

FARMERS' CURRENT INCOME, SPENDING AND PURCHASING POWER

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According to the survey "Vietnamese Living Standard in 1997-1998" conducted by the General Department of Statistics and the World Bank and announced in September 1999, the Vietnam's per capita income is VND3,465,000 per year (VND9,057,000 in cities and VND2,544,000 in rural areas). The disparity rate between urban and rural areas is 3.65 times. The income of residents in Hà Nội and HCMC amounts to VND10,637,000, or 4.18 times higher than that in rural areas and 3.0 times the country's average.

It is notable that the rural residents' income has so far depended mainly on farming and forestry (48.03%) and this trend shows a little change as compared with previous years (51.57% in 1993), prices of forestry and farm products are volatile and detrimental to farmers, especially to rice growers. As a result, although the agriculture has seen a rapid growth for the past years, but the farmers' income has not increased accordingly and even dropped somewhere and led to a fall in purchasing power. The decline in agro-product prices while the manufactured goods rose faster has widened the price gap between the two items and caused the drop in real income of farmers. That is clearly seen in 1996, 1997 and 1999.

In 1996 while the food prices swelled only 0.2%, the prices of manufactured goods (including processed food) rose 4%, or 20 times the growth rate of food prices. The service prices increased 8.5%, or 42.5

the prices of manufactured goods rose 8.5% and service prices up 17.7%. That implies the income and purchasing power in rural areas saw a relative drop as compared with the urban areas in those two years. With the same volume of food sold, the farmer could buy 100% of manufactured goods or 100% of services in 1995, but he could buy 92.7% of manufactured goods or 85.5% of services in late 1997. Due to the widening gap in prices causing losses to farmers, the Government has taken measures to raise agro-product prices, especially rice paddy prices since 1998, so their income rose some 10% as compared with 1997. The rise in rural purchasing power has made positive impacts on the markets of manufactured goods and services. The manufacturing sector's growth rate registered 2.1% and services 4.22% showing a hopeful sign. In 1998 the farming sector enjoyed bumper crops and good prices, so the purchasing power rose, this has offset losses in previous years, especially in 1997. But the joy existed in a year only, then the deflation occurred in 1999, particularly in farm product prices. The food prices plummeted 8.5% in the first 9 months of 1999 while the non-food prices increased 3%. Regarding the same amount of food sold, the farmer could buy 100% of manufactured goods in December 1998, but 88.8% only in September 1999. The deflation trend continued in the last three months of 1999. The farmers' income and purchasing power were on the

fruit, meat, as well as ornamental trees and flowers.

The decline in agro-product prices, while the prices of farm materials, manufactured goods and non-farm services climbed, forced rural budget deficit and debts to soar in terms of number and size.

Also according to the survey on public living standard in 1998, in rural areas there were 54.16% of farm households with various outstanding loans: 6.97% borrowing from usurers, 15% from relatives, 10.48% from other individuals, 26.44% from state-owned banks, and 3.97% from other sources. The percentage of farmers who were not able to repay their debts is higher than that of urban households (36.35%) in 1998. Notably, 63.6% of the loans were used for production; 13.87% for housing purchase and construction, 4.37% for debt repayment, 3.97% for essential consumption and 3.31% only for buying other manufactured goods. Given a small sum for commodity purchasing, the market of manufactured goods could not be bustling.

The above evidence revealed debts have been common and tended to rise in recent years. There was 46.7% of farm households taking various loans in 1997, then this figure soared to 54.16% in 1998. The average loan per household increased to VND 2,754,000 from VND1,292,000 in five consecutive years. Low income and large debts caused incapability of repayment. The percentage of rural households with savings increased very slowly. The average value of savings per household inched up annually: VND1,985,800 in 1993; and VND2,436,000 in 1998. The growth rate was 22.7% in 1988 as compared with 1993.

Meanwhile, the savings of an urban household were VND7,941,000 and 10,920,000 respectively and the growth rate was 37.5%.

Due to no reserve, the farmers' purchasing power remains low. Low income and limited spending are the common trend in rural areas in recent years.

Table 1 Price Index (100% in December of the previous year)

	1996	1997	1999 (est.)
1. Price index	104.5	103.6	102.4
2. Food	100.2	100.4	92.9
Difference	4.3	3.2	9.6

times the rise in food prices. In December 1997 as compared with December 1995 (two years after) while the food prices increased only 0.6%,

decline, along with tumbling prices of many agro-products such as rice paddy, maize, peanut, sugarcane, and especially rubber, coffee bean

The survey on rural spending indicates the average spending per household remains too low: VND2,305,000 (equivalent to 45% of that in urban areas), used mainly for food 59.21% (foodstuff 20.72%, fuel 4.17%), non-food 40.79% including garments 5.11%, consumer durables 9.94%, culture, sports and entertainment 0.30%, transport and post 0.90%, and eating out 2.78%. The spending is the same as previous years, remarkably spending on manufactured goods and public services is too low. This spending has not had good effects on development of markets of goods and services in particular and rural markets on the

are much lower than that of urban homes: VND694,000 as compared with VND1,492,000. Due to low income, farmers usually use old goods or low-quality and cheap ones. The rural purchasing power for consumer durables is low and for high-quality goods close to zero.

The cause is in the past years central as well as local authorities have paid attention to food production only but no to quality, variety, prices and market requirements. Their plans have ignored the demand and supply law, leading surplus in many kinds of agro-products such as rice, fruit, pig meat, and vegetables. In

but the results are not high. The price support policy for agro-products had good effects on rice only in 1998 crops, most of other products and rice in other years were controlled by free markets. The policy on reduction of farmer's financial obligations to enhance rural purchasing power was not integrated and effective.

The above facts prompt some measures to boost purchasing power as follows:

First, increasing real income of farm households based on the combination of commercial food production with local and foreign markets, at the same time diversifying non-farm careers and services in rural areas. To carry out this task, Ministries of Agriculture and Rural Development, of Industry, of Trade and local authorities should make close coordination in planning and implementation of such programs as: diversifying commercial agriculture, boosting processing industry, restructuring rural labor, expanding markets for farm products and finally stabilizing input and output prices of farm products.

Second, reducing farmers' financial obligations, increasing the number of persons enjoying reduction and exemption of tax on farm land use, pending income tax collection from high-income farmers (having large farms), lowering fees and charges of water utilization, schooling, health care and electricity and reducing labor contribution for rural public utility works.

Third, well managing rural projects with local and foreign loans to slash costs and strengthen their efficiency, boosting commercial food production and improving the people's living standard.

Fourth, strengthening the Government's role to the agriculture, rural areas and farmers on the two sides: policies and investment capital.

- Regarding policies, perfecting policies on markets, finance, credit, science and technology in the trend of stimulating commercial agriculture and rural occupations and services along with expanding markets and stabilizing farm product prices.

- Regarding investment capital, increasing investment capital from the state budget for agriculture and rural areas, restructuring investment, focusing investments on building rural infrastructures and applying science and technology effectively. ■

Table 2 The Percentage of Households Having Consumer Durables (%)

Home appliances	Rural areas	Urban areas
Video player	9.68	47.34
Color TV	28.51	74.17
Audio player	3.4	12.86
Refrigerator	2.12	34.86
Washing machine	0.33	9.58
Thermos flask	0.30	5.19
Gas stove	2.03	25.77
Motorcycle	16.41	43.88
Sewing machine	12.76	29.60
Telephone	2.10	25.40
Electric stove, cooker	9.52	56.61
Electric fan	58.98	93.33

whole.

As a result, although food production have seen a fast and continuous growth and the annual output rose by 1.3 million tonnes (5%) but the farmers' income and living standard have not increased, even dropped, the income disparity between urban and rural areas was widening, from 2 times in 1993 to 3.6 times in 1998, farmers' savings to buy home appliances is low as compared with urban residents. According to the General Department of Statistics, the changed assets of a rural household valued at VND2,436,000 in 1998, not equal to one-fourth of that in urban areas (VND10,920,000), the percentage of farm households having consumer durables is also much lower than that of urban ones.

The quality and value of consumer durables of rural households

the meantime, farmers lacked information about markets so their production was spontaneous. They produced only what they could but not what the markets needed. The quality and variety of agro-products could not yet meet the market requirements.

The purchase, processing, preservation, and distribution of agro-products remained deficient. The state sector has not given necessary supports while the private traders found ways to make prices as low as possible. The import of farm materials and export of farm products showed many defects, so it has not yet created favorable conditions to stabilize and expand foreign markets for local products.

Although the Government has implemented many policies and mechanisms to boost rural markets