

Mr. Murphy

Comm. to Reorg. Local Gov. Finances.

Dr. Wesley R. Fishel,
Chief Advisor

June 14, 1957

David C. Cole

Financial Reorganization of Local Governments.

I promised you the other day a summary of the present status of our work in preparation for the establishment of a governmental commission to consider the reorganization of local government finances.

Mr. Uong Ngoc Thach of my staff has been working with personnel of the Direction of Provincial Budgets on the compilation of receipt and expenditure statistics for the provinces, the municipalities, and the prefecture of Saigon. The final statistics will cover the results of 1956 in considerable detail, and will bring together previously unavailable data on several previous years. The statistical work is now nearing completion and Mr. Thach will soon begin preparation of a summary of his findings. (Incidentally he has established very good relations with the members of the Provincial Budget Direction.)

Mr. Bui Quang Da of the NIA Division and Mr. Hanh of the Field Administration Division have been working under Mr. Snyder's direction on the compilation of statistics on revenues and expenditures of all the major villages in the South part of Vietnam. Preliminary findings of this work will be available in one or two weeks.

Mr. Tran van Tu of this division is currently making a study of the communal land question, with particular emphasis on its relation to the village revenue problem in Central Vietnam. Through the good offices of the Field Administration Division I hope to have Mr. Tu introduced to the proper persons in the Ministry of Agrarian Reform to learn of their thinking concerning communal land and agrarian reform. I hope Mr. Tu's study of this question will be completed in about one month.

As you know I have been teaching a course in provincial and local taxation this year for members of the third-year class of the Institute who will be assigned to work in the General Direction of Taxation. I have had my lectures translated into Vietnamese and mimeographed, and hope to have them bound and distributed. I will send you a copy of the full set of lectures in the near future. For the time being I am enclosing

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a copy of my last lecture which summarizes the course and my thinking on the required or desirable changes in provincial and local revenues. I wrote this lecture with the intention of its serving as a sort of introductory document for the governmental commission which I hope will soon be established. Any comments you may have will be appreciated.

As an outgrowth of this lecture, and my previous thinking, I would like to focus my attention on the problems of agricultural taxation in the coming months. I have asked Mr. Nguyen Bich Mac, who has assisted me in my course, to reflect and study upon the problems of land taxation and prepare a paper on that subject. This will require one or two months.

These various activities are all pointed towards supplying the future governmental commission with working documents for its consideration when tackling the problems of financial re-organization. One area which we have not explored is that of assigning program and expenditure responsibilities to the different levels of government. I plan to propose to Mr. Huynh van Dao, Director of Provincial and Local Budgets that his office undertake a study of this question and prepare a document for the future commission. If he does undertake this study, between us we will have worked up most of the documentation needed for effective action by the future commission. This is why I am anxious to see some positive steps being made toward the establishment of the commission.

cc: Mr. Murphy, Mr. Snyder

Reorganization of Provincial and Local Government Finances

1. For the reasons listed below, the time seems right for undertaking a review of provincial and local government sources of funds and patterns of expenditures for the purpose of clarifying certain areas of confusion that exist currently and to spell out future lines of development for such finances.

a. At various times, Mr. Tho, the Director General of Taxation, and Mr. Nguyen Van Dao, head of the provincial and local budget section of the Budget Direction, have indicated to me that the Government is contemplating such a project.

b. Furthermore, various presidential decrees issued last year clarified the political and, to some extent, the functional characteristics of the provinces, the prefecture of Saigon, the several remaining municipalities and the villages. On the basis of these decrees, it is necessary to reassess the financial positions of these various units of government to see if they correspond with their new status and responsibilities.

c. A third reason for undertaking such a study at this time is that, under the former regional organization of the country, financial procedures of the various levels of local government differed considerably in the three regions -- the kinds of revenues received, and expenditures made by, for example, the provinces in the South, Center and PMS were quite different. Now that the regional structure has been largely eliminated and the national government is attempting to establish more direct and centralized control over local governments, it becomes increasingly desirable to develop certain uniform procedures throughout the country, and to fix the methods of reporting on and controlling financial activities.

d. Fourthly, while the various local governments have normally experienced large deficits in recent years, which required heavy subsidies from the national Treasury, local government revenues showed a sharp increase in 1956 as compared with 1955 (perhaps as much as a 50% increase on the average), while at the same time national revenues showed a slight decrease. The increase in local government revenues did not come close to eliminating the deficits, but it does suggest that with the appropriate attention, rapid progress may be made in this direction. If the expenditure responsibilities of provincial and local governments can be clearly established, and if the budgets of these governments can be brought into approximate balance, then the remaining fiscal problem will be concentrated in the national budget.

e. The fact that 1956 was a comparatively normal and peaceful year during which, for the first time in several years, all provinces and municipalities had budgets, and that the financial reports for fiscal year 1956 are now becoming available, means that it is now possible to undertake an assessment of the financial activities of most levels of local government on the basis of fact rather than speculation.

f. Finally, since I have been studying the problems of local government finances for over one year, and since I will be leaving Vietnam in approximately 5 months, there remains a limited period in which my direct services could be made available to a group studying these problems. I have written one report on the revenues in the South part of the country, and am currently writing a series of lectures on provincial and local taxation for my course at the NIA, and these documents will be available for future reference. However, I feel that I could contribute much by direct participation in meetings with the government officials concerned with these problems.

2. I therefore suggest:

a. That the Vietnamese government be encouraged to establish a commission to study the existing system of provincial, prefectural, municipal and village finances for the purposes of recommending to the government such changes and improvements as would seem appropriate.

b. That the commission should give principal consideration to:

- 1) Determining what kinds of expenditures should be born by the various levels of government.
- 2) Recommending changes in the revenue structure which would eliminate inefficient or discriminatory sources of revenue, tend to standardize the types of revenue of the same level of government throughout the country, and make the tax burden more equitable.
- 3) Proposing new sources of revenue or increases in the existing sources which would eventually result in eliminating the deficits of local government (This would include consideration of whether complete local government financial self-sufficiency is desirable, or whether a standard and equitable pattern of national government subvention should be established.)
- 4) Developing a more effective system of local government budget preparation, approval and control, and better financial reporting.

c. The commission should try to complete its work in time to implement its proposals beginning with fiscal year 1958.

d. The commission probably should include representatives of:

- 1) The Budget Direction
- 2) The Ministry of Finance
- 3) The Direction of Taxes
- 4) The Ministry of Interior
- 5) The Prefecture of Saigon
- 6) Several provinces, e.g., one Southern, one Central coast, and one Central plateau.
- 7) The National Institute of Administration (Mr. Dang)

e. Representatives of USOM (probably Mr. Tenenbaum) and MSU (Mr. Murphy and myself) would work with the commission as consultants and advisors. The suggestions and contributions of other persons could be solicited as needed.

David C. Cole

Saigon, April 22, 1957