the other hand, Yamamura (2010a) found that social capital contributed to a decrease in suicide rate after controlling for economic condition. A rise in suicide and school truancy rates are thought to reflect not only economic stagnation but also the degree of social capital.

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**Fig. 1.** Change in long-term truancy rate. *Note:* Truancy rate is defined as: (Students who are truant over 30 days)/(total number of students). *Source:* Ministry of Education, Culture, Sports, Science and Technology (2009).

Although there are no data regarding the truancy rate for high school, after entering high school, which is not compulsory in Japan, those who had a tendency to skip junior high school are likely to skip high school, resulting in dropouts. It is appropriately argued that long-term truancy has become one of the central issues in Japanese education policy. Social capital, including social networks and social trust, is thought to play a critical role in coping with the long-term truancy problem (Ministry of Education, Culture, Sports, Science and Technology, Japan, 2009, chap. 2). Long-term truancy or dropping out of school are thought to reflect a low quality of education, leading to an impediment in human capital formation even if quantity of education is sufficiently provided. However, little is known about the effect of social capital on quality of education, with the exception of the work of Coleman (1988) and Anderson (2008). Therefore, this paper attempts to examine how and to what extent social trust, considered a kind of social capital, affects the long-term truancy rate in Japan.

The organization of this paper is as follows: Section 2 provides a review of related literature. Section 3 presents an explanation of data set and simple econometric framework. The results of the estimations and discussion are provided in Section 4. The final section offers concluding observations.

## 2. Related literature

According to the seminal work of Putnam, social capital is defined as “features of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating coordinated action” (Putnam, 1993, p. 167). Although social capital has a tremendous influence on research in the social sciences, the notion of social capital is ambiguous. Thus, there seems to be little agreement as to how to measure and conceptualize it (e.g., Bjørnskov, 2006; Durlauf, 2002; Fafchamps, 2006; Paldam, 2000; Sobel, 2002). For instance, in some works, an interpersonal network is considered social capital (e.g., Annen, 2001, 2003; Fafchamps & Minten, 2001, 2002). The magnitude of civic participation is also regarded as social capital (Fidrmuc & Gërkhani, 2008). In other works, magnitude of trust is considered social capital (Berggren & Jordahl, 2006; Bjørnskov, 2009; Papagapitos & Riley, 2009). These notions

regarding social capital cannot be considered equivalent, and the relationship between them is complicated. For example, Sabatini (2009) suggested that although participation in voluntary organizations increases generalized trust, interpersonal trust encourages civic engagement. The role of social capital varies according to its precise definition and context. Hence, it is important to precisely define a proxy for social capital and then assess the role of social capital.

In the real world, mutually beneficial exchange is hindered because of the rise in transaction costs caused partly by opportunistic behavior, leading to an impediment to economic development. The cost of contract enforcement is high because there is the possibility that individuals will breach a contract. Social capital is thought to play a critical role in preventing individuals from engaging in opportunistic behavior, thus raising efficiency and promoting economic growth (Hayami, 2001).<sup>4</sup> This general view has triggered a plethora of research aiming to explore how and the extent to which social capital favors economic growth (e.g., Hall and Jones, 1999; Knack, 1997; Knack & Keefer, 1997; Zak and Knack, 2001). Social capital contributes to economic growth directly, and also indirectly through accumulation of human capital. As is widely acknowledged, accumulation of human capital through education is one of the main factors contributing to economic growth. Coleman (1988) was the first to assess the influence of social capital on accumulation of human capital, suggesting that social capital plays a critical role in reducing high school dropouts. The definition of social capital by Coleman (1988) is ambiguous given that he includes trustworthiness of the social environment, information flow capability of the social structure, and norms accompanied by sanctions. The more recent work of Anderson (2008) also defines social capital loosely. He used various proxies for social capital to examine the social capital effect

<sup>4</sup> Contrary to the evidence provided by most researchers supporting Putnam's argument (1993, 2000), Miguel, Gertler, and Levine (2005) provided evidence that initial social capital failed to make a contribution to subsequent industrial development in Indonesia. This result, however, is in line with Olson's assertion (1965, 1982) that social organizations, acting as specialized interest groups, might decrease efficiency, resulting in limiting growth possibilities.

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