

Translation of the Speech Delivered by Vu Van Thai to the Association of Technicians and Engineers of Vietnam, May 29, 1958 (?).

Is There an Economic Crisis in Vietnam?

Merchants and certain groups of producers are surprised that one can still ask such a question because for them there certainly is a crisis and they are anxious that measures be taken to combat it. Their reactions and their complaints are proof that some malady exists in some sectors of the economy. Nevertheless, opinions are far from unanimous about its nature or its appropriate solution. For some, the origin of the difficulty lies in the monetary contraction effectuated by the Government during 1957; for others it is the increase in imports; for still others it is the problem involved in the conversion of a war economy to a peace basis and is concerned with a simple stabilization of needs. The indicated solutions also vary considerably. Some propose an increase of bank credit, a change in the system of taxes or an increase in government expenses. Others see the solution as allowing the play of natural economic forces to find a new equilibrium which would be the equilibrium of peace.

The judgments vary according to the position of the individual in the nation's economic life. It is difficult to arrive at a global judgment both in view of the lack of statistical data and also because of the necessity of taking all factors into account in a global analysis.

My aim this evening is to try to analyze as objectively and as briefly as possible the nature of the true malady, to define its causes and to evaluate the efficacy of various possible solutions. From the discussion which will follow my speech and the exchange of ideas between the different groups represented, I hope each of us will be able to develop an over-all view of

of this problem which is crucial for our immediate future and not without profound influence on our longer range development.

For the economist who puts his trust only in numbers and classical economic analysis for formulating a diagnosis, the course of the Vietnamese economy since the beginning of the past year presents particularly confusing aspects and poses the question "Is this an expansion or recession?"

For, in effect, the data point in both directions.

In a situation of an underdeveloped country whose economy is little diversified, receiving external aid like Vietnam, the diagnosis can be in part derived from the value of exports and in part from the volume of American aid. To start with, exports in 1957 were higher than in 1956, amounting to 2.818 million piastres in the former as against 1.578 million in the latter year. The volume of American aid which was given us during fiscal 1957 was \$250 million U.S. as against \$200 million U.S. in 1956.

The situation of rice on world markets was particularly favorable during 1957 as compared to the preceding years. The rubber market was stable; our exports in 1957 presented only a minor source of concern.

Turning now to imports, their volume has increased significantly. In 1957, imports amounted to 10,098 million piastres as against 7,618 piastres in 1956. Moreover, imports of capital goods as a percentage of total imports rose from 18 percent in 1956 to 26 percent in 1957. The value of capital goods imports rose from 1,350 million piastres in 1956 to 2668 million in 1957. This could, at first glance, be interpreted as a significant increase in the level of investment.

After looking at these data on foreign trade, the economist would examine the movement of prices to determine whether they have declined or not. The

index of wholesale prices rose from 175 to 200 during the first half of 1957, reflecting the increase in taxes which went into effect during April. During the second half of the year, wholesale prices were stable. There was neither a decline nor a psychology of decline. The course of wholesale prices gives no indication of the beginning of accumulative processes of decline which characterizes classical economic cycles.

Looking now at retail prices, the trend of the cost of living did not reflect the rise in wholesale prices in the first half of 1957, but showed a slight tendency to decline during the second half. Nevertheless, the retail price index remained at about 240 percent of the 1949 base, while wholesale prices were only 200 percent of that base. The difference in wholesale and retail price trends during 1957, therefore, amounted simply to a reduction in dealers' margins which, taking into account the increase in taxes, are now at approximately the same levels as those which existed in 1949. This was thus a healthy trend.

In the absence of any index of industrial production, our economist would look at the data on the consumption of energy in an effort to determine whether there has been any decline in production. Here again, the data show nothing alarming. The consumption of electricity, fuel oil and coal show a regular increase.

Finally, the last important economic index that the economist would look at are the data on employment and unemployment. The statistics available as of the end of July 1957 show no sign of disease.

Having arrived at this stage in the examination of economic statistics, our economist would be forced to conclude that there is neither a decline in production nor, a difficulty in exporting the two principal products of the

country, nor a decline in employment, nor a cumulative tendency toward decline, nor a diminution in the level of investment; hence, he would conclude that there was no crisis. Some economists, particularly foreign observers, have been satisfied to rest with these conclusions.

There have undoubtedly been numerous cessations of commercial activity in the country and in particular the number of importers has declined substantially. But is this not, after all, a return to a normal situation? For it is impossible that a country of 11 million inhabitants could have a buying power under stable conditions sufficient to support nearly 20,000 importers.

In reality, the only data missing in the series of economic statistics mentioned above which would permit a true evaluation of the situation are the data on inventories. What has been the trend of stocks during 1957? Only through an examination of this figure is it possible to pass from a descriptive study to an analytic appraisal of the situation. The accumulations in the entrepots in the warehouses of Saigon, the ample stocks in the stores and the constant decline in requests for import licenses are an indication of excessive accumulation of stocks.

If one examines financial and banking statistics, they clearly demonstrate an accumulation of stocks. The money supply, which reached 15.5 billions at the beginning of 1957, had declined to less than 13 billions in July, and then rose to 14.3 billions at the end of the year. Advances and bills of exchange rose from 2 billion to 3 billion piastres. This demonstrates very clearly the demands on the treasury due to the immobilization of inventories.



If one compares, on the other hand, the trend of imports with the trend of outstanding credit, it is evident that the latter has increased considerably more rapidly than the former. The average monthly level of credit to the economy (i.e., bills and advances) was 1,589 million piastres in 1955, 1,530 million in 1956 and 2,893 in 1957. Comparing the relationship between credits and imports in 1956 with credits and imports in 1957, it is possible to estimate that the immobilization of funds in the banking system has increased by 1.5 piastres during 1957. On the other hand, if one looks at the position of the national treasury, one can see that there was a very substantial monetary contraction effectuated by the Government during 1957.

The excess of budgetary receipts over expenditures during fiscal 1957 rose to 1.5 billion piastres. In contrast, the excess of expenditures over receipts during fiscal 1956 was 500 million piastres as of the end of December 1956. There was a monetary contraction of 2 billion piastres achieved by the Government through the budgetary process. On the basis of the above figures and taking into account the operation of commercial American aid, it is possible to estimate approximately the increase in inventory which is produced in the country.

In general terms, the structure of the national product in our country can be presented in the following way:

In terms of production: The value of internal production plus the receipt of merchandise under American aid (indirect taxes included).

In terms of income: Total net income (direct taxes deducted) of internal production, plus the net revenue distributed by the Government through the national budget, plus the net revenue distributed out of counterpart funds,

plus or minus changes in stocks, minus or plus savings not invested.

Savings not invested are very small in view of the difficulties of the treasury (?) and the decline in the circulation of money.

On this basis, one can estimate an increase in stocks of the order of 2 billion piastres.

Thus, the interpretation of these data points to two measureable factors; an increase in stocks and a monetary deflation. How is it that the accumulation of stocks (that is, the difficulty of selling) and the contraction of money have not led to a collapse or at least a significant decline in prices? In other words, why has there been no economic deflation accompanying the monetary deflation?

The explanation of the relative stability of prices despite the increase in stocks is due in my opinion to the following principal facts.

1. Credit Policy. From the start, the Government has tried to combat the decline in sales by an increase in credit in accordance with classical economic principles. This increase in credit has consisted of the following measures:

- a. Reduction in reserve requirements,
- b. Institution of special procedure "C" which reduced the immobilization of funds required for the opening of import credits,
- c. Increase of credit to small and middle size enterprises through the Credit Commercial de Vietnam.

Unfortunately, in an underdeveloped economy, an increase in bank credit, has no effect on the level of investment and plays a negligible role in the financing of production. The increase in credits is utilized in the commercial sector and principally for financing inventory. By making possible the increased accumulation of stocks, bank credit has relieved merchants of the

need to sell their merchandise at any cost.

The inelasticity of an underdeveloped country is particularly evident in the psychological attitude of Vietnamese merchants. Despite the drop in sales, the merchant did not seek to change his occupation; he had the psychology of a losing gambler; he held on to his stocks and reinvested that which he could sell in new purchases, in the hope of changing his luck and retrieving his losses. He has a tendency of behaving in this way up to the moment when his entire capital is consumed.

3. Fiscal policy, in my judgment, has also played a major role in this behavior of the merchant. In effect, the tax increases which went into effect in March and April 1957 were sound in their objective of defending the value of money, combating the inflation which prevailed in 1956, reducing consumption, and leading to economic stability. Practically, so large an increase in indirect taxes should have been studied very carefully with a view toward encouraging investment at the same time that it discouraged consumption. The measures taken were directed essentially at increasing Government receipts by the means most readily available without any consideration of the economic impact of the taxes. The effective result of the increase in taxes was not only to put a brake on consumption, which was highly desirable, but also to discourage domestic production which was catastrophic. One of the reasons that the merchants did not liquidate their stocks and instead continue to import at a loss was that they had no prospect of profitable investment in other lines. The industries toward which they could eventually transfer their capital, such as textiles, woodworking, construction materials, etc., are in a difficult situation.

4. Increase in the Non-monetized Sector. The decrease in monetary circulation paralleling an increase in credits has resulted in an important decrease in the availability of liquid funds. The lack of liquid cash has resulted in an increase in the non-monetized sector. This phenomenon is apparent in certain provinces of Vietnam where monetary circulation has been traditionally small. For example, in the Provinces of Binh-Dinh and Quong-Ngai, it is clear that a barter economy has prevailed in local transactions, not only with regard to domestic products but equally with respect to imported products.

On the basis of this examination of the actual decline, let us pass on to a study of the solutions of the problem in order to evaluate the difficulties of their application and to consider their significance.

At first glance, the remedy of the situation would appear very simple: the disease having been caused primarily by the monetary contraction effectuated by the Government, it would suffice to reverse this policy rapidly in order to achieve equilibrium. The Government has already taken all the decisions with respect to the surplus credits. (Apparently the meaning is that the Government has decided to step up expenditures.) The luxury of non-productive expenditures or even of expenditures productive over the long term, must be avoided because of the risk of entrenching the artificial character of our economy and setting off inflationary spiral. On the other hand, expenditures should not be translated into a direct demand for imported goods, since otherwise the funds released by the Government through the national budget would be translated into counterpart funds without producing any immediate effect on the economy. It is, therefore, necessary to make expenditures which would diffuse the funds throughout the country and at the same time result in a rapid increase in production. The organic weakness and



lack of preparation of our administration renders the realization of these two conditions difficult. On the one hand, we lack completed studies for the realization of such plans, and on the other hand, we lack the technical personnel needed for the rapid execution of large numbers of works. The success of the operation, therefore, depends uniquely on the Administration's ability to improvise.

A better solution might be to leave the realization of these investments to the villagers and to grant them long term advances for this purpose.

Another aspect which should not be neglected is the regulation of the mechanisms of importation in relation to the operation of commercial aid. We must not forget that the reabsorption of the budgetary surplus has for its purpose the reabsorption of surplus stocks. Two problems present themselves in this connection.

1. From the macroeconomic point of view - Because of the decline in sales and the saturation of bank credits, the trend of import demands will continue to decline up to the moment when Government expenditures will be translated into an increase in consumer purchases. Only at that moment will merchants obtain the funds needed to increase their import orders. The increase in actual import deliveries can only come six months afterwards, and there is the possibility that stocks will be exhausted because of the resultant time lag during which demand will continue to rise while import arrivals are still declining.

2. From the microeconomic point of view - While total stocks are excessive, the distribution of this excess is far from uniform among different products. For certain items the surplus is very large, for others stocks are just normal and an increase in demand may lead rapidly to a shortage of these latter products.

To recapitulate, while theoretically the correction the deflationary tendency appears simple, the practical difficulties are great and require a close coordination of administrative machinery in their execution. It is ultimately these two factors will determine the course of the events in the immediate future. But one must not assume that the end of the deflation would represent the end of our troubles. In reality, if we succeed in correcting the inflation, we will suppress the acute malady, but one must not expect a return to the false prosperity of the years 1956 and earlier. The accident of acute deflation has masked another profound malady, much more serious and much more difficult to resolve. This is the problem of the reconversion of the economy of war into an economy of peace.

The accidental deflation of 1957 accentuated an economic recession for which the basis was laid in the middle of 1956. The decline in industrial activity is very clearly reflected by the decline in the trend of the consumption of industrial energy starting in June 1956. The decline in the indexes of production of many products such as sugar and tobacco are results of the events of 1956.

Why is it that the effects of reconversion did not become apparent in 1954-55 with the cessation of hostilities? In my judgment, two factors contributed to maintaining an unrealistic level of activity until the middle of 1956.

1. The absorption and rehabilitation of refugees which involved governmental expenditures provided principally by American aid in the amount of \$2 billion during the years 1954-55 and the beginning of 1956. Moreover, the refugees themselves, principally the bourgeois populations of Hanoi, Haiphong and Namdinh, brought with them two-thirds of the monetary supply of the North. During the first years after their flight, they spent large sums

to obtain shelter and to enter one or another form of economic activity. These expenditures stabilized during 1956 either because they had succeeded in establishing themselves economically or because they had consumed all their capital.

2. **Evacuation** of the expeditionary army created a volume of expenditures whose magnitude depended more on the schedule of evacuation of the soldiers than on the number of soldiers still remaining in Vietnam. In effect, each soldier had liquid funds which may be estimated at an average of 10,000 piastres. Since they could not transfer this sum, they spent it during their two months preceding their departure. On the basis of an evacuation schedule of 10,000 men per month, this resulted in a volume of expenditures of 100 million piastres a month, which ceased abruptly when the last 10,000 soldiers were evacuated.

These two factors adequately explain, in my judgment, the delay in economic reconversion following the cessation of hostilities.

To understand the problems of reconversion, it is necessary to analyze the consequences of war on the Vietnamese economy. The principal changes resulting from the state of war were the following.

1. Production and the means of production seriously destroyed. Agricultural production is at 70 percent of its prewar level. In the South, about 500,000 hectares of land became fallow (leading to a decline of about 750,000 tons of rice production).

2. A serious disequilibrium between production and consumption. At the same time that production declined, an artificial prosperity was produced, resulting from the fact that, while Vietnam suffered physically and morally from the war, it did not have to support the burden financially. The war

expenditures were not financed by the country's financial resources or by deficit spending but by the purchase of piastres with foreign currency. The budgetary expenditures which were made created new revenues over and above the country's normal revenues.

The first consequence of this fact was a paradoxical increase in living standards concomitant with the collapse in the level of production. Estimates of prewar national income were of the order of magnitude of less than \$60 U. S. per capita. An estimate of income for 1955 showed an order of magnitude of \$140 U.S. per capita. This increase resulted partly from the development of the service sector and partly from the receipts of foreign exchange which rose to about \$600 million U.S. during the last year of the war.

3. Distribution of the population among different economic activities without regard to the state of economic development of the nation. Vietnam being a country without industries, the war expenditures were distributed primarily in the distribution and service sectors. As a result, for a country whose economy is essentially agricultural and underdeveloped, income from trade in 1954 was equal to that of agriculture (estimates of national income for 1955 - publication of the National Bank of Vietnam). This may be compared with the prewar situation in which agriculture contributed 62 percent of national income. As a result, urban population rose from 6 percent to 30 percent of the total.

4. Excessive production costs. Our prices are too high in relation to world prices, and if our production were to be developed within the economic structure actually prevailing for most products, it would be practically impossible for us to increase exports, even with Government policies designed to aid exports such as EFAC. This situation has deeper causes than merely the overvaluation of the rate of exchange of the piastre. This can be demon-



strated by the fact that an examination of retail prices shows that not only internally produced foodstuffs but also imported foodstuffs are overpriced. Also, the devaluation of the value of the piastre by the French Government in 1953 from 17 to 10 francs did not cure the deteriorating relationship of prices to world markets. This phenomenon, in my opinion, resulted from two fundamental causes:

(a) A living standard unrelated to the level of productivity. The level of productivity certainly declined during the war as a result of the destruction and obsolescence of equipment, while average income per capita rose.

(b) A price formation mechanism which was completely false because of the bad distribution of the population between non-productive and producing sectors. It is this fact which is the principal factor in maintaining prices (and consequently wages and production costs at too high a level). To support this thesis, we can cite the fact that wholesale prices are about 30 times those of 1939, while retail prices are about 70 times, and while taxes and state revenues have rather declined.

The problems presented by reconversion are extremely serious. In reality, our economy has been maintained artificially for several years with artificial structures and artificial price mechanisms.

We cannot, without a serious crisis, return immediately to a natural situation because we must reconvert at least 1 million persons (workers and their families) living in the tertiary sector (presumably the non-productive sector) toward productive activities. This cannot be done abruptly, partly because of the inelasticity of working tools characteristic of underdevelopment.

How can we recover equilibrium?

To start with, we must accentuate reconversion. We can only do this by developing production for the internal market because of the distortion of productivity and living standards. To achieve this, we must have a protectionist import policy because we cannot produce internally without protection in view of the distortion between living standards and productivity. But note that this protection must be modified over a period of time. It must be reduced in line with the increase in productivity. Otherwise, we will never adjust to world prices. At the same time, fiscal "pressure" must be increased so that the rise in the level of production and productivity is not entirely translated into an increase in living standards. But this will not suffice by itself because of the inexperience of those who have capital and the shortage of credit and of the rate of capital formation. It is only through technical assistance by the state, and through a policy of industrial and agricultural financing supported by the state that we can succeed in transferring existing capital from the trade and service sectors to the production sector.

The only exports which we can develop before achieving natural equilibrium are rice and rubber and even these two exports will only be possible with one or another form of assistance to exports. Even with a change in exchange rates, which some regard as a remedy for all our difficulties, the support of exports will remain necessary. A change in exchange rates will in no way affect the structure of our production which remains too heavily burdened by intermediate expenses (presumably referring to cost of distribution, etc.) There is no immediate solution to the problem. Only through the coordinated application of a systematic plan of reconversion can we achieve a solution. This requires a monetary, fiscal and budgetary policy

which is constantly adjusted and readapted to the progress of investment and the creation of productive employment. Only in this way can we achieve a natural equilibrium without convulsions or crisis. The prolonged war and external financing have led our economy into a false equilibrium. The accidental deflation destroyed this false equilibrium and it is now necessary to move progressively toward a natural equilibrium. Any abrupt shift could bring substantial unemployment and general economic disruption.

Do we have the opportunity to achieve such a planned reconversion? Certainly, since we have a productive potential and a potential for the creation of jobs readily exploitable through the increase of cultivated acreage and the creation of industries for the domestic market. We also have available substantial external assistance which it is important that we absorb intelligently.

In the last analysis, the problem is more one of technical difficulties than a lack of potential. We will succeed in a reconversion without crisis depending on whether the administration can or cannot rise to the difficulty of the task involved during the next few years. In an artificial situation, bad management of economic mechanisms would lead to their destruction. On the other hand, well-conceived and well applied policies can lead to the sound development of the economy. The role imposed upon the administration during the near future is heavy with responsibilities. It is, therefore, absolutely necessary during the years of reconversion to consecrate the entire technical elite of the nation to reinforcing the administrative apparatus. That is, in my judgment, the crucial factor in the economic development of our country during the immediate future.