

In foreign countries, public expenditure increases very fast, so does Vietnam: The public expenditure in Vietnam increased from VND9,186 billion in 1990 to 12,081 billion in 1991, 23,711 billion in 1992 and 39,063 billion in 1993, that is, it made a twofold increase every year. Leaving aside the influence of inflation, the public expenditure has increased by 150% every year. That is why economists are increasingly paying attention to the relation between the public expenditure and fast development.

#### 1. The relation between public expenditure and fast development

$GDP + \text{Import} = \text{Export} + \text{Investment} + \text{Expenditure}$  (1)

$\text{Expenditure} = \text{Public expenditure} + \text{Private expenditure}$  (2)

Combining (1) with (2), we will have:

$GDP + \text{Import} = \text{Export} + \text{Investment} + \text{Public expenditure} + \text{Private expenditure}$  (3)

Moreover, the increase in GDP is a function of investment and efficiency of investment. Using  $k$  to denote the efficiency of investment, the annual increase in GDP ( $\Delta GDP$ ) could be expressed as follows:

$$\Delta GDP = k \cdot \text{Investment}$$

$\Delta GDP$  reaches its peak when Investment and  $k$  reach their peaks. To increase  $k$  to the maximum, all investment projects must be scrutinized before we can choose the most profitable projects. The equation (3) shows us methods of maximizing Investment. In this equation, for calculation purpose, we can consider import as equal to export and rewrite it:

$GDP = \text{Investment} + \text{Public expenditure} + \text{Private expenditure}$  (4)

And then, we work out Investment:

$\text{Investment} = GDP - \text{Public expenditure} - \text{Private expenditure}$  (5)

- Reducing private expenditure: The best way to practice economy is to reduce importation of consumer goods and produce import substitution.

- Reducing public expenditure: In Vietnam's national budget, there are discretionary spending and public investment expenditure. A fast development policy aims at reducing discretionary spending and increasing public investment expenditure. At first, we need classify all kinds of discretionary spending:

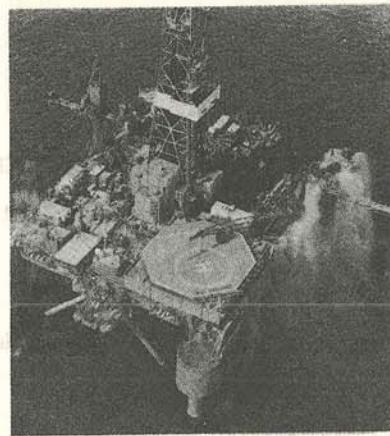
+ Subsidies: the Government receives profits from profit-making state enterprises and pays subsidies to losing state enterprises, so there must be measures to reduce the number of losing enterprises. This is an

# PUBLIC EXPENDITURE AND THE FAST DEVELOPMENT

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urgent economic problem in Vietnam now, because unlike other countries, there is a very large public sector in our country.

+ Wage and payment to officials



Government expenditure

	1990	1991	1992	1993
Total (VND.bil.)	9,186	12,081	23,711	39,063
Public investment expenditure	2,705	2,715	8,143	11,846
%	29.4%	22.5%	34.3%	30.3%
Interest and debt paid	1,260	1,274	1,873	4,150
%	13.7%	10.5%	7.9%	10.6%
Discretionary spending	5,221	8,092	13,695	23,067
%	58.9%	67%	57.8%	59.1%

and employees: this spending represents some 40%-50% of discretionary spending. All government bodies tend to increase their staff and demand more facilities, so in all national, the number of government officials always shows an upward tendency.

+ Grants-in-aid to local governments: In Vietnam, a district or a ward usually has the same system of government bodies (at district or ward level of course) as the central government, therefore many researches have studied the reduction of government bodies with a view to reducing public spending. They suggested the following measures: to

simplify procedures, to allow private persons to supply certain services to the public (health care, education, or to equitize small state companies...), to charge fees for public services supplied... These measures can help the Government reduce discretionary spending and increase public investment expenditure.

#### 2. Vietnam's public expenditure statistics

To scrutinize Vietnam's public expenditure, we must have statistics of expenditures spent by both the central and local governments. However, up to now, only Vietnam Annual Statistics 1994 was published, and this book supplied only numerical data about 1993 public expenditure spent by the central government (without expenditure spent by provincial authorities). Certain data weren't publicized such as national defense expenditure, profit and loss statement made by the State Bank, etc.

Statistics showed that the government expenditure increased quickly, and fortunately, the public investment expenditure also increased fast. Just because of increases in public investment and foreign investment, Vietnam's GDP has risen by 8% or 9% recently. However, the discretionary spending still represented a high percentage of the public expenditure (around 60%). By taking necessary measures, the Government can reduce 5-10% of the discretionary spending in order to increase public investment expenditure by 10% or 20% with a view to accelerating the economic development. ■