

OCCole

FUTURE REVENUE NEEDS AND RESOURCES

The existing governmental revenue system in Vietnam was inadequate to meet expenditure needs at all levels of government in 1956 as demonstrated in Chapter III. Revenues (excluding foreign aid) in that year equalled only about half of total expenditures. The autonomous, prefectoral and village budgets were more nearly in balance, but large deficits in the national and provincial budgets required nearly 8 billion piastres of budgetary support aid to remove their inflationary potential.

These figures from the past do not, however, provide a suitable basis for considering the future development of the revenue system. For that it is necessary to estimate the potential changes in national income, expenditures of different levels of government, and expansion of existing revenue sources. The following discussion will attempt to do this and to consider the questions of foreign aid and taxable capacity. Also the proposals for improving the national revenues will be reviewed. This will prepare the way for considering in the following chapters the problems of developing provincial and local revenues to meet expected needs.

The year 1961 will be used as the basis for projections because it is not so distant as to permit sizeable changes, and the data from 1956 plus budgetary data for subsequent years may permit relatively accurate estimates.

National Product

In 1955, the gross domestic product of Vietnam was 72 billion piastres and by 1956 had probably risen to some 75 billion on the basis of 1955 prices. It is estimated that between 1956 and 1961 real gross domestic product will increase by some 15 to 20 billion piastres (or approximately

20 to 25 percent) giving a gross domestic product in 1955 prices of between 90 and 95 billion piastres by 1961.¹ If the relative price stability, which was achieved in the later part of 1956 and 1957,² can be maintained in the coming years, the product estimate for 1961 would also be valid in current prices. However, if prices again turned upward, the estimate would have to be revised accordingly.

Government Expenditure and Foreign Aid

In 1956, the total expenditure of government amounted to nearly 24 percent of gross domestic product. It seems likely that approximately this same relationship will continue in the future although there is likely to be some change in the relative importance of different types of expenditure. Also such a rate of expenditure undoubtedly will still have to be supported in part by foreign aid or inflationary deficits in 1961, i.e. revenues will not be equal to expenditures by that time.

It is here assumed that the various levels of government will be called upon to expand their general services and bear a large share of the expenditure for economic development, while maintaining somewhat reduced, but still sizeable military and security forces. It is further assumed that the United States will continue to provide necessary budgetary support, but it is to be hoped that the magnitude of this aid will diminish and its composition change by 1961.

The budgetary support aid, which currently consists mainly of imported consumer goods, has been criticized on various grounds. For

¹ This is a somewhat smaller increase than was envisaged by Lindholm, "Analysis of Vietnam's Tax System and Recommendations," Part I, P.7. He suggested that gross national product would be 75 billion piastres in 1955, 80 billion in 1956 and would grow at 5 percent annually thereafter, giving a figure of 102 billion by 1961. His 1955 figure was 3 billion higher than the estimates of the National Bank (see p. above) and his assumed rate of growth is here considered too optimistic.

² Cf. Economic Survey of Asia and the Far East, 1957, p. 241.

example, the Economic Commission for Asia and the Far East (ECAFE) suggests that "Reliance on foreign aid as a balancing factor between government receipts and expenditures entails considerable hazards."¹ It notes that "the inflow of large amounts of goods provided under foreign aid which lessens the need to earn foreign exchange" has reduced the emphasis on export crops and retarded the achievement of a self-sufficient economy.² Also it mentions "the direct or indirect competition to local manufacturers by the relatively large commercial import programme maintained to provide the Government with local currency under the foreign aid programme."³ It concludes that these hazards "might be avoided if there was a reduction in defence and reconstruction outlays and the tax system were made more productive and efficient."⁴

Other critics have misunderstood the reasons for the present type of program.⁵ Some have suggested that it is primarily an outlet for surplus American production (which is true for some agricultural products), or that it sought to establish new markets for American exports.

1

Economic Survey of Asia and the Far East, 1957, p. 176.

2

Ibid, p. 170.

3

Ibid. p. 171. Much the same argument is presented in an article entitled, "Import Less, Produce More," in The Times of Viet Nam, Vol. III, No. 6, February 8, 1956, p. 1, in which it is stated, "a surplus of imports ruins the economy of the country and kills the budding native effort at economic independence in the egg."

4

Ibid, p. 176.

5

For example, Bernard Fall, "Will South Vietnam Be Next," The Nation, Vol. ___, No. ___, May 31, 1958, p. ___, states: "It may be that despite their temporary usefulness as pump-primers, these (commercial import) programs, which have become the favored American form of foreign aid, in the long run create more problems than they solve." The one thing commercial import programs are not intended to do is prime pumps.

To understand the role of foreign budgetary support aid, it is essential to realize the alternatives with which Vietnam was and is faced. On the one hand, to the extent that governmental expenditures for services, security, refugee resettlement and economic development had been, or are reduced, the deficits could have been lessened or eliminated. Conversely, larger tax collections would reduce the deficits; or deficits could be met through inflationary borrowing, or through the aid programs. If the expenditures are considered essential, if taxes are not increased and if inflation is to be avoided, then the outside assistance is the only remaining choice. The volume and composition of such counter-inflationary assistance should be adjusted to the inflationary pressures and patterns of demand which exist within the country.¹ The problems of such adjustments are aggravated, however, because the heavy inflow of new imported goods is likely to increase inflationary pressure by encouraging expanded consumption, and to cause marked shifts in demand.

If the foreign aid program is to make its maximum contribution to economic development in Vietnam and its various harmful effects are to be avoided, it should be used mainly to finance the importation of capital goods.² Such is not currently the case. Instead, much of the program

¹ The flow of imported goods in Vietnam has not been well articulated with the volume of excess demand. In 1955, and most of 1956, there were serious shortages of some goods, while in 1957 large surpluses of cereals and some other commodities occurred. Also, it may be noted that hoarding, dishoarding and various leakages have caused and will continue to cause shifts in the total demand for goods which will not necessarily coincide with the size of current budgetary deficits. The tendency has been to try to relate the flow of foreign aid imports to the current deficits by means of the "counterpart fund". This will not result in price stability at times when cash balances are being either increased or decreased.

² Thus the foreign aid would be used only to meet the balance of payments pressures arising from imports of needed foreign capital equipment. The necessary savings for internal capital expenditure would come from within the receiving country. Basically, this requirement is for greater

is going into the support of current consumption and the maintenance of the armed forces. This current consumption of foreign aid can only be eliminated by reducing the consumption level within the country either in absolute terms of at least as a percentage of a growing national product, and by reducing the deficits of government. Current consumption and governmental deficits can be reduced simultaneously by increased tax revenues and reduced expenditures of any or all levels of government.

Total Government Finances Under Varying Assumptions

In order to see clearly the relationship between governmental expenditures, revenues and budgetary support aid, and to point up the future revenue problem if such aid is to be reduced, it is helpful to consider a number of alternative estimates of the conditions which may prevail by 1961. Table I provides eight such estimates based on different assumptions.

Gross domestic product is assumed, in the first four cases to rise by 15 billion piastres (approximately 3 percent per year) between 1956 and 1961, and in the last four cases by 20 billion piastres (almost 5 percent per year).

domestic savings, either public or private. Nurkse has pointed out that it is easy for foreign aid to be dissipated in current consumption. Cf. Raguar Nurkse, Problems of Capital Formation in Underdeveloped Countries, (New York: Oxford University Press, 1955) p. 94. Benjamin Higgins (in an unpublished manuscript entitled "Financing Economic Development") suggests that there is no clear rationale for limiting foreign aid to the requirements for foreign exchange. He assumes, however, that the "maximum effort is already being made with respect to domestic finance" (p.6-73), in which case the foreign aid, whether in the form of capital or consumer goods, can be a contribution to capital formation. In Vietnam, however, it is believed that a "maximum effort" is not being made, and the failure to generate greater domestic savings has retarded the process of capital formation while simultaneously necessitating an import program which discourages domestic production and investment.

TABLE I

COMPARISON OF GROSS DOMESTIC PRODUCT, TOTAL GOVERNMENT
EXPENDITURES, REVENUES AND DEFICITS UNDER VARIOUS ASSUMPTIONS
(billions of piastres)

| | <u>Gross Product</u> | <u>Expenditures</u> | <u>Revenues</u> | <u>Deficit</u> |
|--------|----------------------|---------------------|-----------------|----------------|
| 1956: | 75 | 17.8 | 9.2 | 8.6 |
| 1961: | | | | |
| Case 1 | 90 | 20 | 16.5 | 3.5 |
| Case 2 | 90 | 22.5 | 16.5 | 6 |
| Case 3 | 90 | 20 | 11 | 9 |
| Case 4 | 90 | 22.5 | 11 | 11.5 |
| Case 5 | 95 | 21 | 19 | 2 |
| Case 6 | 95 | 24 | 19 | 5 |
| Case 7 | 95 | 21 | 11.5 | 9.5 |
| Case 8 | 95 | 24 | 11.5 | 12.5 |

Total government expenditures are equal to 22 percent of gross domestic product in cases 1, 3, 5 and 7, and 25 percent in cases 2, 4, 6 and 8. The former represents a slight reduction and the latter a slight increase over the ratio in 1956 of 23.7 percent.

Total government revenues in cases 3, 4, 7 and 8 are assumed to increase proportionally with gross domestic product, while in cases 1, 2, 5 and 6 they are assumed to absorb one half of the increase in gross domestic product between 1956 and 1961.

The table shows that the size of the government deficits will increase over present levels if the ratio of revenues

revenues to domestic product is not increased (cases 3, 4, 7 and 8). This holds true even if the ratio of government expenditures to total product is reduced. The deficit would be smallest in cases 5 and 1. where governmental expenditures are proportionately reduced and revenues absorb half of the increased gross product.¹

It is here proposed that the government of Vietnam should attempt to raise its revenues by this amount and to curtail expenditures. Such a program would provide greater resources for capital formation and stimulate increased production.² It would reduce dependence upon foreign aid and thereby permit the avoidance of harmful effects inherent in aid of the present volume and nature. Finally it would not result in a decline of current consumption levels, but would hold them approximately constant.

The remaining discussion assumes that such a program will be adopted and that therefore revenues, expenditures and product will approximate the following magnitudes by 1961:

| | |
|-------------------------------|---------------------|
| Gross domestic product | 92 billion piastres |
| Total government expenditures | 22 |
| Total government revenues | 16.5 |
| Total government deficit | 5.5 |

Fiscal Capacity

Governmental expenditures and revenues of the magnitude assumed above would be equal to 24 percent and 18 percent of gross domestic product. The expenditure ratio is about the same as existed in 1956, but the ratio for

¹

Allowance should be made for population increase of between 1 and 2 percent per year, which would require about half of the increase in domestic product to maintain 1956 consumption levels. If additional revenues were to absorb the other half of the increase in domestic product, consumption levels would not decline below the 1956 level.

²

See chapter VII p. — below for a discussion of the effects of taxation on work effort.

revenues would represent a doubling of that which prevailed in 1956.

Since one of the main justifications of the large American aid contributions to Vietnam has been that heavier taxation was either physically or politically unacceptable, the question must be raised as to whether such an increase in total government revenues is tolerable.

A first point, which has already been made, is that the increased revenues would not result in reduced per capita consumption and the population would therefore not be forced below the levels of subsistence. Secondly, it appears that governmental revenues in Vietnam are relatively light. The following figures comparing central government expenditures and revenues to national product and income show that only Pakistan and Korea had lower ratios of revenues to product than Vietnam, while Burma and particularly Ceylon were collecting revenues more than double the rate in Vietnam.¹

The average ratio of revenues to product for the countries on Table II is 12.5 percent. Recognizing that these figures refer to national government revenues and expenditures, the proposed increase in national government revenues for Vietnam would bring that country up to the average for these other Asian countries.²

1

The fact that Korea and Vietnam, the two countries receiving budgetary support aid, also have by far the largest deficits and except for Pakistan, the lowest rates of taxation, raises the question of whether the amount of aid is a function of the size of the deficit or vice versa. In other words, does the potential availability of such aid encourage recipient governments to increase their expenditures excessively and ignore their responsibilities for collecting more taxes. It would appear that, to some extent, this is the case.

2

The estimate for national governments revenues in 1961 is 12 billion piastres or 12.5 percent of the gross domestic product estimate. See p. 11 below.

TABLE II

NATIONAL GOVERNMENT REVENUES AND EXPENDITURES IN RELATION
TO NATIONAL PRODUCT FOR SELECTED ASIAN COUNTRIES

| <u>Country</u> | <u>Year</u> | <u>Product Measure^a</u> | <u>Percentages of Product</u> | |
|--------------------|-------------|------------------------------------|-------------------------------|-----------------|
| | | | <u>Expenditures</u> | <u>Revenues</u> |
| Burma | 1957 | GDP | 26 | 18 |
| Ceylon | 1957 | GNP | 25 | 23 |
| Taiwan | 1956 | NDP | 15 | 14 |
| India ^b | 1955 | NDP | 16 | 11 |
| Indonesia | 1955 | NI | 16 | 14 |
| Japan | 1956 | NDP | 14 | 14 |
| Korea | 1955 | GDP | 23 | 8 |
| Malaya | 1953 | GDP | 18 | 12 |
| Pakistan | 1953 | NDP | 10 | 6 |
| Philippines | 1956 | NI | 12 | 11 |
| Thailand | 1955 | GDP | 13 | 11 |
| Vietnam | 1956 | GDP | 19 | 9 |

SOURCE: Basic figures for all countries except Vietnam are from the Economic Survey of Asia and the Far East, 1957, pp.208, 214-15. Figures for Vietnam are from Table I, Chapter III, above.

NOTES: ^a Abbreviations under product measure are:

| | |
|-----|------------------------|
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| NDP | Net Domestic Product |
| NI | National Income |

^b Revenue and expenditure figures for India are for both the central and the state governments. For all other countries they are only for the central government.

Finally, it has been noted earlier that average income per capita in Vietnam is at least above the average for these same Asian countries.¹

On these grounds the proposed increases in governmental revenues do not appear either extreme or over-burdensome. The main obstacles to their achievement would appear to be administrative and political.

Revenues and Expenditures by Level of Government

The next subject for consideration is the revenues and expenditures of the different levels of government in 1961. Figures are available from the National Budget of 1958, on national government budgeted receipts and expenditures for 1957 and 1958, and these, when compared with actual accounts for 1955 and 1956, provide indications of the trends in national finances.

(Billions of Piastres)

| <u>Receipts</u> | <u>1955 (Actual)</u> | <u>1956 (Actual)</u> | <u>1957 (Budgeted)</u> | <u>1957 (Budgeted)</u> |
|-----------------|--------------------------|--------------------------|----------------------------|----------------------------|
|-----------------|--------------------------|--------------------------|----------------------------|----------------------------|

| | | | | |
|-------------------------|------|------|------------------|------|
| Regular revenues | 6.8 | 6.7 | 8.5 ^a | 8.7 |
| Economic aid | 1.0 | 1.5 | 2.1 ^a | 2.7 |
| Military support aid | 5.8 | 6.3 | 6.0 | 5.7 |
| Total National receipts | 13.6 | 14.5 | 16.6 | 17.1 |

Expenditures

| | | | | |
|-----------------------------|------|------|------------------|------------------|
| Civilian | 4.5 | 5.6 | 6.4 ^b | 6.5 ^b |
| Economic aid | 1.0 | 1.5 | 2.1 ^a | 2.7 |
| Military | 7.1 | 6.9 | 6.6 | 6.6 |
| Total national expenditures | 12.6 | 14.0 | 15.1 | 15.8 |

^a The figures for 1957 on economic aid and military support aid represent actual releases from the Counterpart Fund. The budgeted figures for these two items were 2.9 and 5.7 billion piastres respectively.

^b The budgeted national civilian expenditures for 1957 and 1958 exclude subventions for other levels of government of 1.2 and 1.3 billion piastres respectively. Most of such subsidies were not included in the actual expenditures for 1955 and 1956, but were covered by direct advances from the Treasury.

¹ The estimate for national government revenues in 1961 is 12 billion piastres of 12.5 percent of the gross domestic product estimate. See p. below.

These figures indicate that national revenues and economic aid were to be increased and military aid diminished.¹ Concurrently, civilian expenditures were being increased and military expenditures reduced.² It seems likely that these trends will be continued for the next few years.

The budgeted increase in national revenues was greater than that projected by Lindholm, and if this trend can be continued, national revenues may reach 12 billion piastres by 1961, where he had not anticipated such a level until 1963.³

Figures are not available on provincial and local budgets after 1956, but the appropriation of subsidies in the national budget of 1.2 and 1.3 billion piastres in 1957 and 1958 indicates that expenditures of the lower units of government were expected to increase. It is here assumed that total expenditures of provincial and local government will increase by about one-third between 1956 and 1961, i.e. from 2.1 to 2.8 billion piastres. The increased expenditures should go into economic development activities and additional social services and there could also be some reduction in the heavy security expenditure.

¹ Preliminary indications were that the budgeted increase in national revenues in 1957 would be realized.

² Part of the civilian expenditures in all years are for economic development projects and are in addition to those financed through economic aid.

³ Lindholm, "Analysis of Vietnam's Tax System and Recommendations," Part I, p.7 estimated national revenues of 6.6 billion piastres in 1957, 7.5 billion in 1958, 9.7 billion in 1961 and 11.7 billion in 1963. Since his estimates for 1957 and 1958 appear to be low by 2 and 1 billion piastres respectively, it is here assumed that his 1961 estimate will also prove low. Thus it is here claimed that there will be both higher revenues and a lower gross product than Lindholm anticipated. Some of the proposals for increasing provincial and local revenues, to be presented in Chapter will contain suggestions for additional national revenues which would help to raise such revenues to the 12 billion level by 1961. (see Chapter pp.)

It is assumed that provincial and local revenues will be equal to expenditures by 1961. This assumption is made for two reasons. First, the Vietnamese government may find it politically easier to increase local revenues concurrently with, or instead of national revenues.¹ Since the reduction of deficits at either level is equally beneficial, it is advisable to proceed wherever progress is easier. Secondly, by assuming that provincial and local budgets will be balanced, it is possible to focus clearly upon the magnitude of their revenue problem and consider the types of changes in the revenue system which would make this balance a reality.²

According to these estimates, the national budget will still have a deficit of 5 billion piastres in 1961 and the autonomous budgets (especially those concerned with financing and carrying out economic development projects) will have an additional half-billion piastre deficit. Foreign aid amounting to 5.5 billion is provided for, but less than this may actually be required if experience shows that there are significant leakages offsetting the inflationary impact of the deficit, or if the government can introduce successful measures for borrowing savings from the public.³

¹

Regional differences and provincialism tend to cause antagonism towards national taxes, especially when the taxes are directly collected from the taxpayers.

²

The Director of Provincial and Local Budgets has stated it is the government's intention that the provincial and local budgets "meet their own expenditures within 3 or 5 years (after 1957) without any help from the national budget." Huynh van Dao, "Local Taxes in Vietnam," p.11.

³

No consideration has been given so far to the potential needs for foreign exchange aid, i.e. the balance of payments deficit. If, however, agricultural exports can be increased and certain import-replacing types of production expanded (especially textiles, sugar and tobacco which accounted for about 30 percent of total imports in 1956) the foreign trade deficit could be considerably reduced and the aid program shifted

TABLE III

ESTIMATED EXPENDITURE OF ALL GOVERNMENTS

(billions of piastres)

| | <u>1956</u> | <u>1958</u> | <u>1961</u> |
|----------------------|-------------|-------------|-------------|
| National | | | |
| General Services | 5.4 | 6.6 | 7.5 |
| Economic Development | 1.7 | 3.4 | 4.5 |
| Military | <u>6.9</u> | <u>6.6</u> | <u>5.0</u> |
| Total | 14.0 | 16.6 | 17.0 |
| Autonomous | 1.7 | | 2.2 |
| Provincial | 1.1 | | 1.4 |
| Prefectural | .7 | | 1.0 |
| Village | <u>.3</u> | | <u>.4</u> |
| Total | 17.8 | | 22.0 |

ESTIMATED RECEIPTS OF ALL GOVERNMENTS

| | <u>1956</u> | <u>1958</u> | <u>1961</u> |
|--------------|-------------|-------------|-------------|
| National | 6.7 | 8.7 | 12 |
| Economic Aid | 1.5 | 2.7 | 3 |
| Military Aid | <u>6.3</u> | <u>5.7</u> | <u>2.5</u> |
| Total | 14.5 | 17.1 | 17.5 |
| Autonomous | 1.4 | | 1.7 |
| Provincial | .3 | | 1.4 |
| Prefectural | .5 | | 1.0 |
| Village | <u>.3</u> | | <u>.4</u> |
| Total | 17.0 | | 22.0 |

The above table presents the resulting expenditure and revenue estimates.

Approximately 6 billion piastres would be spent for economic development in 1961 assuming that some 0.7 billion of the autonomous budget expenditures and 0.8 billion of provincial and local expenditures went for that purpose in addition to the 4.5 billion piastres spent by the national government. Such a level of governmental development expenditures would equal nearly 7 percent of the national product.

Increasing National Revenues

In 1956, Lindholm proposed numerous changes in the national tax system which were designed to expand revenues and contribute to economic development. Since that time, the Vietnamese government has introduced certain tax reforms, the most important of which is the new production tax on imports and domestic manufactured goods.¹ By comparing Lindholm's proposals and the results of changes already introduced (as indicated by the 1958 budget estimates) it will be possible to observe the probable pattern of expansion of national revenues.

— Lindholm recommended the following increases in revenues by category:

strongly towards capital-goods imports. Much of the economic aid received by the national government could also consist of imported capital-goods. As suggested above, this would be a more productive use of the foreign aid, and the Vietnamese government should adopt those measures such as non-inflationary borrowing, which would make this possible.

¹ See Chapter ____ p.____, above.

² Lindholm, "Analysis of Vietnam's Tax System," Part I, p.5.

TABLE IV
EXPANSION OF NATIONAL GOVERNMENT REVENUES
PROPOSED BY LINDHOLM
(millions of piastres)

| | <u>1955</u> | <u>1958</u> | <u>1961</u> | <u>1963</u> |
|---|-------------|-------------|-------------|-------------|
| 1. Income and Death Taxes | 650 | 800 | 1,300 | 1,950 |
| 2. Real Estate Taxes | 140 | 400 | 1,400 | 2,200 |
| 3. Excise and Business Taxes other than Income | 3,454 | 4,200 | 4,700 | 5,000 |
| 4. Export and Import Duties | 1,712 | 1,700 | 1,935 | 2,100 |
| 5. Receipts from Government Enterprises and Administrative Charges. | 125 | 200 | 365 | 450 |
| Total | 6,081 | 7,300 | 9,700 | 11,700 |

It has already been suggested that national revenues may reach the 12 billion piastre level by 1961 rather than 1963,¹ and the estimates for 1963 will be considered as applying for the earlier year.

The largest increase in revenues, proposed by Lindholm, was to occur in the real estate taxes. The next largest percentage increase was in income and death taxes followed by the receipts of government enterprises, and excise and business taxes. He foresaw only a modest percentage increase in customs duties.

¹

See p. ____ above.

The relative importance of the various taxes by the end of the period was to be as follows:

| | |
|---------------------------|--------------|
| Excise and business taxes | 42.7 percent |
| Real estate taxes | 18.8 |
| Export and import duties | 18.0 |
| Income and death taxes | 16.7 |
| Receipts of enterprises | 3.8 |
| Total | 100.0 |

The following table compares Lindholm's estimates for 1958 and 1963 with revised figures on 1955 receipts and national budget estimates for 1958.¹

| | Actual for <u>1955</u> | Budgeted for <u>1958</u> | Lindholm's Estimates <u>1958</u> | Lindholm's Estimates <u>1963</u> |
|---------------------------------------|------------------------------|--------------------------------|--|--|
| Income and death taxes | 650 | 470 | 800 | 1,950 |
| Real Estate taxes | 27 | 140 | 400 | 2,200 |
| Excise and business taxes | 3,402 | 5,141 | 4,200 | 5,000 |
| Export and import duties | 1,712 | 2,003 | 1,700 | 2,100 |
| Government enterprises and service | 327 | 495 | 365 | 450 |
| Miscellaneous | 660 | 450 | -- | -- |
| Total | 6,778 | 8,695 | 7,300 | 11,700 |

It can be seen from this comparison that budgeted income tax receipts were declining instead of increasing, and, although real estate taxes were increasing, they, along with the income tax, were far below Lindholm's expectations. On the other hand, the budgeted excise taxes, customs duties and receipts of government enterprises were up sharply and were already near or above Lindholm's estimates for 1963. This is a clear demonstration of the Vietnamese government's tendency to rely on indirect taxes, especially those collected from imports, and to avoid the direct taxes.

¹, The corrections in the 1955 figures are based on Table II in chapter p. above. Lindholm's figure for real estate taxes was too high, and that for government enterprises and services, too low. His figures were based on preliminary estimates before the close of the fiscal year. Also a figure for miscellaneous receipts has been added.

One of the serious weakness of the trend toward greater reliance on import taxes is that governmental revenues become dependent upon a continuing heavy flow of imported goods, especially luxury items which are subject to higher rates of taxation. The undesirable consequences of this type and magnitude of imports has already been noted (p. above). If the Vietnamese government endeavors, as is here proposed, to reduce the level of imports and to change the mix away from luxury goods toward raw materials and capital equipment, this will result in a decline in governmental revenues which must be offset by increased taxation of internal production and income.

Since the approximate division of national revenues into various categories, as proposed by Lindholm, is here endorsed, one of the factors which will be considered in Chapter , in connection with the proposals on provincial and local revenues will be the ways in which they can contribute to increased collections of income and real estate taxes by the national government. It is therefore assumed that national revenues in 1961 will be of the following magnitude:

| | <u>Billions of Piastres</u> |
|------------------------------------|-----------------------------|
| Income taxes | 2.0 |
| Land taxes | 2.0 |
| Excises and Business taxes | 5.5 |
| Customs duties | 2.0 |
| Receipts of government enterprises | <u>0.5</u> |
| Total | 12.0 |

Per Capita Revenues and Expenditures

It was noted in Chapter IV that great disparity existed between the per capita expenditure and revenue levels of provincial government in the different regions. Some equalization of these variations would seem desirable to insure that governmental services were distributed more evenly. Also certain parts of the country are likely to be developing more rapidly and experiencing more rapid population growth than others, which will require expanded governmental services while also providing a basis for increased revenues.

It is assumed that the population of Vietnam will be approximately 13.5 million in 1961 and that the most rapid increase will occur in the High Plateau where major resettlement programs are currently being undertaken. Some increase is also likely to occur in the Southern countryside and in Saigon, but the central coast will have a relatively stable population if some of its inhabitants can be induced to migrate to more productive parts of the country.

The following population changes are anticipated between 1955 and 1961:¹

Population Distribution Estimates, 1955 and 1961

| | <u>1955</u> | <u>1961</u> |
|-------------|-------------|-------------|
| Nation | 12.3 | 13.5 |
| Provinces | 10.4 | 11.3 |
| South | 5.8 | 6.3 |
| Center | 4.1 | 4.0 |
| Plateau | .5 | 1.0 |
| Prefectures | 2.0 | 2.2 |
| Villages | 9.9 | 11.3 |

On the basis of these population estimates and the previous revenue and expenditure estimates, a comparison of per capita revenues and expenditures for various levels of government can be made.

¹ It is to be remembered that population figures for 1955 were only approximate. See p. ____ above.

PER CAPITA REVENUES AND EXPENDITURE^a FOR 1956
AND ESTIMATES FOR 1961

| | 1955 | | 1961 | |
|-------------------------------------|----------|--------------|----------|--------------|
| | Revenues | Expenditures | Revenues | Expenditures |
| Total Government ^a | 633 | 1,309 | 1,110 | 1,480 |
| National Budget | 545 | 1,138 | 900 | 1,260 |
| Provincial Government | 25 | 104 | 130 | 130 |
| Prefectural Government ^b | 266 | 352 | 450 | 450 |
| Village Government | 22 | 25 | 35 | 35 |

^a Excludes the autonomous budgets.

^b For 1956 the prefecture figures are for Saigon only, whereas for 1961 they include also Hue, Dan Nang and Dalat.

These figures show that the prefectural population will still be subject to a much heavier local tax burden in per capita terms than the rural population, due to the need for more services in the metropolitan areas. Provincial revenues require the sharpest increase, amounting to a five-fold increase in per capita amount.

It is also at the provincial level that some equalization of revenues and expenditures should occur. Expenditure levels in the South may be reduced somewhat (especially for security forces) while those in the Central and High Plateau Provinces need to be raised. Because of the higher income levels in the South than in the Center, the former region will still be able to afford somewhat more governmental services. The expansion of population in the Plateau will require more services and the potential for relatively high per capita income in that area should permit the raising of much more revenue than has been previously obtainable from the tribal population.

It is therefore suggested that the following changes in per capita provincial revenues in the three regions would be appropriate by 1961.

PER CAPITA REVENUES AND EXPENDITURES OF PROVINCES

| | 1956 | 1961 | Revenues and Expenditures |
|------------------------|----------|--------------|------------------------------|
| | Revenues | Expenditures | Expenditures |
| Southern Provinces | 34 | 169 | 140 |
| Central Provinces | 14 | 25 | 100 |
| High Plateau Provinces | 8 | 20 | 100 |

This will require a large increase in revenues in all three areas and a reduction of expenditures in the South. On the other hand the provincial governments in the Center and Plateau could expand their activities greatly, especially in economic development projects.

The total provincial revenues corresponding to these per capita levels in the three areas would be:

| | 1956 | 1961 | Revenues and Expenditures |
|------------------------|----------|--------------|------------------------------|
| | Revenues | Expenditures | Expenditures |
| Southern Provinces | 200 | 990 | 900 |
| Central Provinces | 57 | 107 | 400 |
| High Plateau Provinces | 4 | 10 | 100 |
| Total | 261 | 1,107 | 1,400 |

Again the figures for 1956 provide a basis for comparison and indicate the magnitude of the changes required to support the assumed levels of government activity by 1961.

Summary

This chapter has presented a combination of estimates and proposals. It has been proposed that the Vietnamese Government should exert strenuous efforts to reduce its budgetary deficits so that dependence upon budgetary support aid could be reduced. It has also been proposed that total government revenues should be increased sharply and expenditures for security reduced to allow room for an increase in economic development programs and some expansion of general services. Finally, it has been proposed that provincial and local budgets should be balanced by 1961 and that some equalization of the revenue burden and governmental benefits in per capita terms should occur.

The following estimates have also been made:

- a. That gross product will increase by about 23 percent between 1956 and 1961.
- b. That population will increase by about 7 percent.
- c. That total government revenues can therefore be increased by nearly 100 percent without any reduction in consumption levels.
- d. That such an expansion of revenues will permit an increase in governmental development expenditures to about 7 percent of gross product while maintaining total government expenditures to about 23 percent of gross product.

Finally, it has been suggested that the current aid program has certain harmful effects which can be avoided by reducing the governments deficit, and also that deficit reduction may be effected more readily and with economically more desirable types of taxes at the provincial and local level than at the national level. The remaining chapters will be devoted to considering what forces of revenue would be best suited to meeting the estimated needs of provincial and local government and, if possible, at the same time contribute to the expansion of national revenues.

D.C. Cole