

PRIVATE ECONOMY IN THE TRANSITION TO SOCIALISM

by Prof. Dr. NGUYỄN THỊ CÀNH



1. VCP view on the private economy

After the 1987 Foreign Investment Law, the National Assembly promulgated two laws in 1990: Companies Law and Private Businesses Law under which private, limited and joint stock companies, like foreign-invested ones, are allowed to come into being and operation in Vietnam. Thus, besides the public sector, the private and personal sectors have come into existence officially.

In nature, both private and personal sectors are privately owned. Difference between them is in the size of business, and organizational; legal and managerial relations. After the Companies Law, many private businesses were turned into limited companies. We see that the personal sector develops into the private sector when the legal infrastructure changes. Thus, the classification of sectors is only relative. In developed countries, there are usually two sectors: the private and public ones. Many joint stock companies where the State holds the better part of their shares are included in the public sector, otherwise they are in the private one.

Experience from developed countries shows that the public sector contracts as the economy develops. In the VCP view and policies, however, the public sector in the socialism-oriented market economy in Vietnam must play the leading role. It's necessary to clarify this view if the private sector is really allowed to develop without limits on its size and scope of operation according to market economic laws.

In our opinion, the leading role played by the public sector doesn't necessarily mean that this sector should include most companies and accounts for the biggest share in the GNP. The leading role in the economy requires the public sector control key industries that determine national security and social welfare, such as the defense industry, infrastructure building, finance and banking service, etc. After identifying in-



dustries that should be under the state control, we can easily determine what industries and fields in which the private sector is allowed to develop without limit. Co-existence and development of the private and public sectors means that they are all equal before law. All policies and laws must treat them equally and provide them with equal opportunities and protection, policies on land use, public finance tax and market regulation in particular must be applied to all sectors without discrimination. In such a view, all policies to encourage investment and development must pay full attention to industries or fields instead of to per-

sonal persons alike, of course, have rights to buy part of those capital goods because they are originally under the public ownership. The State, as the seller, can sell them to anybody who is ready to pay high prices instead of the way of pricing and selling shares of today. This way isn't based on relations between market supply and demand. From this argument, we conclude that all private persons, including capitalists, should be allowed to buy shares whose number could be determined by the industry in which the said company operates. The best way to price and sell share is put them out to tender, that is, selling them by auction.

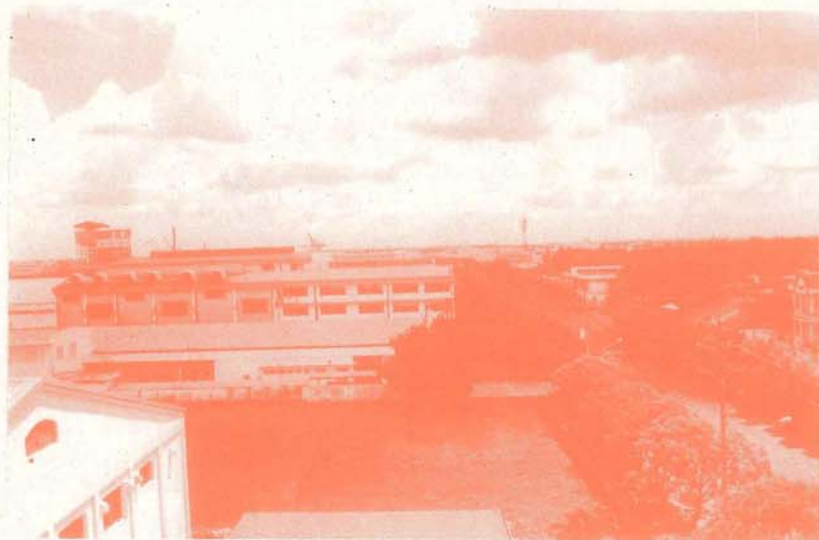
b. Land policy:

In recent years, the Government has adopted many policies relating to land and land use right with a view to allow all social classes to enjoy equal opportunities for using or renting land. The reality, however, shows that the land policies didn't produce intended results. State-owned companies have had rights to use land freely since the day they were established. In the economic reform, values of the land and other fixed assets they use weren't estimated at market prices. Private companies that came into existence after the economic reform, on the other hand, weren't granted land by the State. They had to buy or rent land from the State or private persons at market prices and met with great difficulties caused by complicated procedures forgetting land granted or leased.

To solve this problem, the Government must apply the same land policy to companies of all sectors, that is, offer the same rent to both state-owned and private companies. Private companies that have bought land from private persons should be granted the land use rights and necessary certificates (title deed) instead of being considered as tenants who should pay rent every year to the State for the land they had bought from private persons.

c. Tax policy:

Besides exemption from tax offered to private companies in certain industries and remote areas, the Government had better review policies on company income tax, profit tax and personal income tax. According to the current policy on the company income tax, when the company's after-tax profit is bigger than VND25 million, it will be taxed again. In my opinion, this policy discourages private companies from making intensive investment because they have to pay more tax for their retained profit if it is too big. Because the law requires personal income tax from high-income earners, so the Government need not impose the second income tax on owners of private companies. Another problem is to impose the same tax rate on companies of all sectors, either public or non-public ones. To ensure equal opportunities for all companies, especially private ones, and to prevent losses of tax take, the Government had better force private companies to make all payments through banks and keep books properly as required by laws.■



sons who make investments.

2. Suggested amendments to current policies

a. Privatization:

In our opinion, besides current policies on encouragement to the private sector, the Government had better adopt policies to diversify private ownership, and make the private sector expand while contracting the public one. To achieve this aim, the Government should review the privatization policy and make it more appropriate to the development of a mixed economy.

As everybody knows, state-run companies are under the public ownership and everybody could benefit from their profits. When a state-run company is turned into a joint stock company, part of the public ownership will be transferred to a private person or two. When private persons possess part of capital goods, they become capitalists. Laborers and pri-

As for laborers working in the state-run companies to be privatized, they could get help from public organizations or funds to buy shares. The Government had better stop mixing business with social issues by selling shares at low prices to laborers and refusing to sell shares to capitalists or private persons. Realities of such joint stock companies as Đức Tân, which is jointly owned by the State, capitalists and laborers, show that this model proves effective and successful. The private company Đức Tân became a state-owned company after 1976 and until recently its shares have been sold to laborers and capitalists and it kept making profit after privatization.

In this model, the equity shares could be divided equally among three entities, the State, capitalists and laborers employed by the company. This model proves to be effective in ensuring interests of different parties according to the socialist orientation.