

# EFFICIENCY AND EQUALITY

by Dr. NGUYỄN THUẤN

**T**he market economy is undoubtedly considered as a respectable achievement of the human civilization. It's necessary to study and develop the market economy in a manner appropriate to historical, social and economic conditions of a country.

The market economy itself has created a strong dynamic for the economic development. Adam Smith argued that personal interest was the main feature of human being. The human being is born with personal interest and it will stay with him until his death. If an individual pursuing his aim is directed by an invisible hand and comes to another destination against his will, it will do no harm for the society. Actually, an individual pursuing his personal interest does more good for the society than those who intends to do good for the society. It's the personal interest that moves the economy, stimulates individuals, and the society as well, to find the best way to satisfy their own needs. The satisfaction of human needs will create a strong dynamic that taps all resources from the human being, liberates the existing productive

possible, then everyone can benefit from it. Thus, an excessive difference in income causing inequality in distribution isn't a desirable thing.

All efforts made by the governments to reduce inequality in distribution, and redistribute resources more equally among individuals and social classes (through tax policy, public expenditure, public utility services, etc) are considered as the exchange of efficiency for equality. The bigger the effect of redistribution of income and resources, the weaker the competition and profit motive, that is, the dynamic of economic development is reduced. The more equally we try to divide the cake, the smaller it becomes.

It has been nearly a decade since the introduction of the economic renovation and the transformation from centrally planned economy to market mechanism. The Vietnam's economy has gained the basic dynamic and make good progress in the effort to develop the economy and improve the living standard. Obviously, "the Vietnam's economic reform has given energy to the economy", as the World Bank put it in December, 1994.

Table 1: Some socio-economic indicators (1990-1995)

|  | 1990   | 1991   | 1992   | 1993   | 1994   | 1995   |
|--|--------|--------|--------|--------|--------|--------|
| 1. GDP (VND billion, fixed price 1989)                           | 29,526 | 31,268 | 33,991 | 36,735 | 39,982 | 43,780 |
| 2. Growth rate (%)   | 5.0    | 6.0    | 8.6    | 8.1    | 8.8    | 9.5    |
| 3. Average personal income (VND1,000/ month, fixed price 1992)   | 97     | 104    | 112    | 120    | 129    | 138    |
| a. In Northern mountainous areas                                 | 40     | 71     | 85     | 86     | 90     | 96     |
| b. In Eastern South Vietnam                                      | 70     | 125    | 192    | 226    | 276    | 345    |
| 4. Difference in personal income between (a) and (b) (VND 1,000) | 30     | 54     | 107    | 140    | 186    | 249    |

capacity, causes the economy to develop and the living standard to rise.

However, it's the market economy that causes the inequality in the distribution of income. The main cause of this inequality comes from the unequal division of resources among individuals and among social classes who have different starting points; different physical, educational, historical, social and economic conditions and have to face the keen competition of the market economy.

Economists have long since seen the opposing relation between efficiency and equality. This conflict exists stubbornly and irreconcilably in the economy. J.M. Keynes argued that the higher the personal income, the higher the savings rate and vice-versa, thus the high savings rate originates from unequal distribution of income, although it produces good effects on investment and development. J.E. Stiglitz argues that the best solution to the economic development is not to care how to divide the cake equally, but how to enlarge the cake as fast as

The Vietnam's GDP has increased continuously in the past five years, from 29,526 billion in 1990 (VND price in 1989) to 43,780 billion in 1995, that is, an increase of 150% has been made. The average growth rate from 1990 to 1995 was 8.2%. The personal income also increased, from VNĐ97,000 (a month) in 1990 to 138,000 in 1995 (an increase of 42.27% in this five-year period, or 7.3% annually).

Besides these achievements, the inequality of income also became larger and larger. Comparing the difference in personal income between residents in Northern mountainous areas and in Eastern South Vietnam, we saw that this difference increased from VNĐ30,000 in 1990, to 54,000 in 1991, 107,000 in 1992, 140,000 in 1993, 186,000 in 1994 and 249,000 in 1995, that is, an increase of 830% since 1990.

The contradiction between equality and efficiency also shows itself in the Lorenz curve depicting the distribution of income to residents in different regions pre-



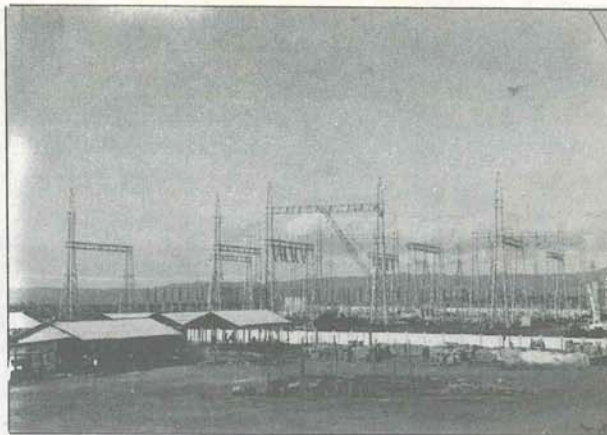
sented by the project VIE/90/007 on the living standard of Vietnamese people:

**Table 2: Accumulated income of Vietnamese residents by regions (fixed price 1992)**

| Accumulated income rate    | 20%<br>of pop | 40%<br>of pop | 60%<br>of pop | 80%<br>of pop |
|----------------------------|---------------|---------------|---------------|---------------|
| Northern mountainous areas | 9.17          | 22.96         | 42.27         | 65.95         |
| Eastern South Vietnam      | 9.33          | 20.12         | 35.42         | 57.30         |
| The Nation.                | 8.94          | 21.51         | 38.81         | 60.36         |

These Lorenz curves (from series 1 to series 3) show that Eastern South Vietnam is a region of high growth rate, living standard and personal income, but its Lorenz curve (series 2) deviates from the line of equality (series 4) to a greater extent, that is, there is a greater difference in personal income (or inequality in distribution of income) there, whereas in Northern mountainous areas where both the growth rate and personal income are low, its Lorenz curve (series 1) is nearer to the line of equality, that is, the distribution of income is more equal there.

Thus, the contradiction between efficiency and equality forces economists and governments to face a choice between two desirable things. How to ensure the efficiency for the economic development and at the same time, bridge the gap between the rich and the poor, between different social classes and regions is still an unanswered question ■



**Figure 1: Lorenz curve depicting income distribution to Vietnamese residents in different regions**

