

L E C T U R E

by

Mr. Charles A. Mann

Counselor of Embassy
for Economic Affairs
of the Embassy of the
United States of America
and Director of the
USAID Mission to Laos

at the

Royal Institute of
Law and Administration

Vientiane, May 8, 1972

The National Economy -- and the Future

I consider it a signal honor to have been invited to participate in your seminar today. Further, I anticipate a certain amount of pleasure as well, during the period reserved for discussion, in Montaigne's phrase, in "honing and sharpening my wits against those of others." (de froter et limer la cervelle contre celle d'autrui).

It is always useful, in such conversations, for the conversing parties to be introduced. Mr. Tenh has graciously performed such an introduction, but I request your indulgence to pursue it somewhat further. I should like to speak to you today, not as a member of the diplomatic corps (although I have of course a certain pride in that connection), but rather as a person who has devoted twenty-seven years of his life to assisting the economic growth of developing countries, twenty-three of those years in Asia.

But that is only half the introduction. In talking with you today, I should like to think of you, not as students of the Royal Institute of Law and Administration (a connection in which you should have a certain pride) but rather as the future lawyers, administrators, economists, and leaders you will become.

I ask you now to transport yourselves for an hour from this academic auditorium to the world outside these walls, a world peopled with men and women pursuing their daily tasks: working, farming, buying, selling,

traveling, learning and teaching, leading and following. I ask you to look at your country , at its mountains and plains, at its farmers and its city-dwellers, at its leaders and followers with an observant and objective eye, while asking yourself these three questions:

What is the real situation of my country today?

How can I expect it to change during the next few short years I remain a student?

What responsibilities shall I face when I assume my place as a leader in my country's society?

In our excursion into this real world of Laos, I hope you will permit me to be as objective and realistic as I have asked you to be.

First, what is the real situation of Laos today? I would be presumptuous to attempt to comment more succinctly or eloquently than did his Highness the Prime Minister in his address on the occasion of the New Year. Permit me to recall to you a few of his phrases.

" The New Year begins at a time of great battles on our soil and in other parts of the Indochinese peninsula, which spell out the purpose of the common front (Front Commun) to show its force, gain territory and, in short, as it has again announced, to continue the struggle until the ultimate victory. Of course as always, it is North Vietnam which bears the heaviest responsibility for committing aggression against its neighbors. "

"The offensive is being resisted --- and well. We are inflicting stiff blows on the enemy. In the PDJ, where for years we have seen the same positions taken and retaken, our aviation is striking with all its strength to help our ground troops. The assailants have already suffered considerable losses. They will suffer more if they continue. Long Cheng will be defended at all cost. This I promise you."

"To the evils of war inevitably are added budgetary and economic difficulties. I ask: What country with 700,000 displaced persons out of 3 million inhabitants, with half its territory occupied by subversive guerrillas and troops of a foreign aggressor; what country could hope to have a balanced budget and a flourishing economy? We are living, by a miracle, from day to day, thanks to the understanding of friendly countries which support us, advise us, and give us the necessary foreign exchange for our importations and for state expenses. Without this support it would be the end. In other words, it is the duty of everyone, and most of all, of the public services and the leaders to follow the regimen of an honest and genuine austerity."

"I have promised the countries who generously subscribe to FEOF that the most energetic efforts will be undertaken to reorganize the (financial) situation. I ask the cooperation of

all since on our discipline will depend monetary recovery, the cost of living and victory in the struggle against speculators; in short, the state of our (public) finances and ultimately that of family budgets. This struggle is as important as that of our soldiers at the front. Do not do less than they in your civic and patriotic duty. This would be to betray them."

"May this New Year be for all an occasion of meditation according to our Euddhist way, that is, in compassion, love, and renunciation of frivolity out of respect for those who have fallen in our defense. I wish you a good year once again. Keep hope in your hearts. Long live the Kingdom."

To these words I can add little. But as a person who must deal daily with facts and figures, I should like to present you with a few statistics which in a sense add a quantitative dimension to the remarks of His Highness:

70,000 soldiers of a hostile foreign army now occupy Lao soil;

25,000,000 kip are spent each day by your government merely to restrain the invader and to regain some of your native soil;

almost 1,000,000 dollars are spent each day by my government to support this defense of the Kingdom;

and 100,000 loyal subjects of this Kingdom daily risk their lives to defend their country;

This is the primary determinant of your country's economic situation. These are facts we cannot ignore in any examination of the present, or in any projection of the future.

This state of war, as the Prime Minister indicated, carries with it other problems of an economic and fiscal character. A few additional facts will serve to illustrate this.

Perhaps the most critical factor, of which much has been said in recent days, is the dependence of Laos on goods which it does not produce, and which it must buy from foreign countries with foreign exchange, which it has only limited means of earning. It is understandable that such goods as fuels, steel products, machines, automobiles, and the like, all of which demand natural resources and sophisticated manufacturing processes, should be required by a developing country such as Laos. But the fact that Laos also imports each year from eight to ten million dollars worth of foodstuffs such as rice, vegetables, and livestock which it could produce domestically, is considerably more difficult to explain. But these are the facts, and merely wishing they would change will not change them.

The fiscal picture is no brighter. The Royal Lao Government, in spite of serious and sustained efforts over the last years, has been faced with a widening gap between what it earns (receipts), and what it spends.

These are the facts:

In 1969, the government earned	7.1 billion kip
It spent	16.9 billion kip
Deficit	9.8 billion kip
In 1970	It earned 8.2 billion kip
It spent	18.2 billion kip
Deficit	10 billion kip
In 1971	It earned 7.0 billion kip
It spent	19 billion kip
Deficit	12 billion kip

In brief, the financial position of the government over the past three years has become worse each year. These are facts. Wishing will not change them.

At the same time, the armed forces of the enemy have done all they can to destroy resources of the kingdom. To take only one part of these losses, i. e., resources with which the United States assisted to make available:

In 1970, damage of \$1,060,700 value:

Thirty-one schools, one hospital at Sam Thong, trucks, tractors, generators, medical supplies, school supplies, and eighteen bridges destroyed or damaged.

In 1971, damage of \$407,000 value:

One hospital with equipment and supplies (Paksong)
Ambulances, trucks, bulldozers, and 16 bridges.

Thus far in 1972: \$239,000: One hospital, 56 schools, 12 bridges, vehicles, radios and the like.

These are only a few facts, but they exemplify the gravity of the situation. His Highness mentioned the vast numbers of persons who are now or have been displaced from their homes by reason of the North Vietnamese armed invasion. On May 5, 1972, 231,904 persons in Laos were fully dependent on the Royal Lao Government for the basic necessities of life, especially food and medical care; 28,808 were partially dependent, for a total burden of 260,712, or about ten per cent of the total population. Consider the implications: 260,000 persons who do not contribute to the economy, but actually are a charge against it. Add 100,000 men under arms, whose duties as defenders of the Kingdom do not permit them to grow the rice, raise the livestock, plant the vegetables, or fell and saw the trees on which the most basic part of this country's economy depends.

I have asked you to look with me at the facts of the situation with an objective eye and with intellectual realism. Thus far we have seen only the dark side of the picture. We have faced it honestly and we have perceived facts. Let us look at the rest of the picture as honestly and objectively.

First, as your Prime Minister promised you, Long Cheng has

not fallen before the savage and sustained attacks of the enemy. The road to Luang Prabang, despite the best efforts of the enemy, is again open. In the north, early rains have turned the enemy's roads to mud, and the loyal defenders of the Kingdom have destroyed many of his tanks and his cannon. In short, your armed forces with the help of your country's friends, are doing their job well.

On the political side, you and your compatriots conducted free and democratic elections of a new National Assembly; elections which the enemy tried to disrupt by terrorism, kidnapping, artillery, and assassination. But your new Assembly begins its first regular session next Thursday.

On the financial and fiscal scene, you are all aware, I am sure, of the courageous and drastic measures taken by your government to rectify the economic situation. In November, the government devalued the national currency by 20 percent, thus increasing the power of its available foreign exchange resources to assure the stability of the kip, and thus providing to the farmer and the domestic producer greater financial incentive to produce more of the essential goods needed by the economy. At the same time, recognizing the gravity of the economic situation, the government moved to increase customs taxes on non-essential imports and luxuries, as well as on foreign goods which compete with those which are or can be produced locally. Again, these measures

showed the realistic and serious recognition by the government that only discipline and sacrifice could redress its fiscal and economic imbalances and promote the increased levels of domestic production to set the Kingdom, even under the harsh conditions of war, on the right path toward eventual economic independence.

Unfortunately, some elements of the business community gave less than full cooperation to these initiatives of the government. Deliberate speculation, money manipulation, and excessive demands on the foreign exchange available to the government obliged the institution of further measures to inhibit these wasteful and damaging commercial and financial actions. Again the government moved promptly and decisively to:

assure that demands for foreign exchange were made by legitimate and licenced business for legitimate purposes...

assure that those who benefit by conducting business in the Kingdom have paid their just taxes to the Kingdom.

assure that all goods entering the Kingdom are subjected to the taxes legally due the kingdom

assure that the vendors of essential foodstuffs from neighboring areas in Thailand had access to the necessary Thai currency to continue to furnish the needs of Veintiane and to earn a modest and legitimate profit

assure that fraud and dishonesty in demands for foreign exchange were not allowed to go unchallenged.

It is obvious that these measures, while they are still being modified and adjusted in accordance with experience, have had some of the desired results. The collection of customs duties has markedly improved. Prices of agricultural commodities have risen and while this results in more of the consumer's budget going for food, it also gives greater incentive to the Lao producer to grow food for the Lao market. But in order for these measures to succeed, all good citizens and residents of Laos must cooperate. This fact is very well expressed in the communique of 5 May of the Ministry of Economy and Finance, which with your indulgence, I should like to quote:

"By reason of the economic and financial difficulties presently experienced by our country, the efforts of all to understand and to cooperate are indispensable. Recognition of present realities constitutes an essential part of the effort to put the economic condition of the Kingdom in order."

"It is, therefore, requested of all fellow-citizens, civil servants, soldiers, farmers and workers to tighten their belts. Let us save our foreign exchange by reducing importation of non-essential products to the minimum and by giving priority to the consumption of local products."

"The planting of family gardens, the establishment of commercial truck gardens, the planting of fruit trees and above all, the raising of poultry and livestock, are especially recommended. The Department of National Economy stands ready to give its assistance in this regard. Laos must help itself, whatever the situation in which we find ourselves. It is only by this route that our country can turn itself toward economic independence in the years to come."

I referred to the actions of the enemy in destroying bridges, schools, hospitals and other resources of the Kingdom. But a look at the facts readily demonstrates that your government with the help of its friends can build and rebuild more quickly than the enemy can destroy. Again, let us look at facts. Since July 1 of last year:

- 185 kilometers of rural roads have been built and 55 kilometers improved.
- 3 new bridges have been rebuilt in addition to repair or replacement of most of those destroyed by enemy action.
- 1900 meters of new runway have been added to national airport facilities.
- 6 flood control dikes totalling 2.7 kilometers in length have been completed and 3 more, totalling 10.2 kilometers in length, repaired or improved.
- 27 irrigation systems, with 20 kilometers of canals have been brought into use.
- About 1,000 hectares of land in the Vientiane Plain alone have been cleared for planting of paddy rice by refugees.
- 2 fish culture stations have been brought into production and 8 more improved.
- 103 training programs have been held for farmers to increase efficiency of agricultural production.
- 261 new elementary schools opened.
- 87 wells have been drilled in rural areas.

-3 new markets and a new slaughterhouse opened.

I need hardly mention such major undertakings as the improvement of the Vientiane, Luang Prabang, Savannakhet, Fakse and Faksane airports, the completion of the Nam Ngum Hydroelectric Dam, the completion of the new Lao-German Technical School, improvements in the national telecommunications system, the completion of construction of the 3,000 hectare Nam Tan Irrigation Project, and other major projects of which I am sure as students and persons who will soon assume positions of responsibility you have kept yourselves fully informed.

Having explored together the present situation, both the good and the bad, let us now examine the second question, that of the next few years during which you will complete your studies, in short, the immediate future.

Predictions of the future, especially of the near future, are most difficult to make. They are particularly difficult to make at this point in time, when the outcome of the invasion of South Vietnam by the forces of Hanoi is unknown; when grave problems still beset the world monetary system; and when the relationships among three great world powers appear to be in the process of reexamination. All of these will have a great effect on the future of this Kingdom; but none of them are to any great degree subject to the control of those of us who live here in this Kingdom.

Let us, therefore, turn our attention to those matters about which something can be done here and now. First, it is clear, I think, that certain things must be done if a desirable future is to be achieved. First and foremost, the Kingdom must continue to be defended against the invader

until exhaustion of his resources forces him to withdraw. So long as he continues to press his attacks each year, the difficulties engendered by the war will be with us: many men under arms, many refugees requiring assistance, and many resources of the Kingdom applied to its defense which could otherwise be applied to its economic development. All these problems could, of course, be quickly eliminated if the Neo Lao Hak Sat would accept, as their patriotic responsibility, to rejoin the Government of National Union, as they have been repeatedly invited to do by His Highness the Prime Minister since 1962.

At the same time, whether the war continues or whether peace comes, the country must adjust its economic and fiscal policies and its standard of living to fit the resources available. It is here that I must ask you to be as coldly realistic and objective as possible. In the bluntest terms, the trend of annual increases in the budgetary deficit must be reversed, if the foreign exchange available to your government is to be sufficient to insure economic stability. These are not matters of conjecture, but very simple questions of mathematics. When the amount of kip spent by the government is increasingly greater than the amount it withdraws from circulation in the form of taxes, and when the country must buy much of what it needs from foreign countries, the amount of goods which the kip will buy becomes smaller and smaller. On the other hand, when the difference between the amount spent and the amount earned becomes smaller, then the kip becomes stronger and buys more.

While I have stated the problem very simply, I have expressed the inescapable facts we all must face. From this very simple expose, you can draw the equally inescapable corollary. To reduce the amount of kip in circulation in relation to the foreign exchange resources available to assure its value, there are only a few courses open for consideration:

- Reduction of government expenditures
- Increase in government revenues
- Increase in foreign exchange available
- Decrease in the demand for foreign exchange
- Withdrawal of kip from circulation by other means, principally savings and investment

Let us examine these in turn. First, it is obvious that the government's efforts to restrain expenditures will have some effect. But what can be done in this respect has its limitations. Defense expenditures, nearly half the budget, must be made since the overwhelming proportion of that part of the budget is soldiers' pay. Of the civil budget, somewhat smaller but still predominant fraction is for payment of salaries, pensions, and other fixed costs. Even the government must pay for its water and electricity. From this it should be obvious that even with the most prudent and austere management of governmental expenditures, the solution of the problem is not to be found in this course of action.

Increase in revenue means very simply: collecting more taxes. This is a process which is always regarded with a certain distaste, both by the government, which must collect the taxes from its citizens, and by the

citizens who must pay them, even though he realizes that in return for taxes, he is defended by his country's army, protected by its police, educated by its teachers, given medical care in its hospitals, transported on its roads, bridges and ferries, and so on. What the taxpayer does not realize is that by collection of more taxes, the government strengthens the value of the money he earns and assures the population as a whole a better standard of living.

There may be some comfort to you in the fact that this problem is not unique to Laos. Every country, whether it be advanced and industrialized or an agricultural country in the full process of economic development, faces the problem of taxation, and of the development of effective and equitable tax systems. I must again be forthright in saying that a great deal remains to be done in Laos to achieve such a system. Although much progress has been made since independence eighteen years ago, years marked by an almost constant state of war, much remains to be made. For while incomes are taxed, and various taxes are levied on business transactions, and in licenses, fees, and the like, the greater bulk of tax revenues continues to come from customs duties. And, while the last months have already demonstrated that revenues from this source can be substantially increased by more rigorous collection of taxes due, there is an automatic limitation on this source of revenue corresponding to the requirements for imported goods and the availability of foreign exchange to pay for them. One of the areas, then, to be developed, is that of more citizens participating more fully in the tax burden of the

Kingdom. Taxes on property and real estate are minimal, and considerably out of relation to the current value of the kip. Collection of taxes in the provinces is considerably below the levels warranted by the population and the volume of business transactions. The majority of the population of Laos pay no taxes at all, yet nearly all the citizens of Laos receive the benefits of governmental services in some form.

It should be clear from the foregoing that in the years to come, the call for austerity, self-discipline, and civic cooperation must continue to be made, and that it is only the citizens of Laos, in the final analysis, who can provide the basis for sound fiscal and economic policies, by sharing honestly and equitably in the payment of the taxes necessary to its support.

In speaking of increases of foreign exchange availabilities, I must again be frank, and you must be realistic. At present, Laos earns considerably less than ten per cent of the foreign exchange it requires, chiefly from the sale of lumber, tin and assorted raw materials. While there is now a potential for sale of hydroelectric power from the Nam Ngum Dam, it will be several years before this provides any substantial foreign exchange income. Nor, in the short run, is there any prospect of developing any new significant source of foreign exchange. Laos is a net importer of agricultural commodities, which means that the countries from which it buys have exportable surpluses of these commodities. There has been a great deal said about mineral deposits, but at present

it is not even possible to conduct the necessary surveys to determine their profitability. Here I would caution you especially not to substitute future uncertain hopes for present realities. For every oil-rich Libya, there are a dozen Ethiopias, who prospect for years in vain to find it. In brief, since the prospects for increasing foreign exchange earnings is small, and since it is friendly countries who make up the balance of the requirement for foreign exchange (and who can scarcely be expected to bear a constantly increasing burden) the promise of this course of action is, for the immediate future, not great.

On the other hand, reduction in the demand for foreign exchange is a considerably more promising line of action. At the outset of my talk, I mentioned the fact that Laos imports 8-10 million dollars worth of agricultural products which could be produced in Laos. As we have likewise seen, your government, in spite of strong political pressures not to do so, has created conditions favorable to the substitution of domestic production for this foreign exchange drain. This is a course of action which promises great results, since it strikes at the heart of the problem: the relation of foreign exchange demand to foreign exchange available to meet it. Here we speak of such homely and real actions as growing more rice where markets demand it; raising more swine, buffalo, and cattle, where markets exist for them; and growing cabbages, tomatoes, fruits and vegetables all year long in quantities sufficient to meet the demand of markets; improving the quality and quantity of local tobacco; raising corn and feed crops to feed swine; growing more fish in fishponds for a year-round supply

of wholesome protein--at no cost in foreign exchange. This, in short, is one area in which the ordinary Lao, by his own effort in doing something he knows very well how to do, can relieve his country of up to one fourth of its present foreign exchange demand.

And there are other ways to attack this problem. The government has already shown one, by raising duties on products bought from foreign countries. The process is simple: consume fewer foreign products. In simplest terms, every country, at one time or another, finds that it must live within its means. Here I can cite a telling example, that of the United States of America, which, when it discovered last year that for the first time in the twentieth century it was buying more than it could sell, took immediate and draconian steps to bring about a more realistic relationship between its national currency and that of other countries, and instituted procedures, not very popular with some of its trading partners, to make domestically produced goods more competitive with foreign imports. It froze wages and prices, and then instituted price and wage controls. These are strict measures, but they are at the same time actions a responsible people and a responsible government must take, just as your people and your government did in November and again in April.

Finally, a very positive way to curb inflation and to ease pressure of an inflated money supply on limited resources, is the attraction of money into savings and investments. Countries such as Korea, and more recently, Vietnam, have made substantial gains in the health of their economies by establishing higher interest rate policies on savings, thus encouraging

their people to save rather than to spend their money, and channeling money into productive and developmental investment rather than into the consumption of foreign goods. (I need hardly remind you that these two countries, too, have had their problems with war and invasion.) While this is a somewhat longer-range measure, and one requiring perhaps more sophisticated techniques than growing more food, it is one in which only the barest beginnings have been made. In brief, Laos is at present served by only the most rudimentary of banking services, and the credit system is as yet in overwhelming degree in the traditional money-lender stage. The creation of a Development Bank, the initiatives of the Agriculture Development Organization to develop the rudiments of agricultural credit, and the formation of the first credit union this month, all these are good, but small beginnings. I hope that this is an area in which a number of you may one day be involved, since it is an indispensable first step in the eventual levels of economic development you all, I am sure, wish to help achieve.

As I said at the outset, predictions are dangerous, and short-range predictions more dangerous than long-range ones, because error is sooner found out. But I shall risk such a prediction:

- If all the people of Laos, each according to his means and in just proportion to the benefits he draws from his country's economy, accept their full responsibilities as citizens, to include bearing their just share of the tax burden of their country;
- If the commercial interests and business community, to include especially the larger interests here in the capital, accept the necessity and inevitability of cooperating with the economic and fiscal policies of the government for the good of their country and of their compatriots;

- If those who have the means to do so set to work to bring an end to the need to import foodstuffs and any other products which can be produced locally;
- If every Lao citizen accepts the necessity to "tighten the belt" and help Laos to live within its means;
- If the government persists in its policies of fiscal restraint, vigorous revenue collection, control of speculators and inhibition of capital flight;
- If serious effort is given to the development of means to encourage savings, provide investment credit at reasonable rates and in short to develop a banking system more responsive to the needs of a developing country; and
- If, as I firmly predict will come to pass, your government, under the wise leadership of His Highness Prime Minister Souvanna Phouma, and with the sage counsels and staunch support of the Minister of Economy and Finance and Delegate of National Defense Chao Sisouk na Champassak, succeeds in guiding your country through these troubled times of war, invasion, subversion, and economic adjustment by their courageous and steadfast will to do what is right for Laos, regardless of any pressures that may be put upon them, I can answer the third question with which we began, as follows:

When you have completed your days as a student, and when you are wise enough and experienced enough to accept the role of responsibility in your country, those who give it to you will, as a result of the leadership which Laos enjoys today, put into your hands a strong and independent nation, free of the presence of the invader; a healthy and more fully self-sufficient economy; a truly democratic government; in short, a country which will be far stronger, sounder, and more closely unified than it was when they accepted the responsibilities of government.

And at that moment, gentlemen, what will you do?

The best advice has been given: "Keep hope in your hearts."