

# NATIONAL FISCAL POLICIES TO ACCELERATE INDUSTRIALIZATION AND MODERNIZATION

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According to statistics, 96% of the state budget revenue came from tax collection and its deficit stood at 3.6% of GDP in 1998. These figures are acceptable in views of classic analysts of public finance that the budget balance is the best opportunity for the national fiscal policies. In Adam Smith's theory, the government is like a woman going to market, not allowed to exceed the money in her pocket. Similarly, the nation cannot spend more than its revenue. The balanced budget is ideal to a nation, preventing it from debts. (1)

In our country, financial and budgetary activities are now in compliance with the classic public financial views and oriented to the balance of revenue and spending as ruled in the State Budget Law "with a view to integrating the national finance, making the state budget stronger and stronger, consolidating financial disciplines, using state money thriftily and effectively, increasing reserves for the national industrialization and modernization..." Technically, the state budget is the government's total revenues and expenditures in line with the drafts approved by state competent agencies. (2)

However, the facts of budget spending over the past four years has brought concerns to researchers, especially for the construction of national fiscal policies towards industrialization and modernization. The budget revenue faced a peak of 23.7% of GDP and deficit of 4.4% of GDP in 1995; 22.4% and 3.1% in 1996; 21.4% and 4.2% in 1997 and 19% and 3.6% in 1998 respectively. The National Assembly, Term X, fourth session, adopted the state budget draft that the revenue would rise 2% over 1998; accounting for 18.3% and the deficit would stand at 3.5% of GDP.

In the centrally-planned economy, the socio-economic plans were made for a five- or ten-year period. They were a legal basis for socio-economic activities including instructions and material targets, as a result the state budget revenue and spending is only a part of the whole plan. While in the market economy, the state budget revenue and spending must be approved by the legisla-

ture. It is also a major background for the public financial studies and the facts of executing the national fiscal policies. In the State Budget Law, there is no concept of "material", all must be converted into the value of local currency, although different currencies are used in transactions. Today most of countries in the world use the Budget Law as an instrument to implement the national fiscal policies comprehensively and uniformly with such goals as: growth and development; stability and fair income distribution; economic independence and improvement of national self-help. One of important components of the fiscal policies is the budget revenue is stable, and develops healthily in compliance with law. As a result, when the budget revenue has not fulfilled the planned target and saw a declining trend consecutively in four or five years, is it an indicator of ineffective public fiscal policies? There are many support reasons which should be analyzed and proved right for the process of investment development toward industrialization and modernization.

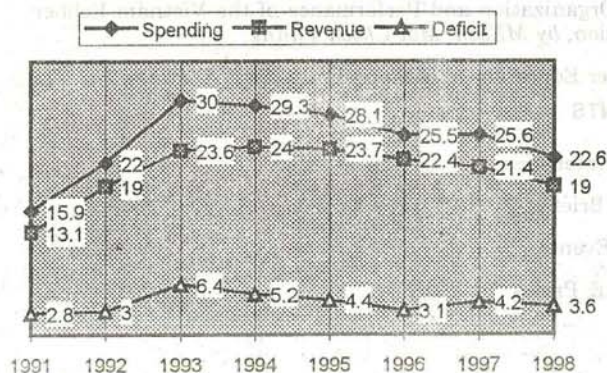
- First, the Government sets low targets for tax collection with a view to helping entrepreneurs gain more profits for reinvestment or demand stimulation.

- Second, the Government gives equal favors to all business people, even small or large, in highlands, plains or islands, in cities or rural areas. These generous favors have never been observed in financial theories before. Are they equal in indirect or direct taxes?

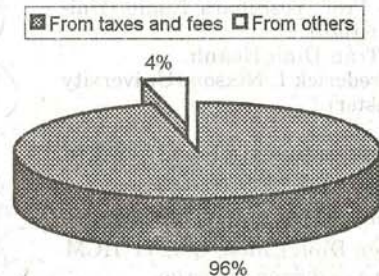
- Third, the percentage of tax collection has already reached its peak, it should be reduced to avoid disadvantages in economics, finance or sociology. Put differently, they may cause bad effects when the tax collection ratio to the GDP has reached the maximum as in case of Sweden.

These above reasons are not able to explain the fact that the taxation administration has not attained its planned targets in the four consecutive years and the

State Budget Revenue and Expenditure



State Revenue Structure



Source: Ministry of Finance (*Tài Chính Review* 1, 1999)



revenue dropped drastically, from 24% in 1994 to 19% of GDP and the 1999 collection is not bright.

It is argued that in the market mechanism, the budget revenue and spending is an important factor, but it is hardly brought into life. Because if the collection is not fulfilled, then the spending will be cut, especially planned expenditures on investment development. This will delay many projects and huge funds already invested in them are not active. In addition, if the spending is finished as planned, then the deficit will increase and the Government will be confused to find a source to fill the gap. If there is more money supply, inflation will arise or if it takes loans then its debt will soar. (3)

An article on the *Tài Chính Review* (under the Ministry of Finance) showed concerns "whether we can reach the targets in the second half of the year. Economic policies cover some important areas, see a lot of renovations, but the outcomes are not high. They are not really put in life. The main reason is bureaucracy in some authorities and inspection agencies. As a result, newly-issued policies are not strictly implemented, the central government make decisions but local governments may neglect their execution. Regarding our country's economy, the key problem is how to stop remaining in doldrums. Demand stimulation is a breakthrough in financial and monetary policies, however, it can cause such shocks as inflation, rise in budget deficit and etc." (4)

The writer also said the budget collection in the third quarter reached only VND14,630 billion as compared to VND16,810 billion in the same period of 1998. As such, the revenue in the first nine months of the year totaled only VND45,589 billion, lower than the figure in the same period of 1998. (see the following table)

of Customs is not affiliated to the Ministry of Finance in Vietnam at present. This will reduce efficiency of the national fiscal policies and the State Budget Law. This separation in favor of politics may lead to obstacles to the financial mobilization for the country's industrialization and modernization.

2. There is an argument on the *Thời Báo Kinh tế Việt Nam* (Vietnam Economic Times) "The required investment capital is VND120,000 billion, but the realization is some 70%, an increase of 3% over 1997 which had the lowest revenue as compared to six previous years. The domestic investment ratio dropped from 70.9% in the years 1991-1995 to 63.8% in 1996-1997. The foreign capital (mainly foreign direct investment - FDI - and official development assistance - ODA) rose from 29% to 36.2% in the same period. The annual investment growth increased fast from 7.8% to 28% in the years 1986-1990 but then fell to 15.5% in 1996-1997 and saw a downward trend in 1998. Therefore, the investment growth and structure indicate unfavorable changes in economic growth, especially when the FDI decreased by more than one-third." (5)

The above opinion shows the campaign of fully utilizing internal forces launched by the Party Executive Committee's fourth congress are accurate and timely.

3. The technological achievements are increasingly applied to finance and economics. The information can be accessed and shared widely at no cost. This disclosure creates opportunities for the tax payers to understand their rights and obligations well. In the mean time, legal documents are disseminated. They thus cannot accept bureaucracy and unequal treatment (some businesses enjoy abnormal privileges). Tax authorities should be

#### Some Economic Indicators in 1999

Indicator	Second quarter		Third quarter		First nine months of the year		Fourth quarter		full year	
	1998	1999(est.)	1998	1999 (est.)	1998	1999(est.)	1998	1999 (est.)	1998	1999
Industrial output value (1994 price - VND bil.)	36,778.5	42,666.2	37,883	40,806	109,992.5	122,892	40,485	42,606	150,407.5	165,498
Export (US\$ mil.)	2,371	2,777	2,232	2,573.1	6,937	7,558	2,419	2,317.4	9,356	9,875.5
Import (US\$ mil.)	3,295	3,824	2,676	2,265	8,703	8,509	2,687	3,955	11,390	12,464
Budget collection (VND bil.)	15,478	16,860	16,860	14,630	45,854	45,589	20,608	25,608	66,462	71,420
As compared with the same period last year (%)										
Industrial output value (1994 price - VND bil.)	106.4	116.0	114.9	107.7	113.2	111.8	110.6	105.2	112.5	110.0
Export (US\$ mil.)	108.6	117.1	102.2	115.3	109.0	108.95	83.3	95.8	102.4	105.6
Import (US\$ mil.)	114.7	116.1	88.7	84.7	105.9	97.8	76.2	147.1	98.9	100.3
Budget collection (VND bil.)	103.4	108.9	141.3	87.0	100.8	99.4	83.8	125.3	105.3	106.9
% of the year plan	22.3	24.3	20.7	22.1	-	67.4	-	37.2	-	104.6

Source: Ministry of Finance - *Tài Chính Review*. July 1999

From the above table, some measures are suggested to promote the national finance as follows:

1. Continuing administrative reform in central and local organizations to obtain the integration and universal of the state budget institution. As a result, making up one-third of the budget revenue, the General Department

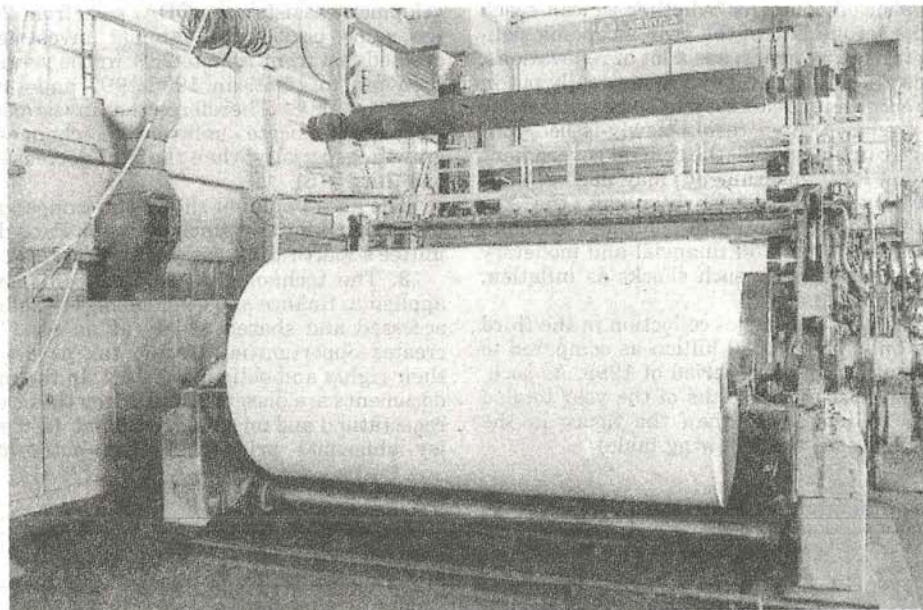
staffed by qualified officials and they must not attribute tax loss or shortcomings to their poor skills and facilities. A developed economy and a healthy and effective financial system cannot include red tape activities as a saying: "a mind exists only in a healthy body".



4. Major measures: "Regarding fiscal policies, to reach the targets of the collection planned in the budget report, the Government shall perfect new tax laws, mainly the value-added tax, in the trend of keeping the law's basic principles, amending particular provisions in line with the reality in stead of settling cases on a one-by-one basis as at present. From this experience, it shall improve the policy making quality and preparations for tax reform, and secure the budget collection on the basis of encouraging effective production and business. Regarding the execution of the Ordinance on Practicing Thriftiness and Fighting Wastefulness and Regulations on financial dis-

(5) Phạm Ngọc Long, "Tổng quan kinh tế năm 1998- Một số dự báo và giải pháp cần thiết trong năm 1999" (Outline of Economics in 1998 - Some Forecasts and Necessary Measures in 1999). *Thời Báo Kinh Tế Việt Nam*. Hà Nội. 1999.

(6) Phan Văn Khải, "Phát huy sức mạnh của toàn dân tạo chuyển biến tích cực về tốc độ và chất lượng phát triển kinh tế-xã hội" (Fully Utilizing the People's Strengths with the Aim to Accelerate and Enhance the Quality of Socio-Economic Development). Speech delivered at the National Assembly, Term X. November 18, 1999. Part II (Major measures).



closure, the budget spending shall be strictly managed and inspected to meet demands and earmark capital for investment development..."(6)

The above opinion on continuing banking reform and finance is extracted from Prime Minister Phan Văn Khải's speech at the National Assembly, Term X, on Nov 18, 1999 showing the Government's concerns about an appropriate fiscal policies, creating strengths and resources for the state budget in the next years. Accordingly, tax policy shall be renovated to assure stable budget revenue for investment and development in the process of industrialization and modernization■

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(2) State Budget Law. Introduction. Chính Trị Quốc Gia (National Politics) Publisher. Hà Nội

(3) Dương Ngọc, "Về kế hoạch thực hiện thu chi ngân sách" (On the Budget Revenue and Spending Plan, *Thời báo kinh tế Việt Nam* (Vietnam Economic Times), p.30. Hà Nội. 1998.

(4) Hoàng Thái Sơn, "Phác họa tình hình kinh tế tài chính 6 tháng đầu năm- Dự báo chỉ tiêu quý III và cả năm 1999" (Economic and Financial Facts in the First Half of the Year and some Indicators in the Third Quarter and the Whole Year 1999). *Tài Chính* (Finance) Review 7. p. 1-10. 1999.

