

MEMORANDUM

TO: Members of the Taxation Policy Committee

FROM: Milton C. Taylor

SUBJECT: A Way Out of the Fiscal Dilemma

A case can be made that the most serious economic problem faced by Viet-Nam today is that the country has a budget imbalance that is so large and has become so institutionalized over the past five years that economic chaos would result if American aid were to be reduced materially. With an abrupt drop in aid, real consumption levels would fall so sharply, and the Government would have such a deficit, that the only recourse would be inflationary note issues, which would have an explosive effect on the price level. Therefore, if American aid is ever to be reduced without economic and political repercussions, it seems more than obvious that it should be a high priority for U.S. policy to strengthen the revenue resources of the Vietnamese Government.

If revenue resources are to be increased materially, however, something much more extensive must be done than has ever been attempted in the past or is being done in the present. Starting. The problem very bluntly, the basic tax laws and the administration of these laws are so inadequate that nothing short of a major thrust forward is needed if any significant change is to be brought about. Furthermore, if this is to be made, it must be done through the aegis of USOM, for the Vietnamese Government has neither the resources or the experience to carry out the type and depth of reforms needed.

What is called for is a tax reform effort that would be the equivalent of what USOM has attempted in literally scores of other areas, such as malaria control, well drilling, and the development of cooperatives. Surely, ensuring the fiscal health and political security of the Government deserves as much effort, and probably more, as these others areas of development.

More specifically, what is recommended is a "Taxation Research and Training Center." This Center would have three functions:

1. It would conduct training courses in all phases of administration, such as accounting, tax law, assessment, and collections, in order to uplift the work capacity of the whole of the personnel engaged in tax administration.

2. It would undertake special large-scale projects, which are presently beyond the capacity of the General Directorate of Taxation, such as the re-assessment of all real property in Saigon-Cholon and the technical drafting of new tax laws.

3. It would undertake continuing research in tax policy (instead of ad hoc intermittent reports) for the purpose of developing and implementing a tax system which would be equitable, productive, and conducive to economic development.

To repeat, this Center is justified on three grounds:

1. Without basic fiscal reform, the economic and political stability of the country is prejudiced.

2. Basic fiscal reform can only come about through a major thrust forward.

3. It is unlikely that this transformation will eventuate without active encouragement and participation by USOM.