

1. Concept of social welfare

The social welfare is considered as an effort to ensure benefits for citizens by supplying basic social services. The UN Summit of Social Development held in Copenhagen in 1995 defined basic social services as follows:

- Education: primary schools and kindergartens, program to fight against illiteracy, etc.

- Health care: Services supplied by health stations at district and commune levels and hospitals, programs to promote public health, nutrition, disease control, etc.

- Family planning and birth control.

- Social services, supply of clean water and public sanitation.

In Vietnam, the social authorities include some other services in social

training centers, reform schools, etc.

In this sense, the social welfare is a range of services the State must be responsible for supplying. Development of social welfare system is important to the socioeconomic growth of a country. This enables all citizens to develop to the fullest and contribute all their potentials to the society. A well-developed social welfare system reflects a modern, civilized and equitable society.

Modern economists argue that economic growth is a sufficient condition for human and social welfare development but it couldn't automatically develop a social welfare system for human beings. That is why governments have to select ways and quality of growth that are of best service to the social welfare system and improvement in the quality of

a. Education service:

Vietnam has achieved good results in supplying the education service to its citizens. In the last decade, proportion of children attending school was improved remarkably, proportion of school-leavers was reduced and gender balance of students improved. Better part of education budget was put in primary and secondary education, which brought about benefits for the poor and low-income families.

The education system is diversified now; all classes are allowed to engage in this service. When the demand for better education service becomes greater, it's reasonable for the government to diversify kinds of schools, sources of finance for education and relations between classes in supplying this service.

SOME PROBLEMS WITH THE FINANCIAL POLICY ON THE SOCIAL WELFARE

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welfare affairs to make them suitable to current conditions and requirements of economic development:

- Benefits for the poor.

- Pension and allowance for persons who had contributed to the revolution.

- Social affairs: emergency aid, orphanage, old folks' home, vocational

life.

In Vietnam in the past three decades, the Government has affirmed objectives of the socioeconomic development strategy are for human development and better social welfare.

2. Financial policy on the social welfare

As for the source of finance for education, the government has tried its best to increase the budget for the service, from 2.3% of the GDP in 1992 to 3.5% in 1999, making the education budget account for 17% of the public expenditure or 19% of regular expenditure from the state budget.



Photo by Hoàng Tuấn

Of the public expenditure on the education, 36% goes to the primary education, 18% to junior secondary education and 8% to senior secondary education. Thus, the general education accounts for 62% of the public expenditure on the service. The rest is spent on other training activities.

b. Health care service:

The public health in Vietnam witnessed good improvements:

- Death rate among children fell from 90 per 1,000 in 1975-1980 to 44 in 1989-1993 and 28 in 1996-2000.

- In the past two decades, proportion of children infected with contagious diseases fell from some 60% in 1976 to 27% in 1997.

- Health care stations have been built in all communes and districts.

As the economy grew in the 1990s, the source of finance for health care service increased remarkably. The public expenditure on this service increased by some 13% year. Up to 2000, this expenditure equaled some 1.7% of the GDP, or 8.5% of the total public expenditure, and if the hospital fees and medical insurance are taken away, the expenditure on this service equaled 1.4% of the GDP or 7% of the total public expenditure.

Of the budget for health care service, the investment expenditure fell from 28% in 1991 to 21% in 1999 and some 50% of this investment was put in fixed assets. Of regular expenditure for the health care sector, 29% was turned into salary and 59% put in goods and services. Considering activities into which the expenditure was divided, from 11% to 19% was spent on disease control and preven-

tion, 66% to 74% on medical treatment and the rest on family planning.

c. Social security: This business aims at supplying services to and redistributing wealth in favor of the poor, retired functionaries and the disabled. At present, there is a range of social programs:

- Funds for emergency and regular aid: those two funds are used for supporting the disabled and victims of natural disasters.

- Social security fund used for supporting persons who had contributed to the revolution and the struggle for independence.

- Social insurance and medical insurance for all laborers.

- Programs to fight against poverty and shortage of food and build public works in rural areas in order to create new jobs and improve the living standard.

The budget for social security increased from VND1,000 billion in 1990 to over 10,300 billion in 1999, that is, from 12% to 14% of the total public expenditure, equaling 3.2% of the GDP. The budget for social security is equal to that for health care service but only 2% of this budget is turned into investment. This means that most services supplied by the social security sector are in cash or in kind. Moreover, over 60% of this budget is put in programs to support persons who had contributed to the revolution, the rest is put in programs supporting the poor and disabled.

d. Shortcomings of the financial policy on the social welfare

Developing the social welfare sys-

tem and considering it as an instrument for developing the country is a policy pursued by Vietnam for years. By increasing investment in basic social services, the Government created a firm basis for economic growth. In comparison with other developing countries, the literacy rate in Vietnam is higher; the death rate among newly born babies and their mothers is low while the life expectancy is improved.

After the market economy was adopted, sources of finance for developing the social welfare in Vietnam were more diverse. Besides public expenditure as the most important source, other sources have been mobilized through medical and social insurance, hospital fees and humanitarian aid programs by foreign organizations and governments.

However, the financial policy on the social welfare in the industrialization and modernization process has revealed many shortcomings. The following are some of them:

- Firstly, the source of finance from the state budget is mainly the short-term capital while there are many potential risks to sustainability of the state budget in the long run. The public fund isn't large enough for the Government to carry out the policy on the social welfare to the full. This reflects in the decline in the percentage of the GDP turned into the budget in the years 1996-2000 (below 4%) while the demand for increased expenditure on social welfare and development became greater. The following are more urgent expenditures:

- + Expenditure on reform in the public sector and the banking system (12% to 13% of the GDP in the next three or four years);

- + Expenditure on development programs prioritized by the National Assembly;

- + Expenditure on the reform in the salary scale for the public sector.

In the long run, the expenditure on the social welfare must be increased in order to meet requirements demanded by the society.

At present, the per capita public expenditure on health care is only about US\$5.7 half of the level considered by the World Development Report 1993 as necessary for supplying basic health care services in poor countries. Although the state is the main supplier of health care service, its share in the total expenditure on this service is small (equaling 20% in 1998) with the result that low-income earners have to bear the burden of heavy fees charged by hospi-

tals.

The ratio of expenditure on education service to the GDP is very small by international standard although it is increasing over time.

Like education and health care services, the social security depends a lot on contributions from individuals and organizations. According to a WB survey, over 40% of expenditure on social security services is from private sources of finance.

Secondly, the mechanism for managing financial and human resources of the social welfare system is too centralized. While local governments cover some 70% of expenditure on education service and 60% of expenditure on health care service and their share in the total public expenditure rose from 26% in 1992 to 43% in 1999, they have almost no effect on decision on these expenditures. When grants-in-aid and local budget income are small, local governments have to re-divide funds among items.

Thirdly, distribution of fund for development of social welfare is inadequate. Distribution of financial resource among items is based on criteria set by the state, but the system of criteria is imperfect:

- Too many criteria: For example, in deciding expenditure on the education service, there are 40 criteria to apply to different local governments of different levels. Many criteria aren't suitable to changes in the market leading to unfair and inefficient distribution of fund.

- Lack of flexibility: Criteria for distributing fund is set by the central government without proper attention to priorities given to different tasks and fields with the result that the distribution of budget doesn't meet local requirements and becomes ineffective.

- Lack of cost-effectiveness: The budget for social welfare pays too much attention to budget income, or inputs, and fails to connect fund with result and performance.

3. Basic solutions to the problem

In the Strategy for Socioeconomic Development in 2001-2010 adopted by the 9th VCP National Congress, the following target are set for the social welfare development:

- Doubling the GDP in 2010 in comparison with 2001;
- Enhancing remarkably the HDI;
- Making the junior secondary education free and compulsory;
- Reducing the proportion of undernourished children to 20% or below;

- Reducing the unemployment rate and increasing income for laborers;

- Keeping on fighting against poverty and hunger, and ensuring social equality.

The Strategy affirms that the development of social welfare should be linked with economic growth. This requires reform in the mechanism for redistributing income with a view to making the economic growth be of service to the redistribution of wealth among social classes.

Economic reform and development should be maintained in order to increase sources of finance for the social welfare. Of these sources, the public one should ensure at least 50% of the total expenditure. Increases in the expenditure on social welfare should be appropriate to the economic growth rate and development of non-public sources of finance. A medium-term financial policy on the social welfare must be worked out to ensure sustainable development of the system.

To achieve these targets, the following solutions, in our opinion, are feasible:

a. Reforming the mechanism for controlling the public expenditure with a view to enhancing the efficiency in distributing and using the public funds:

The public expenditure must meet the following strategic requirements:

- Financial discipline: If the public expenditure increases, the burden of tax and debt will be heavier in the future leading to macroeconomic imbalance. That is why the government should maintain the financial discipline. This means the public expenditure must be established independently and before making decisions on expenditure on each item. Limits on the public expenditure must be established in a medium-term basis and criteria for distributing public funds must be suitable to the medium-term budget planning.

- Effective distribution: Decisions on the public expenditure must be suitable to strategic priorities set by the Government in order to ensure the financial discipline and compatibility between the planned budget and realized one. This effort aims at optimal allocation of financial resources and requires a medium-term expenditure budget (from three to five years) from the Government.

- Good performance: In carrying out the budget plan, full attention must be paid to results and performance, that is, the use of financial resources at the lowest cost.

b. Allocating financial resources

according to the trend of economic growth:

- Education service:

- + Investment in this sector could be increased to 4% or 5% of the GDP, or from 15% to 20% of the total public expenditure.

- + Distribution of funds for education must be done fairly and reasonably with proper attention paid to local conditions.

- + It isn't necessary to encourage all classes to engage too much in the general education service, especially in depressed and remote areas because development of private schools could make the gap between rich and poor wider.

- Health care service:

- + Priority in distributing funds could be given to: mountainous and remote areas, initial health care service, high-quality disease control



methods, system of health stations in rural areas, medical insurance for the poor.

- + Private persons could be encouraged to supply health care service. Medical insurance could be expanded to private sector and its performance must be enhanced.

- Social security:

Social security is necessary to a country in which from 30% to 40% of the population is poor. Redistribution of wealth through social welfare programs will help solve poverty and other social problems. These programs must be expanded to the poor and local governments must be allowed more autonomy in deciding priorities in expenditure on social security programs ■