



The impacts of civil society and inequality on the extractive capacity of authoritarian regimes: a conceptual model and the case study of Vietnam

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Abstract

This paper analyses the impacts of civil society and inequality on the extractive capacity of authoritarian regimes and undertakes a case study of Vietnam. The paper argues that civic groups tend to reduce the extractive capacity of such states, defined as the sum of taxation and rent extraction. This induces the government to substitute rent-extraction for taxation. This hypothesis is tested using fixed-effects regression techniques with panel data of 63 provinces for 2009–2014. Our estimates imply that increases in non-profit institutions reduce the regime’s extraction in terms of both budget revenue and informal charges paid by registered firms. Other results are also consistent with our conceptual model. Provinces with larger income gaps exhibit lower extraction, proxied by government expenditures.

Keywords Extractive capacity · Rent extraction · Leviathan model · Civil society · Inequality · High-performing autocracy · Vietnam

JEL Classification C79 · H39 · P45

1 Introduction

Defying the neo-liberal final judgment of “the End of History” (Fukuyama 1989), autocratic powers such as China and Vietnam have achieved and surpassed conditions that have long been considered as sufficient for democratization, such as economic

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development (Boix and Stokes 2003) and better education (Fukuyama 2001). However, China and Vietnam have done so without significant political liberalization. Nonetheless, these high-performing autocracies face problems that arise with their economic prosperity, most notably a new, blossoming civil society and widening inequality.

There have been two main approaches to this issue. One strand of research, including Acemoglu and Robinson (2000), Ansell and Samuels (2014), Diamond (1994), Giovanni et al. (2015), and Way (2014), believes that those factors will increase the risk of revolution against the regime. The other strand applies a non-revolutionary approach that emphasizes an encompassing interest over the society and long time horizon in which rulers collect taxes and extract rents, while providing public services and social insurance in a manner that maximizes their net revenues (McGuire and Olson 1996; Congleton and Lee 2009). Both approaches have largely concentrated on the determinants of redistribution with little consideration for extraction.

Taking a non-revolutionary approach, we aim to fill the gap by examining how inequality and civil society affect taxation on goods produced for markets, rent extraction, and thus, the extractive capacity of high-performing autocracies, with a particular focus on Vietnam. We consider rent extraction as “the efforts of the government and government officials to extract a share of any rents created” (Congleton 2019, p. 535). The struggle over rent extraction will be over both the state tax revenue and potential bribes collected by officials. Rent extraction and taxation constitute the total extraction in the regime (Congleton and Lee 2009). Once inequality and interest groups are taken into account in a non-revolutionary model, it becomes possible to see how these factors lead the rulers to recalculate their optimal rates of rent extraction and taxation.

We also provide a case study of taxation and rent extraction in a high-performing autocracy. Vietnam provides a perfect testbed for the theory developed. The government of Vietnam takes account of non-violent resistance to tax sources such as the value-added tax (VAT), the environmental protection tax, and the corporate income tax (CIT)—partly in the form of tax avoidance and evasion. It also takes account of the potential for rent extraction in its relatively large informal sectors and monopoly policies. Rent extraction, however, may largely line the pockets of officials rather than provide revenues for the national budget due to the highly corrupt environment. Analysing these relationships contributes to the substantial literature on rent extraction and corruption in East Asia, which mostly concentrate on China and four Asian tigers (Singapore, Hong Kong, Taiwan and South Korea).

The paper is divided into two main parts. First, we introduce our conceptual model with a description of the Vietnamese context, where significant concepts and their correlations will be explained. This is followed by the empirical analysis of the Vietnamese experience.

2 Extractive capacity in high-performing autocracies

2.1 Extractive capacity in authoritarian regimes

Extractions from citizens provide a state’s main source of income, regardless of regime types. The rate of extraction depends on the balance of power between the

state and its citizens. In other words, those who possess greater bargaining power largely determine the extraction rate and who benefits from the funds generated. Conventional wisdom suggests that citizens under democratic regimes can collectively hold the state accountable, and thus have the capability to set the extraction rate and pattern of expenditure that they regard to be ideal. In contrast, autocratic rulers with can impose a relatively high extraction rates on their citizens (Olson 1993). Thus, the extraction rate in democracy tends to be lower than that of autocracy, *ceteris paribus*.

This line of arguments, however, has recently been challenged. Acemoglu and Robinson (2006), among others, note that democracy tends to be correlated with tax revenue (as percent of GDP). Similarly, Bird et al. (2008) contend that both low- and high-income countries tend to have high taxation (tax revenue as a share of GDP) if they secure better democratic institutions, particularly those that improve voice and accountability for citizens. Conversely, authoritarian regimes often have low taxes. For example, in his analysis of tax regimes in the Chinese Ming Dynasty, Fukuyama (2011) suggests that the Ming emperor imposed much lower tax rates than he could have set, which led to the eventual collapse of the kingdom's governance system.

Of course, taxation is not the only source of revenue, nor the only method of extraction in authoritarian states. It is thus important to identify both the factors that influence the overall rate of extraction in authoritarian regimes and the types of extraction undertaken.

Approaching from the redistribution side, Acemoglu and Robinson (2006) believe the threat of revolution helps decide the level of redistribution, thus indirectly affecting the state's extraction behaviour. Grossman (1994) shares this view, adding land reform as another determinant. Population density around the capital city, seen as a risk of revolution for regimes, can influence the state's extractive capacity via pressures on governance and redistribution (Do and Campante 2009). However, authoritarians may also limit taxation for economic reasons and because other forms of revenue are possible. Herb (2005) suggests that regimes with abundant natural resources tend to place smaller tax burdens on their citizens. Congleton and Lee (2009) note dictators can raise revenues by selling special privileges as well as through taxation and through other methods of extraction. In a stable regime, long term revenues from investments in education and infrastructure tend to bear fruit by increasing the tax base, the value of monopoly privileges, and the extent to which revenues (bribes) can be extracted via various regulatory and tax threats. It is net extraction rather than total extraction that is relevant for such rulers (Congleton and Lee 2009), which is to say the extent to which revenues exceed public expenditures. The term extraction as used here, thus, includes part of the state's taxation and all of the bribes received by state officials.

While the former can be seen via tax data (assuming that receipts are honestly reported), the latter is more difficult to observe due to its inherent secrecy. Regardless of its forms, rent extraction has a negative impact on economic development (Lambsdorff 2002; Congleton and Lee 2009; Holcombe 2017) and a rational forward looking authoritarian regime will take such effects into account when choosing net extraction rates.

2.2 The concept of high-performing autocracy

In this study, we want to explore how inequality and civil society influence the extractive capacity of authoritarian regimes, particularly high-performing ones. As such, an important concept that needs to be clarified before we proceed is “high-performing autocracy.” While there have not been any deliberate efforts to push for such a definition, this concept has been briefly discussed in analyses of the East Asian Miracle, particularly the case of China. It is also examined in several works on authoritarian resilience, successful autocracy (Besley and Kudamatsu 2008), economically benevolent dictatorship (Gilson and Milhaupt 2011), and “perfect” authoritarian regimes (Ringen 2016). Generally, a high-performing autocracy is an authoritarian regime that maintains a sustainably high economic growth over a long period of time, with an affluent middle class, and strong state institutions.

There are several reasons to concentrate on high-performing authoritarian regimes in this study. First, high-performing autocracies, particularly in early phases of industrialization, produce enough economic prosperity that economic inequality emerges, as suggested by Kuznets (1955). The rise of inequality often is correlated with democratization (Acemoglu and Robinson 2000). In the revolutionary models, regimes choose either to democratize or forego economic development. In the Olson stationary bandit model, increasing private wealth might lead to higher rent extraction efforts (including corruption and bribes). Whether it does so or not will depend upon the effects of higher extraction rates on economic growth. High-performing autocracies such as China and Vietnam may also increase civil liberties, which often increases growth and leads to the development of civil society (Teets 2013). This phenomenon is not observed in “low-performing” autocracies, such as North Korea.

3 Vietnam as a case study

Recent changes in Vietnamese economic and political conditions have reflected the complex relations among civil society, inequality, and extraction in high-performing autocracies.

First, after adopting market-oriented reforms in 1986, Vietnam has experienced rapid economic growth and transformed from one of the world’s poorest countries into a lower middle-income country.¹ However, it remains an autocracy with growing income inequality, especially in rural areas during the 2002–2012 period (Benjamin et al. 2016; World Bank 2014). Along with economic development, the state has loosened its grip over the society. As a result, many Vietnamese civil society organizations (CSOs) have been established (Pallas and Nguyen 2018), including regime-supporting organizations (Wischermann et al. 2016), apolitical associations, and anti-state organizations (Thayer 2009).

¹ World Bank’s classification as of 2018 fiscal year, see: <https://datahelpdesk.worldbank.org/knowledgebase/>.

Second, while maintaining a conservative stance on civil society, the Vietnamese state allows limited room for civic actions to relieve the increasing social pressure and provide alternative sources of depleted public goods. As such, the regime encourages CSOs to operate in less politically sensitive areas such as environmental issues, poverty reduction as well as enhancing good governance (PPWG, GPAR, and Gencomnet 2016). Vietnam's civil liberty index has slightly improved in the 2006–2014 period according to assessments of the Freedom House (2017).

Third, the development in civic interest groups and widening inequality pose significant challenges for Vietnam's one-party regime in exerting their regulatory taxation. As the state budget has been constrained due to overspending, the regime has recently planned to increase the VAT by two percentage points.² Understandably, this proposal was met with public outcry. Citing World Bank experts, the government then argued that the increase in VAT rates only had negative impacts on the rich (VTV24 2017). However, Vietnamese economists and the public continued to dispute this argument (Vu 2017), forcing the state to drop the proposal.

In another case, the Vietnamese Ministry of Finance (2018) proposed a new property tax to increase the state's revenue. This enraged the public who believed such a bill would put more burdens on the poor (Le 2018). In response, the government had to quickly clarify and claimed that the proposed tax aimed to tackle corruption issues rather than increase tax revenue (Vu 2018). Push backs were also generated by a proposed increase in environmental protection taxes. In that case, the public pressured the government to be more transparent concerning the revenue generated from higher environmental protection tax rates, as well as on their potential negative impacts on the people's living standards (Phuong Dung 2018). In addition, the corporate income tax (CIT) rate in Vietnam was decreased from 25 in 2009 to 20% in 2016.

These examples show that despite being an authoritarian regime, the Vietnamese state does not have an unbridled power to set the extraction rate as they wish. Instead, they engage in pseudo-negotiations with their citizens and have occasionally dropped an unpopular tax proposal. Indeed, the government tax revenue as percentage of GDP gradually fell from 21.7 in 2006 to 19.1% in 2014.³

Finally, as an autocracy, Vietnam can be considered as a rent-extracting regime. The lack of political accountability allows rulers to create rents and extract a portion of those rents without significant pushback from the public (Hillman and Ngo 2019)—partly because such extractions are less obvious to members of civic organizations or do not affect them. Despite difficulties in increasing regulatory tax revenues, the informal sector and monopolization expand the space for the state's rent extraction in Vietnam.

The country has a huge informal sector, accounting for approximately 26% GDP in 2015, an increase from 20.3% in 1995 (Hoa 2019). Tax avoidance via the "grey market" reduce revenue by 4.9% (2015), which is up from 3.8% in 1995 (ibid.).

² See Vietnamese Ministry of Finance (2017) for the detailed proposal.

³ Figures of Vietnamese government's tax revenue are collected in World Development Indicators, available at World Bank's website: <https://data.worldbank.org>.

There are approximately nine million household businesses across the country (Pasquier-Doumer et al. 2017), the majority of which are not registered with the tax system. However, they are not entirely invisible to the tax authorities.

In Vietnam, these informal firms, as well as many small and medium enterprises (SMEs), are regulated by the presumptive tax system, in which the authorities decide the sum that these businesses must pay per annum depending on their estimated revenues. This practice creates many opportunities for extraction and corruption, as both tax officials and firms are incentivized to adopt a lower revenue estimate for taxation. As Aidt (2016, p. 147) notes, in this situation there appears to be both a “helping hand” and “grabbing hand” when corrupt officials are bribed to permit firms to underreport their revenues.

In addition, there is a list of 243 conditional business lines in the Vietnamese Investment Law 2014 (Vietnam Government Office 2017), which provides another method (monopoly policy) through which the state and state officials can extract rents. In general, high barriers for doing business in Vietnam⁴ are a way to extract rents for both the government and state officials in the form of corruption.

According to the Corruption Perception Index (CPI), Vietnam is among the most corrupt countries in the world.⁵ Therefore, rent extraction tends to largely fall into the officials’ pockets instead of the state budget. It is similar to China where a part of rent extraction has involved corruption and bribes (Chen and Liu 2015). It is less so in other Asian tigers such as Singapore, Taiwan, Hong Kong and South Korea (Paldam 2003).

While there has been an increase in the number of civic groups which challenge the regulatory taxation, the state and its officials still possesses the capability to increase their extraction. Nevertheless, forward looking rulers have to constrain their overall extraction rates, because the more they extract, the lower economic growth tends to be, and the lower future opportunities for extraction will be.

4 A non-revolutionary model of extractive capacity in high-performing autocracies

Having developed the conceptual framework that we wish to explore, we next develop a simple mathematical model to characterize the tradeoffs confronted by a hypothetical autocrat. We use the leviathan model of the government developed by Congleton and Lee (2009), in which rulers collect revenue from taxation and monopoly policies then deliver public goods due to the encompassing interest and maximization of their net gains. This model is well established based on Brennan

⁴ World Bank’s data show that Vietnam still sets high barriers for doing business when ranking 70th out of 190 assessed economies in terms of ease of doing business in the latest ranking 2020. See more at: <https://www.doingbusiness.org/>. Higher barriers are made in starting a business (#115), paying formal tax (#109); and resolving insolvency (#122). These give more room for the state and state’s officials to get rent extraction.

⁵ Vietnam ranked 117th out of 180 countries and territories in 2018 in CPI; during 2015-2018, Vietnamese government remained relatively high corrupt with the low scores of CPI, around 31-35/100 points.

and Buchanan (1980) and McGuire and Olson (1996). There are economic trade-offs for autocracy between taxation and monopolization: higher levels of monopolization help the government collect more gains from rent seekers but increase deadweight losses, which reduce revenues from taxation.

For our analysis, we include two indicators: the average level of equal society (U) and the scale of interest groups (S). As described above, there emerge well-organized interest groups and rising inequality in high-performing autocracies. While there are many factors which influence the rulers' strategies, prevailing inequality is one of the most powerful explanatory indicators (Peltzman 1980). It may decrease productivity (OECD 2016) and cause social welfare loss (Calo-Blanco and García-Pérez 2013). Inequality also creates circumstances in which poor families tend to have low human capital (OECD 2016), which decreases potential productivity via market mechanism.

On the other hand, inequality may also provide incentives for innovation and entrepreneurship that increase economic growth rates. Nonetheless, in long term perspectives, highly equal growth distribution was a key driver for successful economic outcomes, as what we see during the period of East Asia Miracle in 1965–1990 in Japan, Singapore and Hong Kong (World Bank 1993). In this paper, we assume inequality as an exogenous factor that hinders potential economic outcomes (Y) in autocracy and thus increases deadweight loss with the same tax rate levied in the McGuire-Olson model.

In a rising civil society, civic groups are assumed to be organized to take advantages of public goods and the monopolistic business environments that the rulers provide. Citizens in high-performing autocracies with middle and high incomes can invest in non-profit activities in the hope of receiving future gains (Do and Campante 2009). Since many civic groups are established to seek potential gains from governmental policies (rent seeking), increases in the number of interest groups distort economic incentives and consequently harm potential production (Y) at the national level.⁶

Because the efficiency of civic groups is not the main focus of this paper, we simply consider the scale of interest groups as one element that a government takes into account when selecting their strategies. Interest groups are assumed to be factors that reduce potential outcomes (Y)—as with rent seeking losses, rather than systematically change the levels of monopolization and public good provision. These tools are assumed to be in the dictators' hands.

U and S are assumed to be in the closed unit interval $[0, 1]$. $U=0$ means that the society is equal in producing private goods and opportunities to access resources, while $U=1$ reflects that resources-and consequently incomes-are disproportionately concentrated in the dictators' hand. The average scale of interest group S is equal

⁶ Olson (1965) proposes that group sizes, values that each member can receive, and free-rider elements are key determinants for the success of collective action. When the economy grows, middle and high-income citizens in high-performing autocracies have incentives to carry out more non-profit activities to further their interests. However, the outcomes depend on the efficiency of their collective action and the government's choices.

to zero when no citizen sees non-profit activities indeed bring potential benefits to them. $S=1$ implies that all actors in the society invest in establishing interest groups to seek benefits.

U and S determine the level of potential national production: $Y = Y(G)p(M, U, S)$, where Y is a potential production function in an economy; G is the amount of public goods provided by the government with the unit price (price = 1); M is the average level of monopolization that the government sets, $M \in [0;1]$; p is the rate of potential income produced given the levels of monopolization, inequality and activities of interest groups, $p \in [0;1]$, $p'(M) < 0$, $p'(S) < 0$, $p'(U) < 0$. At the national level, $Y(G)$ is the potential production function where the rational society maximizes its production given G inputs, combined with the labour force and other resources without incentive distortions from taxation, monopoly policies, inequality, and the development of interest groups. We thus have $p(M=0, U=0, S=0) = 1$ and $Y(M=0, U=0, S=0) = Y(G)$.

In addition, the deadweight loss of the economy for taxation given G is: $(1-r(t))p(M, U, S)Y(G)$, where t is an average rate of sales or income tax, $r(t)$ is the percentage of potential Y produced at the rate t . We use the leviathan model of Congleton and Lee (2009) in which the government chooses the optimal levels of public goods G , tax rates t , and monopolization M to maximize its net extraction (N):

$$N = tr(t)p(M, S, U)Y(G) - G + \alpha r(M),$$

where $r(M)$ is the total rents generated from monopoly policies and shared between monopolists and the state, including both the state budget and state officials' pocket; α is the proportion of $r(M)$ that contributes to the regime's extraction; $\alpha \in [0;1]$. $\alpha r(M)$ is the amount of rent extraction that rent seekers give to the state and state officials.

We consider rent extraction to include both official transfers to the state budget and bribes paid to officials; therefore, the proportion α may be large in highly corrupt regimes where rent seekers pay more bribes to officials than they pay to the state budget. This practice keeps the administrative expenditure low because the state has less revenue to spend.

The total extraction in an authoritarian regime (E) is a sum of revenues from taxation and the regime's rent extraction from monopoly policies:

$$E = tr(t)p(M, S, U)Y(G) + \alpha r(M)$$

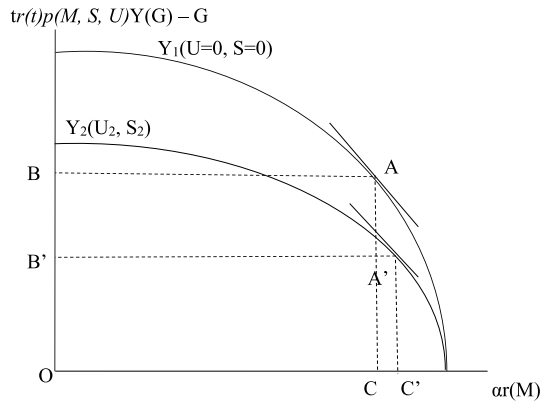
We use the three first-order conditions in Congleton and Lee (2009) to describe the choices of the government regarding t , G and M to maximize the net extraction:

$$r't + r = 0(a)$$

$$Y'(G) - 1 = 0(b)$$

$$tr(t)p'(M)Y(G) + \alpha r'(M) = 0(c)$$

Fig. 1 Inequality and civil society effects in the revenue possibility frontier. *Source:* Authors' design based on Congleton and Lee (2009)



As in the McGuire–Olson model, the Eq. (a) and (b) imply that the level of t and G are independent of the level of S , M and U : the rulers choose t and G based on the $r(t)$ function, the $Y'(G)$ function and the price of public goods (set as unit in this model). After choosing the rate t and the amount of G , the government then decides the level of monopolization. The levels of S and U in the society affect the rulers' monopoly policies and total extraction.

As in the leviathan model, Eq. (c) shows that the level of monopolization will be set at the point where the marginal benefit from rent extraction is balanced with the marginal cost of monopoly policies on national income by deadweight losses. Figure 1 illustrates the economic trade-offs between tax revenues and rent extraction. We follow the assumptions of Congleton and Lee (2009) that the net revenue function and the revenue possibility frontier are strictly concave.⁷ Because G remains unchanged regardless of different levels of monopolization, changes in total net extraction (N) are equal to changes in total extraction (E).

In an equal society without any interest groups, the government will choose point A where $\alpha r'(M) = -tr(t)p'(M)Y(G)$, or the 45° line is tangent to the frontier. However, with the growth of inequality and interest groups, there are more deadweight losses in the economy. The decrease of marginal benefit from tax rate t induces the government to expand monopolistic industries to receive more gains from rent extraction. In this case, the government chooses A' . Because the slope of the tangent is 45° , we can easily see $AB + AC > A'B' + A'C'$, which means a decrease in net extraction. Therefore, the total extraction decreases at the same absolute amount.

In an unequal society with emerging interest groups, the rulers tend to adapt policies to increase the ratio of rent extraction from monopoly policies to tax revenues for market production ($(A'B'/A'C' > AB/AC)$). The reductions of potential production Y caused by S and U decrease marginal benefits from taxation, whereas marginal benefits from monopoly policies remain unchanged. In relative terms, both a more unequal society and more interest groups induce the government to rely more on

⁷ See Congleton and Lee (2009) for the conditions and corner solutions.

rent extraction from monopoly policies and less on taxation as a revenue source. (Recall that increases in inequality and the number of interest groups tend to reduce national income.)

Our model provides an intuitive, but rigorous, explanation on how inequality and civil society make the government adjust their extraction strategies. Even without the threat of revolution, inequality and civil society induce rulers to reduce taxation.

In practice, authoritarian regimes do not normally consider inequality and the scale of civil society as exogenous factors. The government can control the development of interest groups via repressive tools, use progressive taxation to tackle inequality, reduce the extent of monopolistic industries. However, such policies either tend to be disruptive (reducing economic growth) or tend to reduce opportunities for extraction. The decrease in extraction in our model is similar to that characterized by Bernstein and Lü (2000), Teets (2013), and Zhang (2018) for China.

5 Empirical evidence

To examine the Vietnamese case, we investigate the government's extraction via its revenue collection, spending, and informal charges. Before carrying out the empirical analysis, measures of inequality and the extent of civil society have to be introduced. We use income gaps between the 10% highest-income households and the 10% lowest-income households as the barometer of inequality. Regarding civil society, we use changes in investment in non-profit institutions (NPIs) as the key indicator.

5.1 Data and methodology

We build a panel dataset of all 63 Vietnamese provinces during the period 2009–2014. We measure three independent variables to proxy the extraction in Vietnam: (1) budget revenue; (2) budget expenditure; and (3) informal charge index.

Figure 2 illustrates the relationships among these three measures and the system of collecting and distributing extraction in Vietnam. First, budget revenue reflects the governments direct extraction. Vietnamese provincial revenue includes all the revenue collected in a single province. Lü and Landry (2014) suggest using budget revenue per capita to measure the state's extraction. In this paper, we use this approach to calculate changes in provincial budget revenue per capita in each year (*REV*).

Based on the 2002 Vietnamese Law on State Budget, a part of provincial revenue is reallocated to provincial authorities via a specific sharing percentage, denoted as sharing rate (*SR*). The higher *SR* is, the more financial resources provincial authorities can keep for their own expenditure. This sharing scheme is similar to that in the Chinese system. A larger *SR* produces tends to encourage local authorities to extract more revenue (Tang et al. 2016). Second, as an alternative measure of direct extraction, we also calculate changes in provincial budget expenditure per capita (*EX*). If

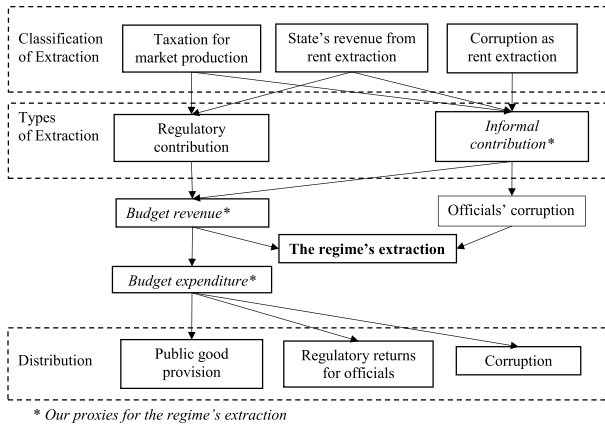


Fig. 2 Classification and distribution of extraction in Vietnam. Source: Authors' design

the government spends more than raised in taxes, they will have to extract more in the future.

Data on sharing percentage, budget revenue, and expenditure are taken from the Vietnamese Ministry of Finance.

Third, in Vietnam, another source of extraction is the informal charges collected by the state. It is more complicated to calculate informal expenses in a non-democratic country due to their “informal” characteristics. Fortunately, the Vietnam Chamber of Commerce and Industry (VCCI) in cooperation with The United States Agency for International Development (USAID) have carried out an annual survey of registered firms’ opinion on business environment, known as the Provincial Competitiveness Index (PCI), since 2005.⁸ There are ten sub-indices in PCI, one of which describes informal charges that incur to firms.

There are three questions that are always surveyed for this sub-index during 2009–2014. They are: (1) percentage of firms agreeing that firms usually have to pay for informal charges; (2) percentage of firms paying more than 10% of their revenue for informal charges; (3) percentage of firms saying that informal charges usually or always create expected outcomes. We use the average of three aforementioned rates in each province to create an informal charge index, *IMFC*, with the panel data of 63 provinces between 2009 and 2014. It should be noted that due to the high level of the informal sector in Vietnam, some types of taxation, notably CIT, can be seen as presumptive taxes, which firms perceive as informal charges in many cases. Therefore, informal charges are a combination of regulatory taxes on sales and income, and rent extraction (see Fig. 2).

As a measure of the growth of Vietnamese civic groups, we calculate the average assets of all non-profit institutions (NPIs) in each province. The choice of NPIs is due to their quantifiable nature to construct a panel data. The idea that civil society

⁸ Data are collected from PCI’s website: <http://eng.pcivietnam.org/>.

can be measured by NPIs derives from John Hopkins Comparative Non-profit Sector Project (CNP), which compares the economic scale of NPIs over 36 countries (Heinrich 2005). In developed countries, NPIs are mainly recorded via the International Classification of Non-Profit Organizations (ICNPO), a classification developed by Anheier and Salamon (1996).

Given the lack of proper data, developing countries usually make use of national surveys on registered economic organizations, classified via International Standard Industrial Classification of All Economic Activities (ISIC), to filter NPIs. For example, based on recommendations of the United Nations (2008) and Johns Hopkins University Centre for Civil Society Studies (JHU/CCSS), the Office of the National Economic and Social Development Board (NESDB) categorizes NPIs in Thailand as units producing services in four sectors: 85—Education, 86—Human health activities, 88- Social work activities without accommodation, and 94—Activities of membership organizations (NESDB and JHU/CCSS 2011). These firms' economic activities are considered to be for non-profit purposes; therefore, they are recorded as NPIs.

To represent the development of civic groups, we calculate the difference of average assets of NPIs per capita in 1 year in a province (DA_s/NPI). Applying this classification strategy to Vietnam, we consider NPIs as firms registering their activities in the four aforementioned sectors. Our NPI data is extracted from Vietnam Enterprise Census (VEC), annually carried out by General Statistics Office of Vietnam (GSO). Since NPIs are required to be private units (Salamon and Anheier 1999), we exclude both stated-owned and partially state-owned NPIs. We do not consider cooperatives as NPIs because of their unclear ownership status in Vietnam. This NPI classification strategy is appropriate in measuring the development of civil society as well as its impacts on governance in Vietnam (Nguyen et al. 2017).

As described in the conceptual framework, we add an income gap variable in the empirical model to test the impacts of inequality level on the extraction rate. We use the Vietnam Household Living Standard Survey (VHLSS) during 2010–2014, conducted by GSO biennially, to collect the income gap data. Specifically, an income gap is calculated as the unweighted average income in 1 year of the 10% highest-income households surveyed divided by the unweighted average income of the 10% lowest-income households surveyed in a province. The panel date is constructed with time dimension including 2010, 2012, and 2014.

We also use variables reflecting demographic conditions and economic performance in provinces as control variables in the model. Two demographic variables are (1) labour force participation rate (LR) and (2) urban rate (UR). Due to measurement errors in regional GDP in Vietnam, we use changes in total revenue of enterprises per capita in each province ($DReEN$) to represent the level of provincial economic development. LR and UR are collected from the Statistical Yearbook of Vietnam; meanwhile, $DReEN$ is extracted from VEC. Demographic and economic variables are often used in empirical studies as determinants of tax revenue and extraction (Ángeles Castro and Ramírez Camarillo 2014; Lü and Landry 2014). In addition, we employ the logarithm of sharing rate (LSR) as another control because sharing schemes produce incentives for the local authorities to collect taxes (Tang et al. 2016).

Table 1 Unit root tests for input data. *Source:* Authors' calculation

Variables	Modified inverse Chi squared, Pm	Variables	Modified inverse Chi squared, Pm
<i>REV</i>	105.8891***	<i>LR</i>	10.2182***
<i>EX</i>	8.093***	<i>UR</i>	19.8928***
<i>IMFC</i>	5.7923***	<i>DReEN</i>	4.5544***
<i>DAsNPI</i>	9.4765***	<i>LSR</i>	1.7678**

** and *** show significance at 5%, and 1%, respectively

Table 2 Summary of the data. *Source:* Authors' calculation

Variable	No.	Mean	SD	Min	Max	Unit
Dependent variables						
<i>REV</i>	378	0.95	5.17	-23.11	68.32	Mil VND per capita
<i>EX</i>	378	0.87	1.89	-20.83	22.75	Mil VND per capita
<i>IMFC</i>	378	41.20	6.25	22.96	57.72	Percentage
Independent variables						
<i>DAsNPI</i>	378	0.50	8.34	-0.56	162.02	Mil VND per capita
<i>Income gaps</i>	189	7.33	2.60	3.08	14.72	
Control variables						
<i>LR</i>	378	59.24	3.57	48.88	71.46	Percentage
<i>UR</i>	378	26.24	16.47	9.38	87.28	Percentage
<i>DReEN</i>	378	15.52	49.73	-78.97	377.37	Mil VND per capita
<i>LSR</i>	378	4.50	0.28	3.14	4.61	

Dependent and independent data are constructed to guarantee the stationary characteristics. Unit root tests of Choi (2001) with modified inverse Chi squared statistics are carried out to confirm these features (Table 1). This test is not applied to the income gap variable.

The descriptive statistics of data are shown in Table 2. There have been many efforts by the Vietnamese government to reduce budget deficit and restore financial disciplines by diversifying the state revenue and limiting expenditure. Indeed, increases in provincial budget revenue per capita are larger than provincial budget expenditure per capita in absolute terms. Vietnam generally has a large income gap, with the average income of the 10% richest being seventh-fold higher than the 10% poorest.

We employ the fixed-effects (FE) regression estimator with province-clustered robust standard errors. FE technique takes unobserved heterogeneity by province and time into account in regression (Wooldridge 2002). Besides, we calculate the province-clustered robust standard error of White (1980) to avoid heteroscedasticity in panel data.

Table 3 Impacts of NPIs and income gaps on state's extraction. *Source:* Authors' calculation

Independent variables	REV_{it}	EX_{it}
	A1	A2
<i>One-lag term REV</i>	-0.956*** (0.0384)	
<i>One-lag term EX</i>		-0.827*** (0.141)
<i>DAsNPI</i>	-0.393*** (0.00431)	-0.00940*** (0.00337)
<i>Income gaps</i>	-2.458 (1.851)	-14.33*** (3.454)
<i>LR</i>	0.0245 (0.0780)	-0.110* (0.0577)
<i>UR</i>	-0.0428** (0.0190)	0.0266* (0.0142)
<i>DReEN</i>	-0.000464 (0.00359)	-0.00567*** (0.00199)
<i>LSR</i>	8.863*** (2.929)	-0.310 (1.944)
Constant	-6.654 (29.47)	188.6*** (44.45)
Observations	189	189
Province effects	Yes	Yes
Year effects	Yes	Yes
R ²	0.954	0.721
Year dimension	2010, 2012, 2014	

*, ** and *** show significance at 10%, 5%, and 1%, respectively. Province-clustered robust standard errors in parentheses

5.2 NPIs, income gaps, and extraction rate

In this section, we regress REV , EX by the one-period-lagged term of the independent variables, income gaps, $DAsNPI$, and the control variables. The results are shown in Table 3.

First, we find significant evidence of the negative relationship between $DAsNPI$ and the extraction rate in terms of both provincial budget revenue and expenditure. The estimates of $DAsNPI$ in both columns A1 and A2 are negative and statistically significant at the 0.01 level. The magnitude of the effects on provincial budget revenue is considerably larger than on expenditure. If the average assets of all NPIs per capita in a province increase by one million VND, the provincial budget revenue and expenditure per capita decrease by 0.393 and 0.0094 million VND, respectively.

Regarding income gaps, they significantly reduce the level of fiscal extraction when measured as provincial state per capita expenditures. The magnitude of this effect is markedly large with coefficient around -14 . When income gaps expand by 0.01 unit, the local authorities decrease their expenditure by 0.14 million VND

per capita, approximately equal to one-sixth of the average provincial budget expenses during 2009–2014. Therefore, the provincial budget expenditures are sensitive to changes in the income gaps. However, the impacts on provincial state revenue are not significant.

For the control variables, the result shows two significant but rather debatable findings. First, the level of extraction in the past is a constraint for the present extraction. For impact estimation, an increase of one million VND per capita in extraction in the previous year will lead to a decrease by 0.96 and 0.82 million VND per capita in terms of revenue and expenditure in the present year, respectively. Results from *IMFC* in the next section show similar impacts. The empirical evidence supports the neo-classical ideas on the relationship between state revenue and economic performance (Ángeles Castro and Ramírez Camarillo 2014; Cooley and Ohanian 1997). Second, positive and significant impacts of *LSR* on provincial budget revenue support results of Tang et al. (2016) on the Tax Sharing System (TSS) in authoritarian regimes.

5.3 NPIs, income gaps, and informal charges index

In this section, we exclude *LSR* from the control variables in *IMFC* regression since we believe that while directly affecting the incentives of local authorities on collecting provincial budget revenue and expenditure, *LSR* is not significantly related to the informal charge index.

In columns B1–3 of Table 4, we regress *IMFC* by the per capita NPI's asset growth, the one-period-lagged *IMFC* and different sets of control variable(s) with FE estimation. Column B4 adds the income gaps variable without the one-period-lagged *IMFC*. The results show the estimated coefficients of the key variables, per capita NPI asset growth and income gaps, are negative and statistically significant. The absolute impact estimates for *DAsNPI* and income gaps, using results from column B4, are 0.0279 and 14.95, respectively.

These results support the explanations from our conceptual model regarding total extraction. It is reasonable to consider that informal charges in Vietnam include both revenues from presumptive taxes in the form of CIT as well as rents paid to the state and state officials. While the NPI asset growth and widening income gaps may induce the government to expand monopolistic policies and increase rent extraction, total extraction, proxied by informal charges, has declined.

6 Discussion and conclusion

This article has developed and tested a conceptual model of the impacts of civil society and inequality on the extractive capacity of authoritarian regimes using data from Vietnam. We consider extraction to be a combination of taxation for sales and income in market production and rents transferred to the government and its officials. Rent extraction efforts benefit both the state treasury and the government officials personally. Our paper argues that the development of civil society and

Table 4 Impacts of NPIs and income gaps on informal charges index. *Source:* Authors' calculation

	<i>IMFC</i>			
	B1	B2	B3	B4
<i>One-lag term IMFC</i>	-0.153** (0.0634)	-0.151** (0.0643)	-0.149** (0.0650)	
<i>DAsNPI</i>	-0.0261*** (0.00849)	-0.0238** (0.0106)	-0.0236** (0.0105)	-0.0279** (0.0134)
<i>Income gaps</i>				-14.95*** (4.668)
<i>LR</i>		0.0883 (0.249)	0.0933 (0.250)	0.295 (0.271)
<i>UR</i>			-0.0392 (0.0554)	0.0535 (0.0557)
<i>DReEN</i>	-0.00708 (0.00661)	-0.00703 (0.00668)	-0.00670 (0.00668)	-0.00533 (0.00744)
Constant	46.25*** (2.653)	41.03*** (15.41)	41.66*** (15.05)	131.0*** (42.55)
Observations	315	315	315	189
Year effects	Yes	Yes	Yes	Yes
Province effects	Yes	Yes	Yes	Yes
R ² -	0.264	0.265	0.265	0.408
Year dimension	2009–2014			2010, 2012, 2014

** and *** show significance at 5% and 1%, respectively. Province-clustered robust standard errors in parentheses

the increasing inequality tend to increase the deadweight losses of taxes and thus reduces the optimal overall extraction rate. Other revenue sources are not sufficiently increased to compensate for diminished tax receipts. Vietnamese tax revenues as percentage of GDP gradually fell during the 2006–2014 period.

Our empirical models confirm the influence of organized non-profit groups. If the NPIs' average asset per capita in a province increases by one million VND, the provincial state revenue and expenditure per capita tend to decrease by between 0.4 and 0.01 million VND, respectively. Another crucial finding is that an increase in NPI investment induces a decrease in the informal charge index, which measures the informal costs that Vietnamese enterprises must pay.

In addition, the estimates are consistent with our model's implication that provinces with larger income gaps exhibit lower informal charge indexes and extraction in terms of budget expenditure per capita. As both the budding civil society and inequality are results of the economic development in developing countries, the paper may support the notion that economic growth can help reduce corruption as shown

in almost all counties (Paldam 2002) as well as in the particular case of other Asian tigers (Paldam 2003).⁹

The paper also contributes to the literature of rent extraction in authoritarian regimes. In the absence of an electorate which can reduce a government's tendency to extract rents (Congleton 2019), rent-seeking activities remain pervasive in autocracy. However, the nature of rent extraction can change over time. As shown in the case of the market-oriented reforms in China, rent extraction can be a "helping hand" that enable market activities in the first periods, but can become a "grabbing hand" that restricts competition and creates monopolies in latter periods (Chen and Liu 2015).

In our non-revolutionary model, rulers in high-performing countries tend to decrease taxation for market production, expand monopolistic industries and increase the share of rent extraction in total extraction to maximize their net gains, given the pressure from the widening inequality and civil society development. In so doing, autocrats keep the middle class and ordinary citizens content (with economic prosperity) and so demotivate them from demanding more political accountability.¹⁰ While further comparative and empirical studies are required to confirm this result, this is well illustrated by the case of Vietnam, where the authoritarian government takes account of opposition to higher taxation on sales and income. As a substitute for ordinary taxation, the state evidently uses extraction from the informal sector and monopoly privileges as alternative sources of revenues.

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⁹ Our suggestion should be careful when some forms of informal charges in Vietnam are taxation and official rent extraction, see Fig. 2.

¹⁰ Taking a revolutionary approach, Giovanni et al. (2015) show certain groups such as workers and the middle class can put pressure on the ruler to increase the powers of the parliament and redistribution to keep these groups content, or "encompassed" in non-revolutionary terms.

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