TAX REFORM AND ECONOMIC EFFICIENCY

By Dr LÊ KHOA

Economic efficiency is evaluated by different criteria. For enterprises, economic efficiency is identified with high profits. For families, economic efficiency is measured by monthly incomes. For a country, economic efficiency means yearly GDP growth. For example, Vietnam's GDP growth was 9.5% in 1995, increasing by 2-3% over the period 1976-1982, in the period 1985-1988, owing to the former USSR aid in the construction of key projects, the GDP growth reached 6-7%, but afterwards, the growth rate was only 2-3% in 1990-1991 because Russia could not continue to grant aids. In the world, countries compete with each other in rapid development, any underdeveloped country which maintain the growth rate of 10-12% in tens of years can become "new industrialized dragon" and "economic power". In Vietnam, although it has just developed with growth rate of 8-9.5% in recent years, but the population's living standard has been improved, new projects have been built across the country.

I. RELATION BETWEEN TAX REFORM AND ECONOMIC EFFICIENCY:

1. The efficiency of tax reform is appraised by the fast GDP growth rate. If the tax reform proceeds well, GDP growth rate will increase fast and be kept at about 10% annually. Commonly, when the tax reform makes successes, the revenues of the State budget will soar. If the State applies the policy on lowering regular expenditures and increasing capital for investment, socio-economic development, then the nationwide ratio of investment will go up. That means to pour money in the construction of new factories, roads, schools, hospitals, orchards of coffee, rubber, and fruit...Increasing investment certainly leads to rising GDP growth rate, more jobs for workers and higher wages.

The relation between economic reform and fast development is explained via the raising of investmennt according to the following chart 1:

Economic reform -> Soaring tax collection -> Rising State funds for investment -> Increasing growth rate

2. The efficiency of tax reform is evaluated by the growth in turnover and high profits of enterprises: How can enterprises still increase their turnover and profits while tax collection soars. The enterprises' directors will welcome tax reform only when their turnover and profits rise thanks to tax reform. When the enterprises' turnover and profits go up, they will pay more tax to the State, can clear out the bank debt, they also use profits for more investment, production expansion amd hiring more employees.

The relation between tax reform and turnover and profits, and fast development is explained through the following chart 2:

Tax reform -> Increasing turnover and profits -> Enterprises can repay bank's debt, pay more tax, increase investment, expand production -> Fast GDP growth rate.

3 The efficiency of tax reform is valued by the increase in families' incomes: The families' incomes are almost wages paid by enterprises to workers, by State to civil servants. In Vietnam, due to large scope of individual production including small-sized traders, producers, and individual farmers, so the families' incomes also include the above household's turnover. When the rice harvest succeeds, production of cashew, coffee, sugarcane, and their prices increase, and farmers' incomes go up. In other words, because Vietnam has nearly two million expatriates, some households have high incomes because they receive remittance from overseas, if deposits increase and the exchange rate of Vietnamese đồng to the US dollar is high then their incomes will be higher.

The chart 3 evaluate tax reform via increase in income and turnover of small businesses as follows:

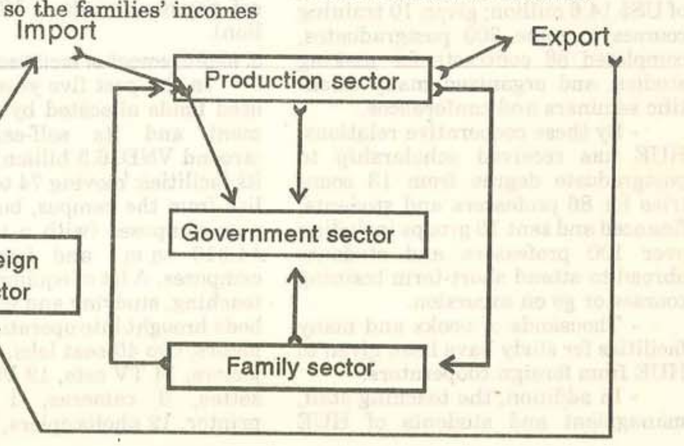
Tax reform -> State, enterprises spend more on wages -> Thriving economic, enterprises hire more employees -> Families receive more wages, workers have more jobs -> Families buy more products of enterprises -> Thriving economy

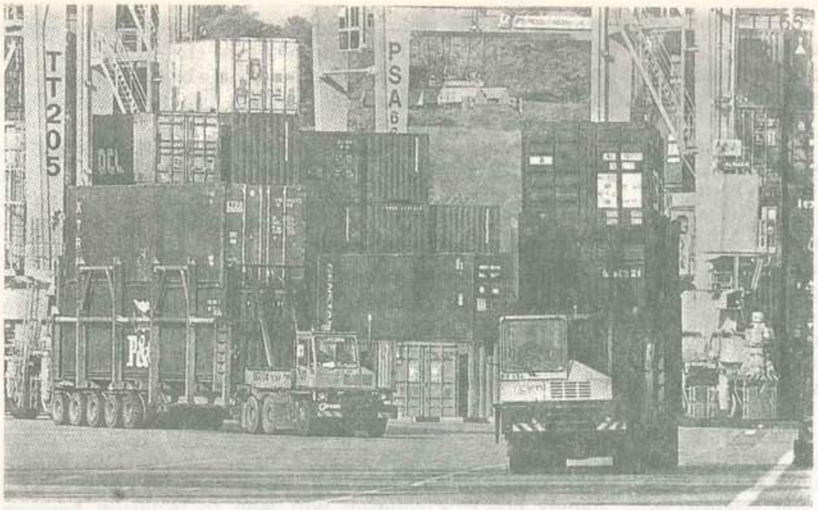
II. THE SNA MODEL OF FOUR ECONOMIC SECTORS

This model includes four economic sectors of production or enterprises, Goverment, foreign business and families

In the above three ways of evaluation, the first is based on the nationwide viewpoint, the second maximizes enterprises' turnover and profits, the third depends on families' incomes.

The chart of the SNA model of four economic sectors:





The national economy is divided into main sectors: Production and family ones. The former produces commodities, and the latter consumes these goods. Therefore in the chart, there are arrows showing the move of goods from the production sector to the family sector and the volume of money paid by the family sector to the production sector. Two other arrows, one from the production sector to the Government sector, representing taxes the former has to pay to the latter, another from the family sector to the production sector, representing taxes paid by the former to the latter. In addition, the production sector also imports goods and services from the foreign sector and export goods and services to the foreign sector. In the above import-export, the production sector has to pay tax to the Government sector, those are import, export duties. These taxes are represented by the second arrow from the production arrow to the Government sector.

Thus, the SNA model or national accounting analyzes taxes according taxes imposed on the foreign sector through the production sector (export, import duties, especially import duty), taxes on the production sector (enterprise's turnover and profits) and taxes on the family sector. Taxes on imports will raise prices of imports and help domestic enterprises buy more goods. On the contrary, turnover and profits taxes will put a heavier burden on the enterprise's production. Regarding taxes on the family sector, the poor and rich family should be distinguished. In fact, taxes are imposed mostly on rich families: for example, taxes on workers' wages; higher wages, higher taxes. Therefore, taxes on families, especially high-income earners, have feature of redistribution of incomes, implementation of social equity.

From these above remarks, it was said that the Government should reduce taxes on the production sector, increase taxes on the foreign sector (via production sector, especially import duty) with the aim to protect domestic goods, raise taxes on the family sector, especially taxes on high class goods, luxuries, big houses, autos...When the production sector enjoy tax cuts, it will obtain more capital to expand production.

III. ECONOMIC AND TAX REFORM IN VIETNAM

To reform the economy, taxes in Vietnam, especially to set up Vietnam's SNA, the State should possess enough statistics on time. However, regrettably, our statistics still have many deficiencies. Based on reports, especially from the General Department of Statistics, we estimate the Government sector's revenues as follows:

Unit: US$ million

The Government sector - Account of commodities and services: Revenues of the Government sector

	1991	1992	1993	1994	1995
Import duty					
Tax on imported machinery	9.2	8.6	20.1	23.8	25.0
Tax on materials	60.1	62.9	95.6	116.0	120.0
Tax on components	2.1	4.7	0.0	0.0	0.0
Tax on consumer goods	30.8	93.8	428.4	506.3	550.0
Fine of illegally-imported goods	0.040	0.053	0.058	0.062	0.150
Export duty	23.2	29.4	33.5	39.7	56.2
Tax on production sector	845.9	1,202.4	1,649.7	1,931.6	2,100.0
Tax on family sector	7.7	15.6	38.1	46.2	52.0
Selling goods to family sector	71.0	80.0	90.0	110.0	125.0
Selling goods to production sector	201.0	210.0	230.0	240.0	250.0
Collection from depreciation of production sector	27.3	150.9	175.0	205.0	210.0
Total:	1,278.4	1,858.4	2,760.4	3,218.6	3,488.4

Although these above figures are relatively valuable, but they are worth noting: Vietnam imposed less taxes on imports previously. Till 1987, import taxes had been set up. In 1992-1993, there was considerable increase in taxes on imports, especially consumer goods. From 1992, the inflation was also curbed, therefore taxes on the foreign sector via production sector and imported goods are considered one of measures to reform taxes and the economy effectively.

Moreover, taxes on illegally-imported goods are still far behind requirement.

Taxes on the production sector are very too high and are one of causes making the economy have not developed yet as expected. Taxes on the family sector are very low.

As a result, the economy can develop faster, if the Government reduces taxes for the production sector, makes higher fines for illegally-imported goods, imposes more taxes on imports and the family sector■