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## Social and political capital in rural Viet Nam

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WIDER Working Paper 2015/087

## **Social and political capital in rural Viet Nam**

Thomas Markussen\*

September 2015

**Abstract:** This paper exploits five waves of the Vietnam Access to Resources Household Survey (VARHS) to investigate issues of social and political capital in rural Viet Nam. I analyse membership of the Communist Party, ‘mass organizations’ (Farmers’ Union, Women’s Union, etc.) and other voluntary organizations, trust, and the significance of family ties in economic transactions (e.g. the share of land tenants who are relatives of their landlord). The paper also presents fixed effects regressions exploring the effects of social and political capital on household income. Results indicate positive returns to Communist Party membership, trust and access to informal insurance.

**Keywords:** social capital, political capital, trust, family ties, household income, Viet Nam

**JEL classification:** D73, H7, O12, O53, P16

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## 1 Introduction

This paper investigates the evolution of different dimensions of social capital in rural Viet Nam between 2006 and 2014 and models the relationship between social capital and income at the household level. The literature on social capital distinguishes between three types of social ties: bonding (within-group ties), bridging (between-group ties), and linking (ties to people in power). Linking social capital is sometimes referred to as ‘political capital’ and I adopt this terminology here (Woolcock and Narayan 2000).

There is a complex, two-way relationship between economic development and these different dimensions of social capital. First, social capital affects development. Some types of social capital facilitate economic growth and sophistication, while others are barriers to development. In particular, bridging social capital facilitates interactions between strangers and thereby helps to develop a sophisticated division of labour (e.g. Knack and Keefer 1997). On the other hand, bonding and linking social capital may strengthen exclusivism and create biases in access to economic resources (only the ‘insiders’ get a piece of the action), which in turn slows down economic growth. Second, economic development affects the structure of social capital. The growing need to interact with people from outside one’s own community leads to a strengthening of bridging relative to bonding social capital. Formalized associations (political parties, trade unions, sports clubs, etc.) tend to partly replace informal associations (kinship ties, neighbourhood relations, etc.).

The ambiguous effects of social capital on development are to some extent reflected in previous studies of social capital in Viet Nam. While Newman et al. (2014) show positive effects of social capital measured as information sharing and membership of the Women’s Union on household savings (and thereby possibly on development), Markussen and Tarp (2014) show that ‘linking’ social capital, in the form of informal ties between farmers and local government officials, distorts the distribution of credit, monetary transfers, and agricultural investment. Similarly, Newman and Zhang (2015) report that politically connected households have easier access to public benefits than other households, and Kinghan and Newman (2015) find that politically connected families are more likely than others to establish a non-farm enterprise.

This paper exploits the Viet Nam Access to Resources Household Survey (VARHS) to investigate social and political capital in Viet Nam from different angles. The VARHS is a panel survey, conducted in the rural areas of 12 provinces in Vietnam every second year from 2006 to 2014.<sup>1</sup> The survey re-interviewed households sampled for the 2002 and 2004 waves of the Vietnam Household Living Standards Survey (VHLSS). In later years, additional households have been added. The present paper builds on the panel of households present from 2006 through 2014 (2,162 households). See CIEM et al. (2013) for further details on the sampling methodology of VARHS. Due to changes in the VARHS questionnaire between 2006 and 2008, many of the analyses omit results for 2006.

The paper first presents descriptive statistics on the distribution of different dimensions of social capital across regions and socio-economic groups and how this distribution has developed over time. It then goes on to present regression analyses of the relationship between social capital and household income. These analyses show significant effects of several different aspects of social

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<sup>1</sup> The sampled provinces are, by region: Red River Delta: ex-Ha Tay; North-east: Lao Cai, Phu Tho; North-west: Lai Chau, Dien Bien; North Central Coast: Nghe Anh; South Central Coast: Quang Nam, Khanh Hoa; Central Highlands: Dak Lak, Dak Nong, Lam Dong; Mekong River Delta: Long An.

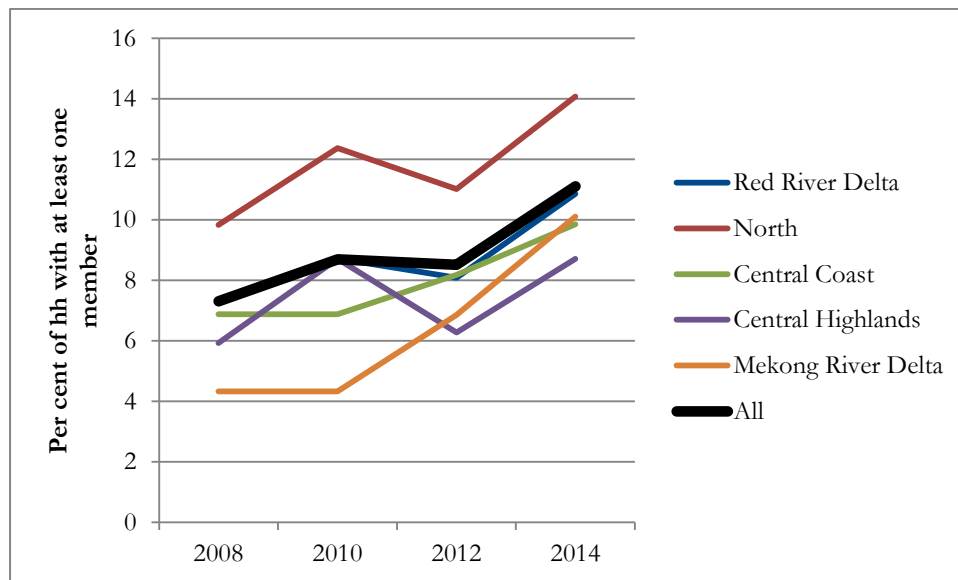
capital on household income. For example, Communist Party membership, trust in strangers, and informal connections all affect income positively. On the other hand, I find no effect of membership in mass organizations, such as the Women’s and Farmers’ Unions.

## 2 Communist Party membership

Markussen and Tarp (2014) find that personal connections to local government officials, a form of political capital, strengthen land property rights and access to credit and transfers. This section focuses on another primary source of political capital in Viet Nam, namely membership of the Communist Party. In a one-party highly activist state (‘totalitarian’ in many ways still seems an adequate description), the potential importance of Party membership is obvious (see Markussen et al. 2014 for an analysis of the effects of Party membership on subjective wellbeing).

Figure 1 shows the share of households with at least one Party member across five different regions and over time.

Figure 1: Communist Party membership, by region



Note: N = 2,162 households.<sup>2</sup>

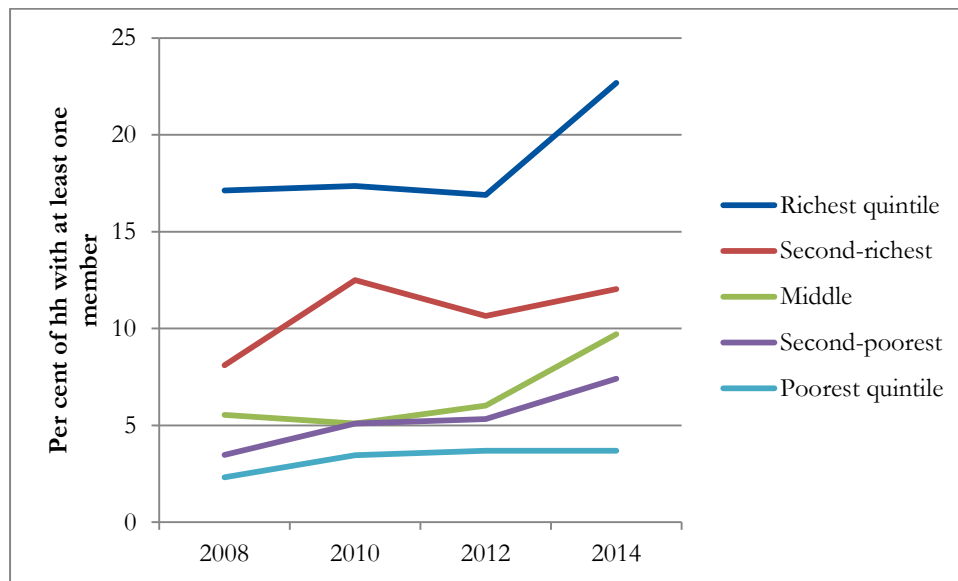
Source: Author’s calculations based on VARHS 2008-2014.

The VARHS questionnaire section on membership of the Party and other groups was changed between 2006 and 2008 and for that reason results for 2006 are omitted. The figure shows that the share of households with Party members increased from a bit more than 7 per cent in 2008 to 11 per cent in 2014. This partly reflects the fact that households are growing older and that this increases the probability of membership. However, even when the age of the household head is controlled, the difference between average membership in 2008 and 2014 is still significant, indicating that the Party has somewhat expanded its membership base. Party membership is significantly more prevalent in the North than in other regions. This is not surprising since the North is the traditional heartland of the Party, but it is interesting to note

<sup>2</sup> Each household is observed four times, so the total number of observations is 4 x 2,162 = 8,648

that the strongest rate of growth between 2008 and 2014 is observed in the Mekong River Delta, where the share of households with Party members more than doubles.

Figure 2: Communist Party membership, by income quintile



Note: N = 2,162 households. Quintiles are calculated on the basis of per capita income and are defined ‘within year’, i.e. the sample is divided in five groups of equal size within each year.

Source: Author’s calculations based on VARHS 2008-2014.

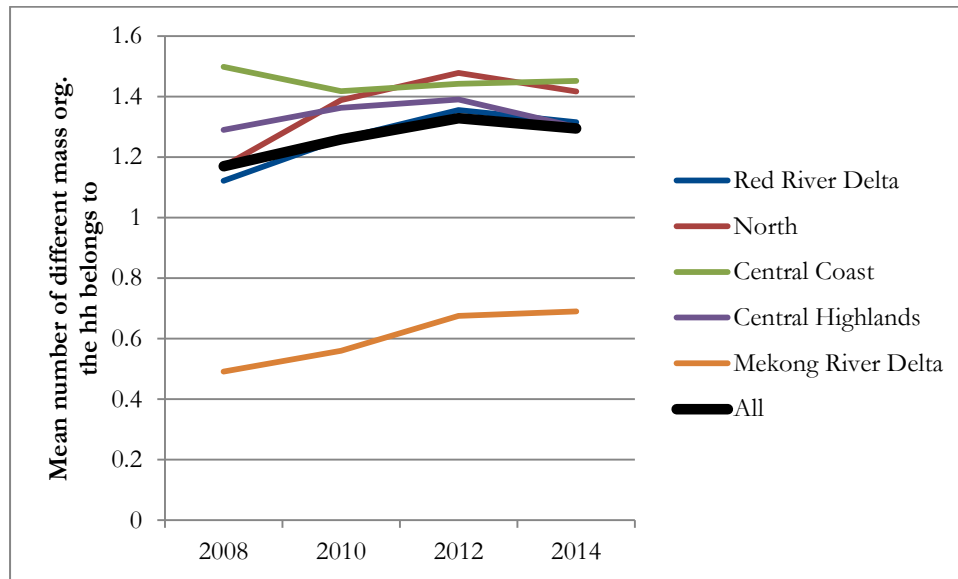
Figure 2 shows the distribution of Party membership across income quintiles (VARHS collects highly detailed and comprehensive data on household income). The figure reveals an extremely strong income gradient in Party membership. Membership is four to seven times more common in the richest quintile than in the poorest, with no convergence between 2008 and 2014 (if anything, the 2014 results indicate the opposite). There may be different reasons for this. Certain personal characteristics, such as education and entrepreneurship, may affect both income and Party membership. Alternatively, income may be a formal or informal criterion for Party membership, and/or Party membership is a cause of high income. The regression analysis below throws more light on these issues. For now, it is sufficient to note the tension between the egalitarianism of communist ideology and the socio-economic profile of Party members in rural Viet Nam.

### 3 Mass organizations

Apart from the Party, the most important type of formal associations in rural Viet Nam are the so-called ‘mass organizations’, which include the Women’s Union, Farmers’ Union, Youth Union, and Veterans’ Union. Membership is voluntary, but mass organizations are closely linked with the state and sometimes participate in local government decision-making. For example, Women’s and Farmers’ Unions in some communes participate in screening applicants for government-sponsored loans, e.g. from the Bank for Social Policies (VBSP). If we distinguish between ‘state’, ‘market’, and ‘civil society’ as the primary spheres of social activities outside the family, social capital can be viewed as a measure of the strength of civil society. However, due to the strong links between mass organizations and the state, it is probably more relevant to view vibrant mass organizations as indicating a strong state, rather than a strong civil society. Nevertheless, group activities may well be a source of bridging as well as linking social capital and the evolution and distribution of mass organization membership is therefore interesting to

investigate. Figure 3 shows the average number of different mass organizations households belong to, by region and over time.

Figure 3: Mass organization membership, by region



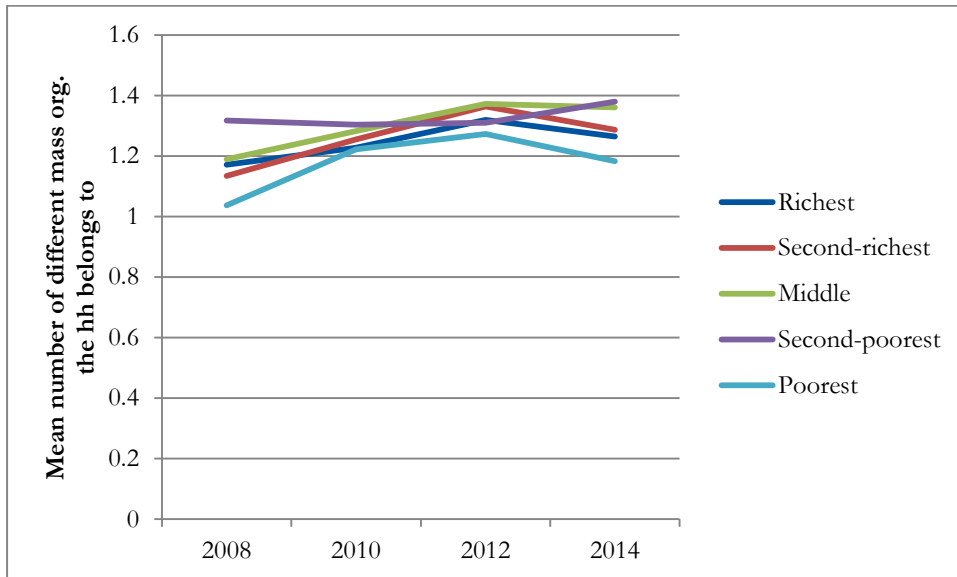
Note: N = 2,162 households.

Source: Author's calculations based on VARHS 2008-2014.

The figure shows that households are, on average, members of about 1.3 different mass organizations, with a slight increase from 2008 to 2014. About 75 per cent of households are members of at least one mass organization. The Mekong River Delta stands out as the region with by far the fewest mass organization memberships. Again, the most obvious interpretation is to view this as a legacy of the different histories of the communist movement in the North and the South. However, it is interesting to note that there were important differences in the social structure of villages in the northern and the southern deltas even before the advent of communism (in fact, even before colonialization). In particular, because of much lower population densities in the Mekong than in the Red River Delta, migration was more common in the South, which in turn meant that villages were less tightly knit communities and that values were more individualistic (Gourou 1936; Popkin 1979). It is possible that these historical differences are to some extent reflected in current social activities.

Figure 4 shows mass organization membership by income quintile. In marked contrast with the results on Party membership (Figure 2), there is no strong income gradient in membership of mass organizations. The Party is exclusive, mass organizations are inclusive.

Figure 4: Mass organization membership, by income quintile



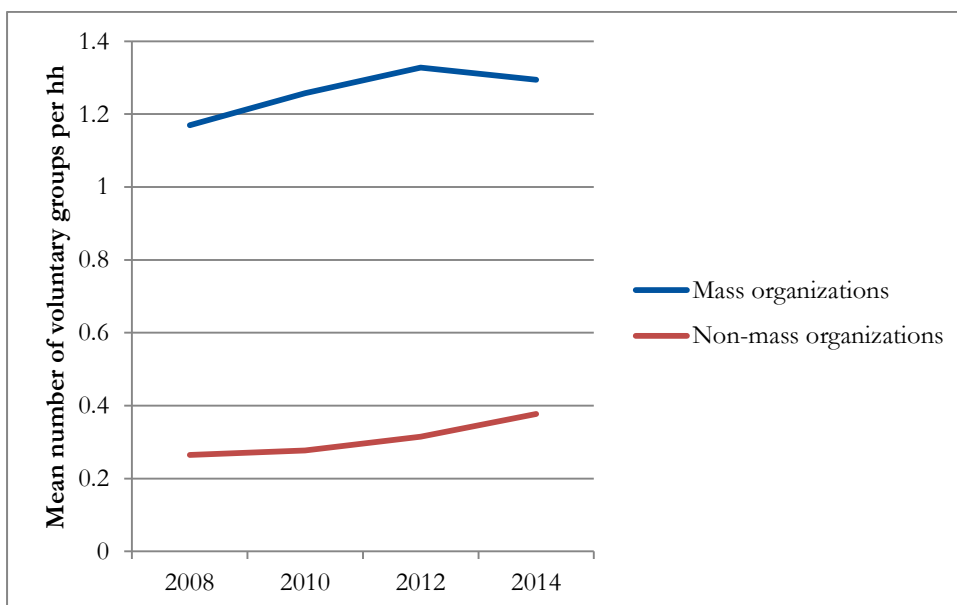
Note: N = 2,162 households.

Source: Author's calculations based on VARHS 2008-2014.

#### 4 Other voluntary associations

Now consider voluntary groups other than mass organizations. These include business associations, credit groups, religious groups, sports and cultural groups, groups for the elderly, and a number of other groups. Figure 5 compares frequency of membership in, respectively, mass organizations and other voluntary groups.

Figure 5: Membership of mass organizations and other voluntary groups



Note: N = 2,162 households.

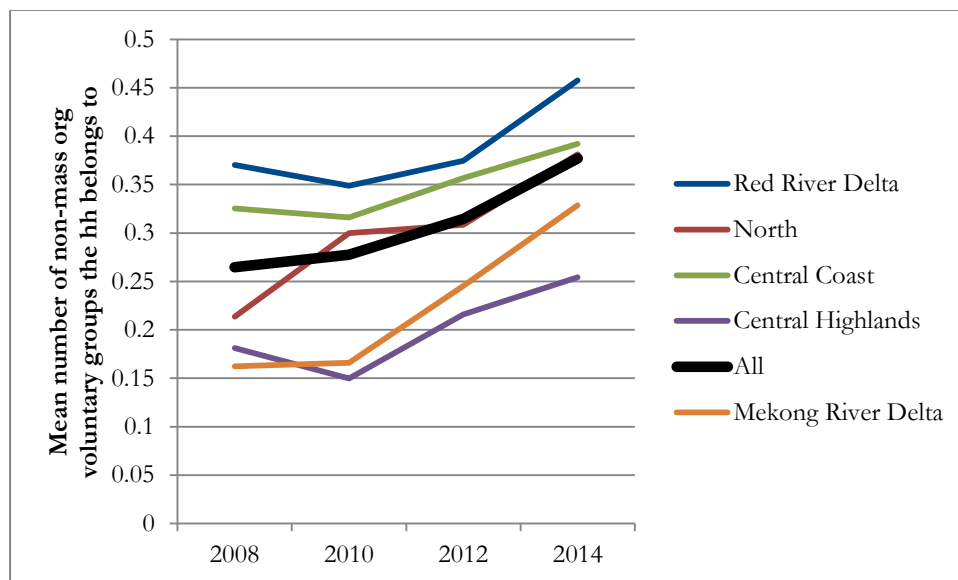
Source: Author's calculations based on VARHS 2008-2014.



The figure shows that membership of mass organizations is more common than membership of other groups by an order of magnitude, documenting that mass organizations continue to dominate associational life in rural Viet Nam.

However, the relative increase in non-mass organization (non-MO) membership from 2008 to 2014 (42 per cent) is much higher than the increase for mass organizations (11 per cent). Hence, some amount of convergence is perhaps underway. This is potentially very interesting, since the growth of non-MO voluntary groups could represent an important step in the development of an independent civil society in Viet Nam. However, it is important to note that the growth in non-MO membership since 2008 is largely the result of growing membership in ‘groups for the elderly’. This growth is only partly explained by ageing of respondents. In a linear regression, which controls for age of the household head, membership of non-mass organization groups is still significantly higher in 2014 than in 2008. Hence, the observed growth in non-MO membership is genuine. Still, it is unclear whether these groups are able, for example, to play a role in holding government accountable, similar to the function of civic associations in northern Italy that Putnam (1993) famously described.

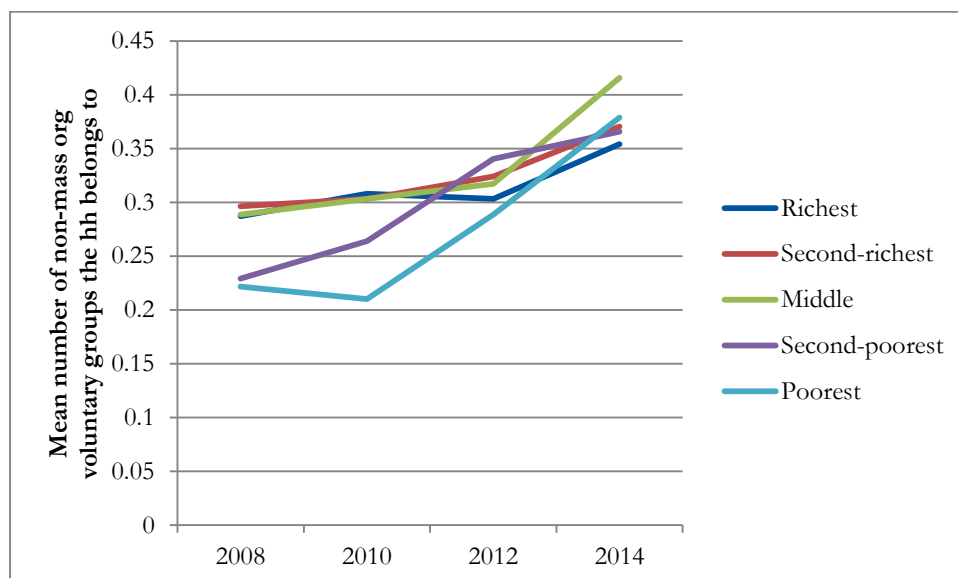
Figure 6: Non-mass organization membership, by region



Note: N = 2,162 households.

Source: Author's calculations based on VARHS 2008-2014.

Figure 7: Non-mass organization membership, by income quintile



Note: N = 2,162 households.

Source: Author's calculations based on VARHS 2008-2014.

Figures 6 and 7 show the development of non-MO memberships by region and income quintile, respectively. It is notable that the average number of memberships has increased in all regions. Non-MOs are more common in northern than in southern areas. Since these associations are not directly controlled by the communist movement, this can be said to go against the view that associational activities are driven only by the degree of communist dominance, which is surely stronger in the North than in the South. On the other hand, it is well in line with the view that northern villages are more 'communitarian' than southern villages.

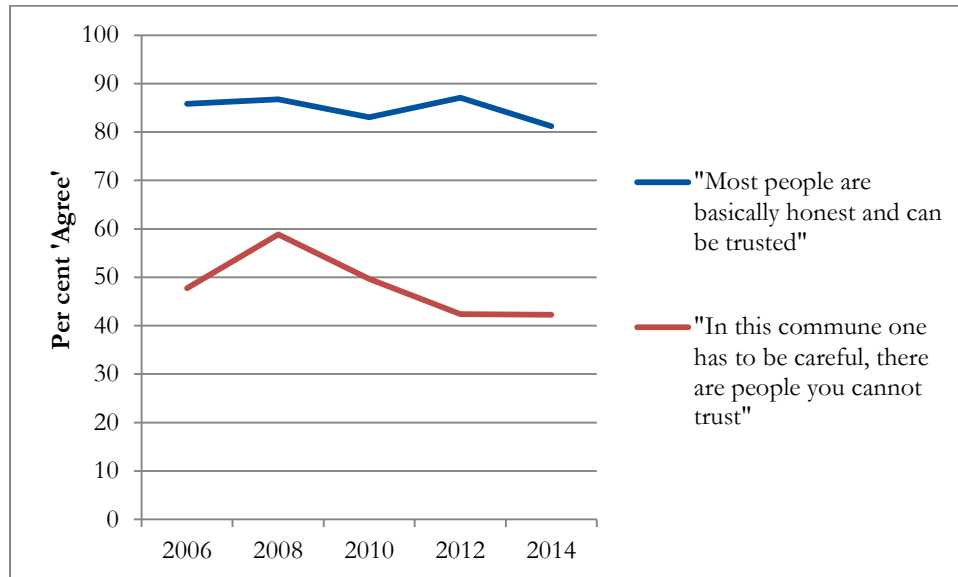
Figure 7 shows that in 2008 and 2010, membership of non-mass organization groups was more common in richer than in poorer households. However, this difference appears to have disappeared in 2012 and 2014, perhaps because the expanding groups for the elderly cater to poor as well as to rich households.

## 5 Trust

It is unclear whether levels of voluntary group activity in Viet Nam are valid measures of social capital, because of the strong links between the biggest groups and the state. Therefore, attitudinal measures, such as those measuring 'trust' are particularly interesting to investigate in a country such as Viet Nam. Measures of 'generalized trust', i.e. trust in unspecific 'strangers', rather than specific groups or individuals, are commonly used as measures of bridging social capital (e.g. Knack and Keefer 1997; Alesina and La Ferrara 2002). The VARHS contains two such questions. The first asks respondents whether they agree with the statement 'most people are basically honest and can be trusted'. The second asks about the statement 'in this commune one has to be careful, there are people you cannot trust'. Because the second question refers to 'this commune', it is perhaps debatable whether it measures bridging or bonding social capital (generalized or group-specific trust). However, since the number of inhabitants in a commune is about 5,000 on average, most residents in one's commune are strangers in the sense that the respondent does not personally know them well. Therefore, I regard the question as a measure of generalized trust and in some analyses I combine answers to the two questions in an index of trust.

Figure 8 shows the share of respondents who agree with each of the statements described above. Note that in 2006, two additional questions were inserted in the questionnaire between the first and the second of the questions discussed above. These inserted questions were removed in 2008 and in later years. This may affect answers to the second question. In particular, the increase in the share who ‘agree’ with the second statement from 2006 to 2008 may reflect this.

Figure 8: Generalized trust and mistrust



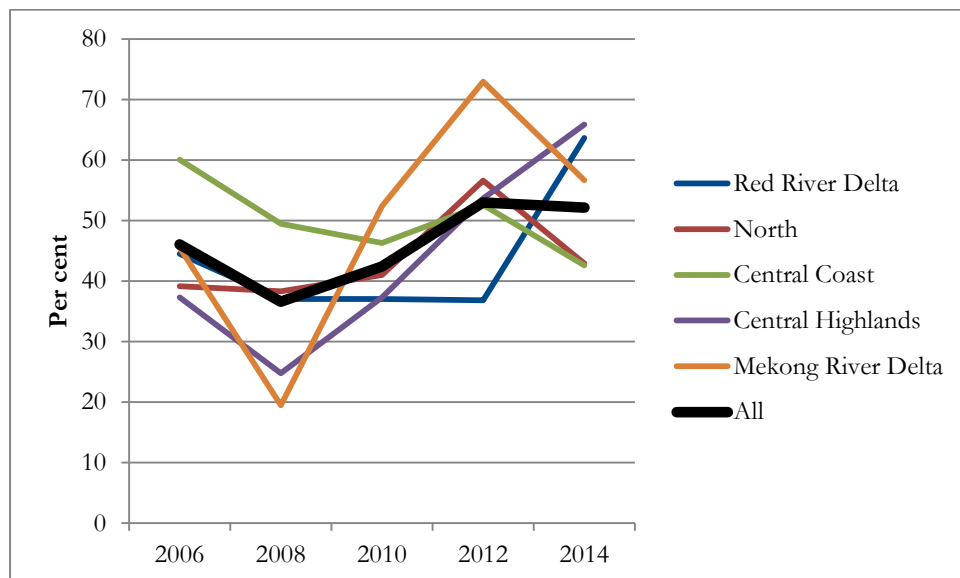
Note: N = 2,162 households.

Source: Author's calculations based on VARHS 2006-2014.

In general, the results show a very slight decrease in the share of respondents agreeing with the first statement ('people are basically honest and can be trusted') and a stronger decline, especially since 2008, in the share agreeing with the second statement ('one has to be careful...'). Overall, this may be taken as evidence of a moderate increase in generalized trust. This may either be a cause or an effect of economic development, but in any case it should be viewed as good news. Generalized trust paves the way for economic specialization and development.

In Figure 9, the two trust measures are collected in an index. The figure shows the share of respondents who agree with the first statement *and* disagree with the second, by region and over time. Results again show an overall increase in trust, especially since 2008. The difference between 2008 and 2014 is highly statistically significant. The pattern across regions is rather messy, with no clear trends emerging.

Figure 9: Generalized trust, by region

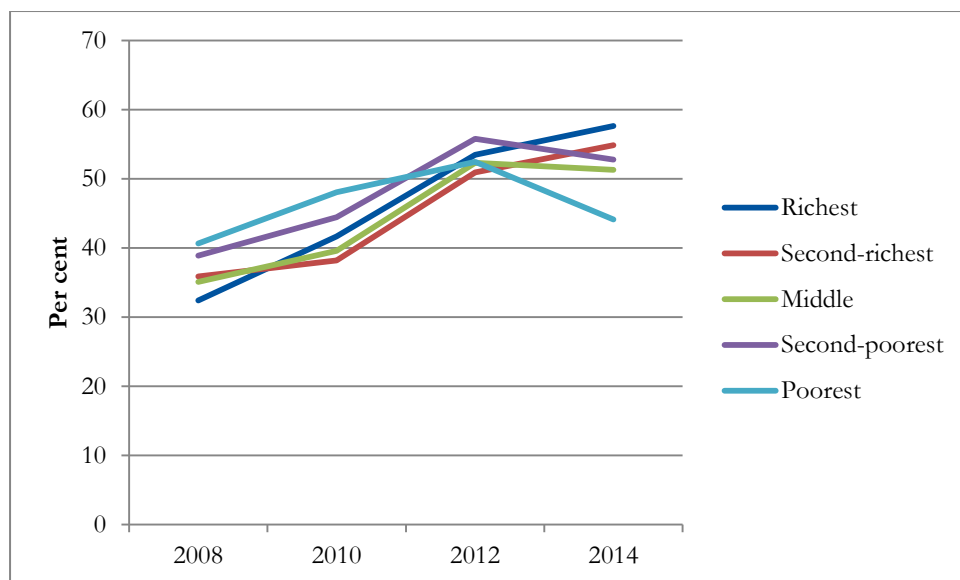


Note: N = 2,162 households. The figure shows the share of respondents who a) agree with the statement 'most people are basically honest and can be trusted'; and b) disagree with the statement 'in this commune one has to be careful, there are people you cannot trust'.

Source: Author's calculations based on VARHS 2006-2014.

Figure 10 shows the average score on the generalized trust index by income quintile. There is no strong correlation between income and trust. It is curious that the order of the richest and poorest groups is completely reversed between 2008 and 2014, but it is probably too early to draw strong conclusions from this result.

Figure 10: Generalized trust by, income quintile



Note: N = 2,162 households. The figure shows the share of respondents who a) agree with the statement 'most people are basically honest and can be trusted'; and b) disagree with the statement 'in this commune one has to be careful, there are people you cannot trust'.

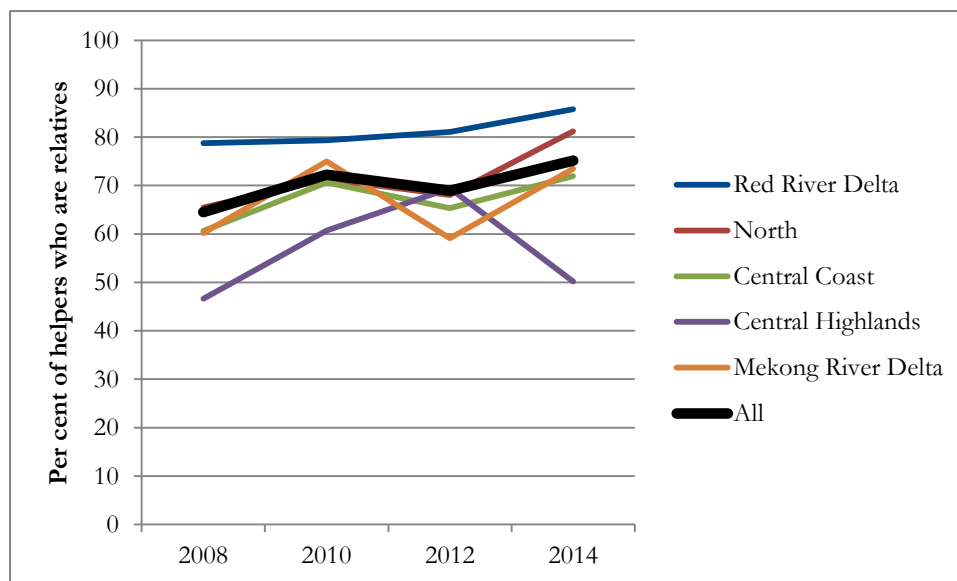
Source: Author's calculations based on VARHS 2008-2014.

## 6 Family ties

It is well documented that family ties are strong in Viet Nam. For example, the 2001 World Values Survey in Viet Nam asked respondents about the importance of different ‘life domains’. 82 per cent of respondents say that the family is ‘very important’. Some 57 per cent regard ‘work’ as being in the same category, while only 22 per cent rank ‘friends’ as very important (Dalton et al. 2002). Results from VARHS show that transactions with relatives play a large role in, for example, land rental markets and in terms of getting access to emergency funding (see below). This suggests that stocks of ‘bonding social capital’ are high in rural Viet Nam. This is a strength, for example, when it comes to insuring households against negative shocks. However, as the economy develops, there is a growing need to interact with strangers and other non-kin. Therefore, we would expect a gradual decline over time in the importance of family ties for economic transactions, as bonding social capital is replaced or supplemented by a growing stock of bridging social capital. This section tests whether there is any support for this hypothesis in two types of transactions: a) emergency loans; and b) land rentals.

The VARHS survey asks respondents: ‘if you were in need of money in case of an emergency, who outside of your household could you turn to who would be willing to provide this assistance?’ A bit more than 90 per cent list at least one such person. Respondents are asked to provide details about the three most important helpers, for example, whether they are relatives or not. Figure 11 shows the average share of financial helpers who are relatives of the household focusing on the three most important helpers (we only have detailed data on the three most important helpers in each household). Again, changes in question formulation lead us to leave out results for 2006.

Figure 11: Share of financial helpers who are relatives of the respondent, by region



Note: N = 2,014 financial helpers in 2006 (slight deviations from this in later years).

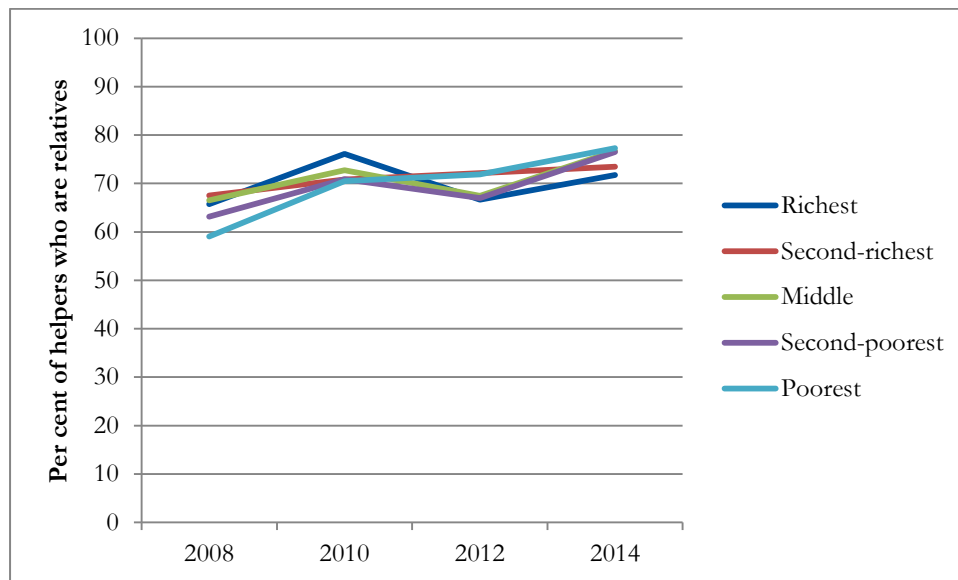
Source: Author's calculations based on VARHS 2008-2014.

Results show that the share of financial helpers who are relatives is about 70 per cent and, more importantly, that there is no decline in this share over time. In fact the share of helpers who are relatives increases from 65 per cent in 2008 to 75 per cent in 2014, a statistically significant difference, also when age of household head is controlled for in a linear regression (not shown). Reliance on relatives for financial assistance is highest in the Red River Delta and lowest in the

Central Highlands (in three out of four years), possibly because many residents in the Central Highlands are migrants, who live far away from their relatives.

Figure 12 shows the share of financial helpers who are relatives by income quintile. Results show that there is virtually no correlation between income and the importance of relatives for financial assistance. So, reliance on relatives for informal insurance is not a peculiar characteristic of poor households or backward regions, nor does this type of reliance show any signs of declining over time.

Figure 12: Share of financial helpers who are relatives of the respondent, by income quintile

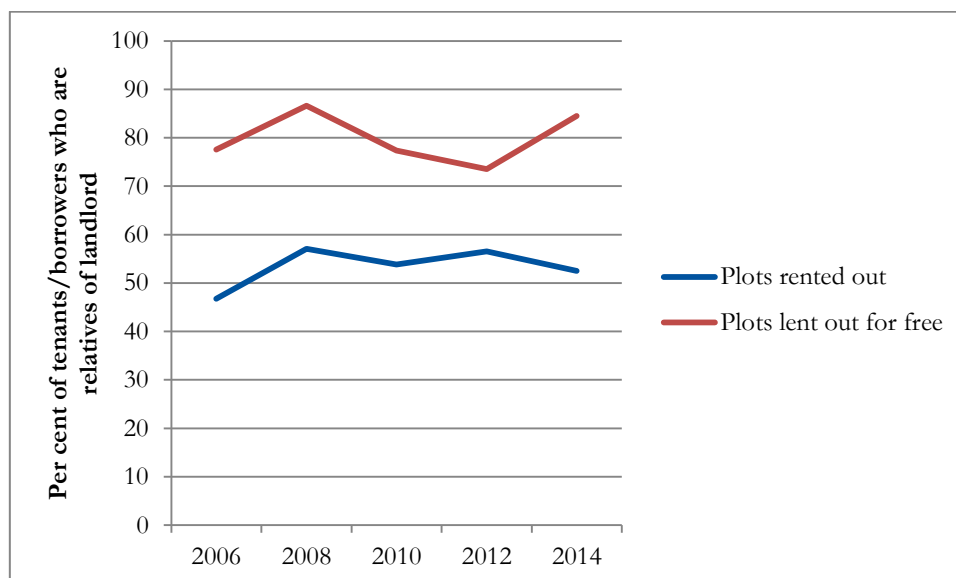


Note: N = 3,849 financial helpers in 2008 (slightly more in later years).

Source: Author's calculations based on VARHS 2008-2014.

In Figure 13, I turn to the land rental market and consider the share of tenants who are relatives of their landlord. This analysis is conducted at the land plot level. About 8 per cent of the plots owned by households are rented out. For the plots rented out, the figure shows the share with a tenant who is a relative of the landlord. The figure distinguishes between rental agreements where a strictly positive rental fee was paid (in cash or kind), and arrangement where the land was lent out for free. Because the number of plots rented out is relatively small, I do not break these results up by region and income quintile. Results show that family ties are of primary importance in land rental markets. Unsurprisingly, this is especially true for plots lent out for free. About 80 per cent of such agreements are between relatives. It is more remarkable that even for genuine, rental agreements, where a rental fee is charged, more than 50 per cent of contracts are between relatives. Even more remarkably, there is no detectable decline in this share over time.

Figure 13: Share of rented plots where the tenant is a relative of the landlord



Note: This analysis is conducted at the plot level. N = 261 plots rented out, 294 plots lent out for free in 2006; 539 plots rented out and 497 plots lent out for free in 2014 (intermediate numbers of observations in 2008–12).

Source: Author's calculations based on VARHS 2006-2014.

Hence, I find no support for the hypothesis of declining reliance on family ties in economic transactions. The importance of kinship relations in rural Viet Nam appears to be remarkably robust to economic development and we may cautiously predict that the structure of economic transactions will continue to be shaped by family ties for a long time to come.

## 7 The private returns to social capital

One of the more straightforward and comprehensive ways to study the economic effects of social capital with household survey data is to model the effects of the various dimensions of social capital on household income, as in the much-cited paper by Narayan and Pritchett (1999) titled 'Cents and Sociability'. This section does that. Social capital may increase income through several different channels. First, social capital helps groups solve collective action problems, such as maintenance of irrigation systems, co-ordination of crop choice, joint marketing of agricultural output, and so on. This increases income for all group members. At the individual level, networks potentially help households get access to good jobs or to cheaper supplies of credit and labour, thereby increasing their ability to invest and to profit from their businesses. Social capital is often a source of insurance. Well-insured households are more willing to undertake risky investments, which may increase their income. Markussen and Tarp (2014) show that political capital increases the security of land property rights, which in turn is an important driver of agricultural investment and income.

Several caveats are in order. First, the model below estimates the private returns to social capital. Private returns do not necessarily equal social returns. For example, a positive return to Communist Party membership does not imply that overall economic growth could be increased by expanding membership. More likely, such an effect picks up redistribution from non-members to members (although of course the Party may also be a forum that facilitates solutions to collective action problems and thereby yield a positive, social return). On the other hand, it is difficult to imagine negative externalities to higher levels of generalized trust. Therefore, a positive, individual level effect of trust is more likely to reflect a positive, aggregate level effect

also. Second, social capital may affect household welfare through other channels than private income. First, strong social ties are a goal in themselves and not simply a means to material gain. Second, social capital may increase production of collective goods (e.g. crime prevention, public infrastructure), which is not included in measures of private income. Third, social capital may allow people to access consumption goods at lower prices than otherwise (as when neighbours share a harvest of fruit), leading to a direct effect of social capital on household consumption.

These things being said, total income is a relatively comprehensive measure of the economic success of the household and it is interesting to see how this measure depends on the different aspects of social capital.

I estimate models of the following type:

$$\ln Y_{it} = S'_{it}\beta + X'_{it}\gamma + \alpha_i + \varphi_t + \varepsilon_{it}$$

where  $Y_{it}$  is real per capita income in household  $i$  in year  $t$ .  $S$  is a vector of social and political capital measures.  $X$  is a set of control variables.  $\alpha_i$  is a household fixed effect and  $\varphi_t$  is a year-dummy.  $\varepsilon_{it}$  is an error term, allowed to be correlated within communes, the primary sampling unit of the VARHS.  $\beta$  and  $\gamma$  are vectors of parameters to be estimated. In the set of social capital measures, I include the variables discussed above: Communist Party membership, membership of MOs and other voluntary groups, the number of individuals willing to lend money in case of an emergency ('financial helpers'), and score on the trust index. Based on the findings in Markussen and Tarp (2014), Kinghan and Newman (2015), and Newman and Zhang (2015), a measure of having a household member, relative or friend who is a local government official is also included. As discussed above, this is a measure of linking social capital, or political capital.

In the set of control variables, I distinguish between exogenous variables (age, gender, schooling, and ethnicity of the household head) and potentially endogenous variables (number of working age household members—those between 15 and 65—and household assets). The set of asset variables includes, first, the amount of irrigated land. Irrigated rather than total land holdings are used because quality of land is often at least as important as quantity, and access to irrigation is a main determinant of land quality. Second, holdings of a number of non-land assets are also included (numbers of, respectively, cows, buffaloes, telephones, bicycles, motorbikes, pesticide sprayers, and cars). Assets and household size are potentially endogenous in the sense that effects of social capital on income may operate *through* these variables. For example, social capital may ease access to credit, which in turn leads to faster asset accumulation. Social capital may affect the number of working age household members by affecting the possibilities for and incentives to move out of or into the household. Therefore, these variables are omitted from most of the regressions presented below. On the other hand, these factors may also be viewed as omitted third variables that affect both social capital and income and for that reason they are included in some regressions.

One of the main difficulties of estimating the returns to social capital is that households with high and low stocks of social capital potentially differ in a number of ways that are difficult to observe. For example, households with high social capital may be more entrepreneurial, extroverted or risk-loving than other households, and this may affect both social capital and income, and generate spurious correlations between our variables of interest. In this respect, the VARHS survey is highly attractive because the panel dimension of the dataset allows us to control for such unobserved household characteristics by including household fixed effects



(household dummies) in regressions. To the extent that household characteristics do not change systematically over time, they are taken into account by household fixed effects.

Other identification issues are more difficult to solve. Most importantly, causality may in some cases run from income to social capital rather than, or in addition to, running from social capital to income. I cannot rule out that income is used as a criterion for Party membership, for example. I cannot fully resolve these issues in this context and therefore it is prudent to view regressions as ‘descriptive’ rather than ‘structural’. Results are interesting nonetheless.

The different aspects of social capital potentially affect each other in complex ways. For example, high levels of trust may increase people’s willingness to participate in social groups. On the other hand, group participation may in itself also generate trust. Therefore, it is complicated to separate the effects of different dimensions of social capital on income from each other. Our approach is to first present regressions where each social capital measure is entered alone, along with the set of exogenous control variables (Table 1) and then also estimate models where all variables are entered together (Table 2). Table 1 presents only fixed effects regression (note that bi-variate relations between social capital measures and income are shown in the figures that present results by income quintile). Table 2 presents random as well as fixed effects models. While random effects models do not take account of unobserved, fixed household characteristics, they allow us to exploit inter-household variation in social capital and other variables and may therefore also be considered interesting, especially in terms of estimating effects of variables that vary little over time, such as ethnicity of the household head. Random effects models include province dummies (not shown).

Table 1: Social capital and income, simple models

	Dependent variable: Real income per capita (ln)				
	FE	FE	FE	FE	FE
Party member	0.104*** (0.036)				
Official (hh member, friend or relative)		0.043** (0.019)			
Number of mass organizations			0.000 (0.011)		
Number of other voluntary groups			0.004 (0.020)		
Number of financial helpers				0.009*** (0.001)	
Trust					0.026 (0.018)
Years of schooling, hh head	0.014*** (0.005)	0.014*** (0.005)	0.015*** (0.005)	0.015*** (0.005)	0.014*** (0.005)
Age of hh head	0.025** (0.010)	0.025** (0.010)	0.026** (0.010)	0.024** (0.011)	0.025** (0.010)
Age squared/100	-0.028*** (0.009)	-0.028*** (0.009)	-0.028*** (0.009)	-0.027*** (0.009)	-0.028*** (0.009)
Female hh head	0.123** (0.054)	0.122** (0.054)	0.120** (0.054)	0.122** (0.053)	0.120** (0.054)
Kinh	0.211 (0.149)	0.209 (0.150)	0.207 (0.149)	0.199 (0.147)	0.211 (0.148)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	8,298	8,298	8,298	8,298	8,298
Number of household	2,162	2,162	2,162	2,162	2,162

Note: Standard errors adjusted for commune level clustering. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Source: Author's calculations based on VARHS 2008-2014.

Consider now the results in Table 1, where social capital measures are entered one by one (with the exception of the measures of mass organization and non-mass organization membership, which are entered together).

Table 1 shows positive and significant effects of Party membership, connections with government officials, and informal economic networks (measured by number of potential financial helpers). On the other hand, there are no significant effects of membership in MOs or other groups (in contrast with the findings on group membership in Narayan and Pritchett 1999). The effect of trust is also just insignificant (p. 143).

Next, consider Table 2, where all social capital variables are entered together. Regressions 1 and 3 include random effects, while regressions 2 and 4 are fixed effects models as in Table 1. Regressions 3 and 4 include number of working age household members and asset variables along with the control variables used in Table 1.

Communist Party membership is significant and positive in all models. The estimated return to Party membership is in the order of 10 per cent. This is consistent with the findings of a strong correlation between income and Party membership in Figure 2. Compared with the figure, the regression results allow us to rule out that the correlation is entirely driven by underlying, unobserved, fixed household characteristics that drive both income and Party membership. The results are consistent with the view that Party membership leads to higher income. They are also consistent with the view that the Party uses income as a criterion for membership. Both interpretations invite further investigations into the functioning of the Communist Party at the local level. Markussen and Quang (2015) attempt to conduct such analyses. Compared with Table 1, the effect of connections with government officials is significant in random but not in fixed effects models. This may indicate that connections with officials proxy for Party membership in Table 1. Alternatively, the effect of connections with officials may operate *through* Party membership. It is quite conceivable that personal connections with officials, or being an official oneself, eases access to Party membership.

Table 2: Social capital and income, comprehensive models

	Dependent variable: Real income per capita (ln)			
	RE	FE	RE	FE
Party member	0.256*** (0.034)	0.103*** (0.035)	0.210*** (0.033)	0.087** (0.034)
Official (hh member, friend or relative)	0.067*** (0.018)	0.028 (0.019)	0.058*** (0.018)	0.024 (0.018)
Number of MOs	-0.018* (0.010)	-0.006 (0.011)	-0.016* (0.009)	-0.002 (0.011)
Number of other voluntary groups	0.000 (0.017)	-0.005 (0.020)	-0.023 (0.017)	-0.014 (0.021)
Number of financial helpers	0.010*** (0.001)	0.009*** (0.001)	0.008*** (0.001)	0.008*** (0.001)
Trust	0.025 (0.017)	0.030* (0.018)	0.031* (0.017)	0.036** (0.018)
Years of schooling, hh head	0.040*** (0.003)	0.014*** (0.005)	0.032*** (0.003)	0.012** (0.005)
Age of hh head	0.035*** (0.006)	0.024** (0.010)	0.041*** (0.006)	0.026** (0.011)
Age squared/100	-0.030*** (0.005)	-0.026*** (0.009)	-0.036*** (0.005)	-0.029*** (0.009)
Female hh head	0.077*** (0.029)	0.123** (0.053)	0.069** (0.027)	0.122** (0.055)
Kinh	0.425*** (0.049)	0.208 (0.146)	0.331*** (0.046)	0.219 (0.145)
Irrigated land, ln(x+1)			-0.002 (0.003)	0.002 (0.004)
Number of buffaloes			-0.013 (0.013)	0.008 (0.013)
Number of cows			-0.021** (0.010)	-0.006 (0.015)
Number of telephones			0.089*** (0.009)	0.055*** (0.009)
Number of motorcycles			0.129*** (0.018)	0.066*** (0.015)
Number of bicycles			-0.014 (0.009)	-0.006 (0.005)
Number of pesticide sprayers			0.002 (0.016)	0.022 (0.018)
Number of cars			0.348*** (0.070)	0.290*** (0.076)
Working age hh members, ln			-0.280*** (0.029)	-0.238*** (0.036)
Year fixed effects	Yes	Yes	Yes	Yes
Observations	8,298	8,298	8,298	8,298
Number of household	2,162	2,162	2,162	2,162

Note: Province dummies included in random effects regressions. Standard errors adjusted for commune level clustering. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Source: Author's calculations based on VARHS 2008-2014.

There are no significant, positive effects of mass organization membership or of membership in other voluntary groups (in fact, the effect of mass organization membership is weakly significantly negative in random effects models). This means that there is no apparent, private economic return to activities in these groups. This does not rule out that group membership affects other aspects of household welfare, or that there is a positive, social return to group

activities. For example, groups may produce public goods (such as provision of information about agricultural production techniques) that benefit members and non-members alike. To test for such effects, commune-level analyses may be useful.

The effect of informal, economic networks (number of financial helpers) remains positive in all models. One interpretation is that individuals who may provide emergency funding are also useful in other types of economic transactions, for example, as trading partners or as providers of credit for investment purposes or working capital.

The trust variable is now significant in three out of four models, including both fixed effects models. High-trust households are estimated to earn about 3 per cent higher income per capita than other households. This is a moderate effect, but it is remarkable nonetheless because it is reasonable to expect that the social returns to trust are higher than the private returns (a household may benefit from being trusting because trust induces it to engage in profitable but risky transactions. However, the partners of these transactions also benefit, leading to a positive externality).

Overall, results are consistent with hypotheses of positive, private returns to bridging social capital (trust), bonding social capital (financial helpers are most often relatives of the respondent) and political capital (Party membership and connections with officials). This supports the notion that social networks and attitudes have important, economic effects. These factors cannot be ignored if we seek a comprehensive understanding of the factors behind household welfare and economic development.

I briefly consider the effects of control variables. All models estimate a significant, positive return to schooling. Note that in fixed effects models, variation in schooling of the household head is mostly driven by changes in the identity of the head. This is even more so for the gender, age, and ethnicity variables. Random effects estimates may therefore be equally or more interesting than fixed effects estimates for these variables. The estimated return to an additional year of schooling is 3–4 per cent in random effects models and about 1.4 per cent in fixed effects models. As expected, the effect of age is inversely U-shaped in all models. In the random effects model, the peak is 57–58 years. The effect of female household-headship is significantly positive in all models, which is somewhat surprising. The explanation may be that the most common reason for women being household heads is widowhood. The death of a husband leads to a drop in the denominator of the ‘income per capita’ variable. If the husband was old or sick, he may not have contributed strongly to income generation in recent years, and the corresponding drop in the numerator resulting from his death is perhaps not very large.

Ethnicity of the household head varies very little over time and it is therefore not surprising that the effect of being Kinh is insignificant in fixed effects models. In random effects models, there is a strong (33–43 per cent) and highly significant, positive effect of belonging to the ethnic majority. Since the random effects models include province fixed effects, this effect is not driven by regional differences. It starkly highlights the disadvantaged, economic position of ethnic minorities. Among the asset variables, it is perhaps surprising that land holdings are not significant (the same is true if total, rather than irrigated, land holdings are entered). One plausible interpretation is that there are now a number of other viable livelihood strategies than agriculture, even in rural areas and that focusing on wage labour or non-farm enterprises is often at least as profitable as farming (cf. Ravallion and van de Walle 2008). Among non-land assets, only holdings of motorcycles and telephones are significant. These variables are potentially endogenous and estimates should not be regarded as causal. The effect of the number of working age household members is negative. This implies diminishing, marginal return to labour

(the dependent variable being per capita income) and indicates the presence of frictions in the labour market.<sup>3</sup>

## 8 Conclusions

This paper has documented the evolution of various aspects of social capital over time and the distribution of social capital across regions and socio-economic groups. It has also explored the private, economic returns to social capital. Results reveal a very strong correlation between Communist Party membership and household income. Party membership is more common in the North than in other regions. Membership of MOs is less common in the South than in the North but there is no income gradient in mass organization memberships. MOs are much more widespread than other voluntary groups, but non-MOs are growing faster than MOs. This development is driven primarily by the growth of groups for the elderly. A moderate increase in generalized trust was observed between 2008 and 2014. This indicates a strengthening of ‘bridging’ social capital in Viet Nam, which is an important prerequisite for continued, economic development. While bridging social capital may be growing, ‘bonding’ social capital also continues to play an important role. In particular, family ties play a very strong role in economic transactions such as emergency lending and land rentals. There are no signs that reliance on family ties in economic transactions is declining over time.

Income regressions reveal positive effects of political capital, measured by Communist Party membership and connections with government officials. This is consistent with the view that patronage relations are important in Vietnamese politics and highlights the importance of increasing the accountability of political elites (cf. Appold and Phong 2001; Gillespie 2002; Gainsborough 2007; Markussen and Tarp 2014). There are also positive effects of informal networks and of generalized trust, indicating the importance of, respectively, bonding and bridging social capital. On the other hand, membership of MOs and other voluntary social groups has no effect on household income. This does not rule out that there is a positive, social (community level) economic return to activities in these groups, or that groups have positive effects on other aspects of household welfare than income.

Future studies should, for example, take further steps to identify the causal effects of political capital on income, estimate social as well as private returns to social capital, and further investigate the role of family networks in the Vietnamese economy.

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<sup>3</sup> With perfect labour markets, people can always find work at the going wage rate, implying constant returns. On the other hand, if workers are to some extent constrained to working on family farms or in other family businesses, diminishing returns are expected.

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