

ECONOMIC GROWTH AND SOCIAL EQUALITY

Up to now, nobody believes that the development of the market economy will certainly lead to social equality. On the contrary, everybody recognizes that the market mechanism, with its strong and weak points can generate many social problems, especially in the industrialization period when the country witnesses great economic and social changes, such as:

-The growth rate rises, the GDP increases and living standard is improved.

-The widening divisions in society become a common and serious problem for all market economies.

These changes show that the industrialization can provide preconditions for social progress, and at the same time, accelerate the social divisions and cause bad effects on the development. That is why all developing countries have to couple the industrialization with measures to deal with social problems.

In Vietnam, after ten years of economic reform, many achievements have been obtained and they served as preconditions for the industrialization. The Vietnam's GDP in the past five years increased rather fast, from VNĐ29,526 billion in 1990 (based on prices in 1989) to 43,780 billion in 1995. The annual growth rate in this period was 8.2%. The monthly personal income rose from VNĐ97,000 to 138,000, increasing by 42.27%. Apparently, the economic reform had increased resources for the economy, as the World Bank remarked in December 1994.

However, in the past ten years, besides a high growth rate, many serious social problems have made their appearance, especially the gap between rich and poor and between cities and rural areas. These problems are critically serious in HCMC where the market economy developed rather well. Thus, to deal with the relationship between economic growth and social equality is a real task to Vietnam on the way to a civilized and well-developed society.

Statistics show us the difference in monthly personal income between residents in hilly areas in the North (the poorest region of the country) and residents in the Eastern South (the richest one) increased by over eight times in the period 1990-95, from VNĐ30,000 to 249,000, as shown in the following table:

Table 1: Economic Growth and Wealth Distribution 1990-1995

	1990	1991	1992	1993	1994	1995
GDP (VNĐ bil. prices in 1989)	29,526	31,268	33,991	36,735	39,892	43,780
Growth rate	5.0%	6.0%	8.6%	8.1%	8.8%	9.5%
Monthly personal income (VNĐ1,000)	97	104	112	120	129	138
(a) in Northern hilly areas	40	71	71	86	90	96
(b) in Eastern South	70	125	192	226	276	345
Difference (b-a)	30	54	107	107	186	249

Studying the wealth distribution in Vietnam, we saw that the Eastern South and the Mekong Delta gained a high growth rate and personal income, but in these regions, an increasing amount of farmers have become landless and lived below the poverty line and have had to go

by TRẦN MINH TRIẾT

to big cities for job. Causes of this situation are:

-High birth rates make the per capita farming land decrease.

Table 2: Income accumulation of the people (prices in 1992)

	20% of population	40% of population	60% of population	80% of population
Northern hilly areas	9.17	22.96	42.27	65.95
Eastern South	9.33	20.12	35.42	57.30
Vietnam	8.94	21.51	38.81	60.36

-Personal income decreases because of frequent natural disasters, bad harvests, and bad fertility of the soil.

-Market for agricultural products: in many regions, new farming land is reclaimed and produces high yields but the prices of agricultural products fall (because fluctuations on the world market or government's unsuitable policies on agricultural production).

-Production cost and living cost go up because:

+ Domestic currency gets devaluated although the nominal inflation rate is kept low.

+ The gap between prices of agricultural products and manufactured goods becomes larger.

+ Interest rate on loans to farmers is high while the usury is still common in rural areas.

+ Social benefits reduce, expenses on education and health care rise when the government started reducing level of subsidy.

If the industrialization in agriculture production progresses faster than the process of urbanizing and restructuring rural economy, more farmers will be forced to migrate to cities to find work.

Thus, economic growth and social equality seem to be two contrary objectives between them governments



and economists have to make a choice. There has been no satisfying and correct answer to the question of how to ensure high growth rate and at the same time, bridge the gap between rich and poor and between cities and rural areas.

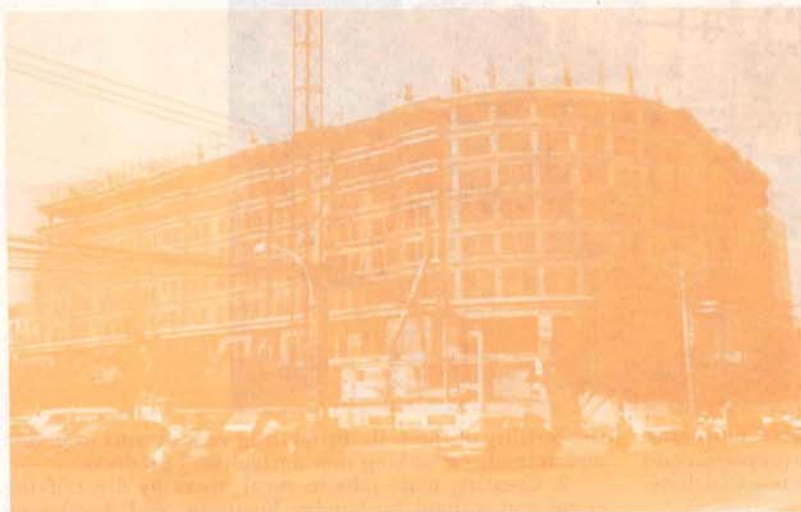
1. CONTRADICTIONS BETWEEN ECONOMIC GROWTH AND EMPLOYMENT

1. Review of some economic theories

The market economy produces a dynamic of the economic growth. This dynamic, as Adam Smith called it, is the individual interest that comes and stays with us for all our life.

This dynamic drives the economy and all individuals to look for the best way to satisfy their needs, thereby tapping all resources and existing potentials, accelerating economic growth and improving the living standard.

However, it's the individual interest that causes great divisions in society. This comes from the uneven allocation of economic resources among individuals and classes, differences in personal background and the keen competition in the market.



A country striving for fast and effective industrialization must mobilize all resources to the best. Under effects of the market mechanism, the dynamic for mobilizing these resources is material wealth. Those who are active, creative and innovative will earn high income and become rich, otherwise they will certainly fall easy prey to poverty and unemployment.

For a long time, many economists have asserted the opposition between equality and economic efficiency. They exist side by side in an economy and it's very difficult to kill two birds with one stone.

J.M. Keynes said that the more the personal income, the more the savings and vice versa. Thus, uneven distribution of wealth will lead to high saving rate, and this, in its turn, will facilitate investment and development.

J.E. Stiglitz argues that the best solution to the problem is not how to divide the cake equally, but how to make the cake big enough for everybody to share. However, the uneven distribution of wealth is not what the society strives for.

All efforts made by governments to distribute and redistribute wealth more equally by all possible instruments come from the idea of changing efficiency for equality. The more the redistribution of wealth and reallocation of resources, the less the competition and the

dynamic for the economy. In short, the more we try to divide the cake equally, the smaller it becomes.

In addition, the balance between economic growth and social equality, especially the job creation process, depends a lot on the development strategy adopted for a given period. The possible strategies are:

- + *High growth rate but no more job and income for laborers:* in this case, the economy is based on exploitation of natural resources, such as oil in Western Asian countries.

- + *High growth rate with a handful of job opportunities:* the economic growth is due to capital- and technology-intensive projects that are highly profitable, instead of labor-intensive ones, therefore the unemployment rate isn't improved remarkably. This strategy usually leads to great gap between sectors: small pieces of farming land are concentrated to form big farms and many farmers become landless; introduction of automatic machines and mass production can force handicrafts and many services to go bankrupt, and cause technological unemployment.

- + *Low growth rate and more job opportunities:* in this case, the growth rate isn't very high but more jobs are created thanks to development of labor-intensive industries in an effort to achieve full employment although economic efficiency is low and technologies employed aren't modern.

2. Labor force and human resource

Labor force and human resources are different and the former is always of greater amount. Most of us believe that Vietnam has advantage in its great and cheap labor force, however, we had better question whether it is really an advantage for local industries and Vietnam as a whole.

Human resource or human capital is the body of knowledge needed for productive activity. The knowledge is added to by research and disseminated through general education and vocational training. Thus, turning labor force into human capital will require a lot of time and investment in human beings, otherwise, a part of labor force will fail to take part in productive activity and become jobless.

Realities in Vietnam show that the supply of labor has exceeded the market demand, but in terms of quality of labor, that is, well-trained labor, the demand hasn't been satisfied. In short, Vietnam is rich in labor but still lacks human capital.

In addition, the basic wage-rate in Vietnam is still low in comparison with other developing countries, for example, a monthly wage of US\$50 earned by an Vietnamese ordinary worker is very low as compared with US\$5 for a working hour earned by workers in NICs. But many foreign investors think that this wage rate is reasonable, because labor efficiency of Vietnamese workers is generally low. To make the best use of the cheap labor force, they must invest a lot in vocational training. Thus, a cheap and abundant labor force isn't really an advantage that Vietnam has over other countries.

This problem needs to be studied and calculated more carefully. But this estimate forces the Government to take measures to improve the quality of labor and provide better education and vocational training to laborers. The illusion about "a cheap and abundant labor force" can prevent us from solving this problem, and

this labor force, instead of being an advantage, will become an obstacle to the development process because of a high unemployment rate.

II. THE PROBLEM OF ECONOMIC GROWTH AND EMPLOYMENT

The solution to this problem will serve as a basis for many decisions on, say, investment, technological development and salary scale. Adopting high growth rate with a few job opportunities or pursuing a low growth rate with more jobs created isn't a choice made for the economy but a choice made by each industry. That is, both of these strategies will exist in a parallel in the economy and the problem is which strategy will fit well a given industry.

In our opinion, the strategy pursuing high growth rate and low employment is appropriate to key indus-

try the Government has to encourage companies to give training courses to their employees. To achieve this aim, the Government can take the following measures:

- Allowing expenses on personnel training programs to be deducted from gross income when calculating taxable income.

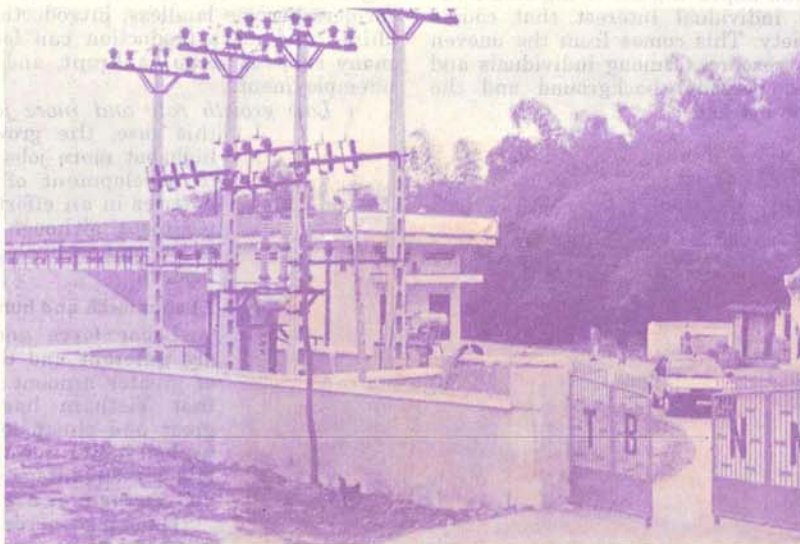
- Supplying free information and training materials to companies.

- Helping companies cooperate with one another in giving training courses to new recruits.

III. HOW TO PREVENT MASS MIGRATION TO TOWNS?

To achieve this aim, we need a wide range of measures:

1. Increasing investment in researches on agricultural and rural development, especially on methods of limiting damage caused by natural disasters, improving



tries using technology- and capital-intensive processes, while the strategy to generate more job opportunities will be applied to other industries with a view to achieving full employment.

Besides industrial development strategies, a new strategy on population, labor and employment is also needed, and these strategies must be coupled with other ones, such as strategies to develop markets, accumulate capital and attract new technologies.

The human capital will be developed by teaching through formal education. At present, when the education system fails to supply enough well-trained laborers to all economic sectors, the Government had better encourage and help companies to give training courses to their employees.

Moreover, all companies must make plan to train new recruits for the sake of their future development. For the time being, the Government has to reform the education system in order to, at least, equip laborers with basic skills in preparation for more intensive training courses given by companies. This cooperation will meet two requirements at the same time: supplying technicians and well-trained workers to the economy and providing the people with better education.

In foreign countries where the education system is well developed, all companies pay full attention to personnel training task, however, many Vietnamese companies fail to realize that human capital is as significant as physical capital in promoting economic growth and ensuring stable development for the company. That is

the fertility of the soil, introducing new strains of plants and animals or making new agricultural products.

2. Creating more jobs in rural areas by diversifying crops and animal husbandry business, and developing agro-industries, services and handicrafts.

3. Increasing farmers' income:

- Reforming the mechanism for purchasing and processing agricultural products.

- Finding new foreign markets for agricultural products, offering reasonable prices to farmers after harvest and keeping large stock of agricultural products, helping farmers change the structure of products they offer for sale and do part-time jobs.

- Giving tax incentives (reducing land-use tax, supplying soft loans, regulating prices of agricultural materials and manufactured goods needed for farmers, etc.).

4. Encouraging business circle to invest in rural areas, especially in labor-intensive industries using local raw materials, and in services needed for agricultural development (banking, trading, transportation, insurance, etc.).

5. Improving economic and social infrastructure:

- Developing residential areas with improved infrastructure.

- Developing education and health caring network.

- Carrying out national insurance schemes in rural areas.

- Developing service sector in addition to the supply of non-profit service undertaken by the Government.