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FINANCE IN A SOCIALIST TRANSITION: THE CASE OF
THE DEMOCRATIC REPUBLIC OF VIET NAM (1955-1964)

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INTRODUCTION

Recent far-reaching reforms in the Socialist Republic of Viet Nam (SRV) have been given some--but insufficient-- attention by outside observers and scholars. These reforms , which concern particularly financial and monetary policies and which are de-emphasizing the dominant role of the State in the development process , raise questions about the functioning of the socialist economic system that already dates back to the years it has been established in the North , in the Democratic Republic of Viet Nam (DRV) during the 1950s and 1960s.

This article analyses the role of finance in that early transition to socialism , taking the period 1955-1964 , i.e. from the Geneva treaty until the first US-bombing raids on the North , as the "founding" period. Other scholars have studied in depth the land reform , the collectivisation and the development of agriculture in the DRV. The important role of the DRV State as "centre of accumulation" and the financial and monetary policies which were developed to support a State controlled accumulation process , particularly during these years of relative peace , remain largely unresearched. Only some classic studies like Chau [1966] , Tri [1967] and Lavallee [1971] have made contributions in this respect. This article therefore attempts to fill part of the gap that exists in our knowledge of this very interesting transition period in the DRV.

The material presented is not only fascinating from the point of view of economic history , it will prove to be interesting as well for a better understanding of current attempts to change and improve the system of economic and financial management in the SRV. It is furthermore written with a comparative interest in mind. It may raise some crucial issues for those

studying (or being involved in) other more recent transitional economies and as such it may contribute to the development of more theoretical and empirical work on their specific problems.

The article is divided into five sections .First ,the development of State budget is analysed which gives us insight in the increasing role of the State as a motor of development and socialist transformation; Second , investment policy is discussed with particular reference to the allocation of resources for investment between industry and agriculture; Third , the complicated issue of monetary policy and the role of money and credit are analysed; Fourth , a section is devoted to accumulation and its sources of finance , both internal and external of origin. The fifth and final section presents the conclusions. The article is followed by a detailed annex on the (mis)use of statistics on industrial investments in the DRV.

STATE FINANCE IN THE DRV :1955-64

On the basis of a great number of fragmented figures, combined with growth indices and shares of sectoral distribution, the present author has made a reconstruction of the DRV State budget for the years 1955-1964. It remains a 'reconstruction' with a considerable amount of estimates, as the actual figures for most years have not been published. However, it gives important information on the increasing role of the State budget as a major instrument of distribution of the National Income , and at the same time on the changes in sources of revenue and items of expenditure. The reconstructed State budget is presented in Table 1 , given in current prices and measured in millions of Dong.

Table 1

Some general observations can be made before discussing the development of budgetary revenue and expenditure in detail. First ,the budget increasingly became the main distributor of National Income. While government expenditure in 1955 (462 million $\text{\text{D}}$) was not more than 17.6 % of National Income , in

Table I: Estimated revenue and expenditure of the DRV State Budget: 1955-1964 (Current Prices, Million Đồng)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
<u>Total revenue</u>	<u>495</u>	<u>824</u>	<u>851</u>	<u>913</u>	<u>1200</u>	<u>1439</u>	<u>1590</u>	<u>1756</u>	<u>1846</u>	<u>1874^g</u>
a) Domestic revenue	300	489	529	678	987	1187	1313 ^c	1399	1468	1401 ^h
-Taxes	244	310	289	300	342	341	380 ^e	420	408	..
-Industry/Commerce	86	154	165	..	..	..	280 ^e	..	..	..
-Agriculture ^d	152	126	94	101	112	101	102	113	108	111
-Other	6	30	30	..	..	.. ^b	-	..	..	.. ^h
-Receipts from State enterprises	32	130	213	336	627	811 ^b	905	953	1034	1177 ^h
-Other revenue	23	49	27	42	18	35	29	26	26	..
b) <u>External revenue (foreign aid)</u>	<u>196</u>	<u>335</u>	<u>322</u>	<u>235</u>	<u>214</u>	<u>252</u>	<u>277</u>	<u>356</u>	<u>379</u>	<u>473</u>
<u>Total expenditure</u>	<u>462</u>	<u>766</u>	<u>829</u>	<u>893</u>	<u>1130</u>	<u>1460^a</u>	<u>1564</u>	<u>1736</u>	<u>1803^f</u>	<u>1874^g</u>
a) Economic construction	184	384	440	498	671	884	945	1057	1100	1168 ^h
-Industry	13	115	119	130	219	..	..	..	..	..
-Agriculture	33	69	55	66	92	..	..	..	..	..
-Construction	-	9	11	11	22	..	..	..	..	..
-PTT/Transport	113	126	77	86	122	..	..	..	..	..
-Other	25	65	178	205	216 ⁱ	..	..	..	..	.. ^h
b) Social affairs & culture	45	94	96	103	119 ⁱ	199	228	240	249	221 ^h
-Education	13	36	35	37	43	..	..	..	..	..
-Health	9	25	27	26	35 ^j	.. ^j	..	..	..	..
-Social security	..	..	..	19	27 ^k	42 ^j	..	..	.. ¹	..
-Housing	..	..	..	..	10 ^k	52 ^k	..	..	20 ¹	..
-Other expenditure	..	..	..	..	4	..	..	..	.. ^m	..
c) Defence	123	159	170	173	200	226	239	252	..	.. ^h
d) Administration	67	77	77	82	88	87	88	96	97 ^m	101 ^h
e) Miscellaneous expenditure	44	52	46	38	52	64	64	92	..	..

Main sources :

- Nam Nam..(1960), pp.73,77,78 .
- Vo Nhan Tri(1967),pp.257,350, 353,464.
- V.S.Rastorguyev(1965), pp.32,33,46 .
- Etudes Vietnamiennes(1976),pp.231-233 .
- Report to the National Assembly of the DRV by Finance Minister Hoang Anh;VNA-report, 12/4/60, BBCW53, 20/4/60, B/31 .
- Nhan Dan , 31/10/1963 , p.1 .
- Nhan Dan , 3/3/1964, p.3 .

Notes (Table 1):

(Revenue and Expenditure figures for 1955-1959 are based on the first main source, noting that Vo Nhan Tri gives different figures (in shares and growth indices) particularly for the years 1955 and 1956. On the basis of his data the figures for these years would lie 5-6 % lower than estimated here. The first source is used for its overall consistency. Rastorguyev, who is citing the same Vietnamese sources comes to comparable shares and indices for the years 1957-1959, with only slight differences. The absolute data for 1955-1959 are based on the combination of shares and indices with absolute figures for 1959 given by Finance Minister Hoang Anh. The 1960-1963 estimates are based on Tri (who uses So Lieu Thong Ke(1963) as source). The difficult year is 1960, mainly because figures were revalued later on. The absolute figures are again estimated, using the published figures for 1962. The relation between the two halves of the decade is complicated because the above mentioned sources do not agree entirely.)

^aHoang Anh mentioned that for 1960 the planned (balanced) budget figures were set at a total of 1,448.8 million Dong.

^bAccording to Y.Nakano(1963),p.219, "income from enterprises and works" would have been 804 million Dong and "tax revenue" 335 million B (1960).

^cY.Nakano(1963), pp.219-220, gives absolute figures for 1961 and presents them as being the actual (realized) ones. They are, however, not more than the planned figures (see also Le Chau (1966) , p.366, who gives the same figures as planned ones using Nghien Cuu Kinh Te, nr.1,1961 as original source). Nakano's figures provide us with the planned figures on "income from enterprises and works" (948 million Dong), "tax revenue" (398 million Dong) and total expenditure (1,690 million B).

^dFor 1955-1957 the agricultural tax revenue (as shares) were given by our main sources. for the period 1955-1959 as a whole more information was provided by Le Chau(1966), p.205 (shares of total revenue) and Kinh Te Viet Nam (1960),p.126 (shares of domestic revenue). These figures are entirely consistent with each other, and possibly the former are derived from the latter. For the following years of the decade the figures on agricultural tax payments are calculated in an entirely different way, namely as a given share of gross agricultural output (See: Rastorguyev, (1965),p.46 and Nhan Dan, 3/3/1964). For the years 1955, 1957 and 1959 an interesting cross check was produced in this way which gave only slight differences: 147 million Dong (1955); 96 million B (1957) and 109 million B (1959);

^eV.S.Rastorguyev(1965),p.35 : 17.6 % of total State revenue.

^fThe planned figure for a balanced budget for 1963 was 1,779.3 million Dong ;(See: Nhan Dan ,9/5/1963, p.2).

^gOnly a planned figure can be given here; (See: Rastorguyev(1965), with as original source Nhan Dan, 5/4/1964).

^hCalculated on the basis of distribution shares given by Etudes Vietnamiennes(1976),pp.231-233 .

ⁱA VNA-report gave an absolute figure on this that presents again a valuable cross check of our estimates. It said "more than 116 million Dong";(See: VNA-report, 15/2/1960, BBCW45, 24/2/1960, B/20-21.

^jFigures on expenditure for social security were given by VNA-report, 30/4/1962, BBCW160, 9/5/1962, B/27 .

^kFor 1960 a planned as well as a realized figure for "housing construction" was published. Plan : 47 million Dong (VNA-report ,28/10/1960, BBCW82 ,9/11/1960, B/17) ; Realized : 52 million Dong (VNA-report, 1/5/1961 ,BBCW108 ,10/5/1961, B/33). In an earlier radio report the planned figure had been set at 45 million Dong, which was said to be 4.5 times the 1959 total. (Ha-noi H/S ,3/5/1960 ,BBCW57, 18/5/1960 ,B/2).

^lHa-noi H/S-report ,31/1/64 ,BBCW253 , 4/3/1964 ,B/30 .

^m"Defence" and "Administration" together are 357 million Dong. No separate shares are known to the present author.

1964 it had grown (1874 million Ð) to 43.0 %. Second , total budgetary revenue increased during the period with a factor 3.8 and budgetary expenditure with a factor 4.1 .Third , programmes of economic construction (particularly in industry) soon became dominant in the budget ,increasing from 184 million Ð in 1955 to 1168 million Ð in 1964.

Internal and external revenue

The main sources of revenue on the State budget were : taxes , receipts from State enterprises and foreign aid. All three are discussed separately below.

Firstly ,Tax revenue from agriculture (thuế nông nghiệp),coming mainly out of the paddy harvest and paid in kind ,decreased rapidly in importance in the budget as source of domestic revenue (152 million Ð), going from 30.7 % of total revenue (or 50.5 % of domestic revenue) in 1955 to a level of only 111 million Ð or 6 % (resp. 7.9 %) in 1964(see Table 1). The drop from 1955 to 1956 ,when land reform was at its height ,can only partly be read from the budget accounts,as prices increased so that in reality tax payments in kind decreased much faster in relative terms. Only through increased government purchase was food distribution in the urban areas and the food deficit of rural areas not too much affected¹.

Tax rates varied between 7 % and 37 % of the estimated output per capita production (i.e. tax on estimated income in kind), while it was limited to a mere 7 % when also industrial crops were grown ².In reality tax revenues from agriculture varied as share of gross agricultural output between 4.5 % and 4.9 % ³.However agricultural tax in kind on paddy production decreased from 1957 onwards in absolute terms , while quota and above-quota sales to the State increased. In 1958 as well as in 1963 (both after rather bad harvests) tax rates were fixed for a period of three years, which particularly in the latter year had positive incentive effects for the producers⁴.Total paddy procurement in 1964 (the last year of the period of 'relative peace') would be substantially higher than in the foregoing years

of the decade, because of tax- and quota fixing and the increases in government purchasing prices of October 1963⁵. However, one should realize that the per capita production of paddy in 1964 was below that of the level of 1955, for which of course the rapid population growth of about 3.5 % per annum is an important underlying explanation.

In October 1959 ,when the cooperativization movement was in full swing, agricultural tax became discriminatory against ^(those) peasants who had not (yet) entered the low-level cooperatives (still based on private property of land) ,giving cooperative members a reduction up to 40-50 % of the regular tax rates. Tax collection within the low-level cooperatives was still done on an individual basis because private ownership of land continued. This made administration very complex, because for every cooperative member tax had to be calculated for the particular land rented out to the cooperative and for his private plot. The cooperative itself paid to the State taxes on ownerless land, communal land as well as on virgin land (if the period of exemption of three to five years had expired). Tax rates were not unified for all low-level cooperatives, nor for the high-level ones (based on collective property of land) and disparities due to low-echelon (district, village or hamlet) policy differences were substantial, leading to disincentives and inequalities that are nowadays recognized. There were also differences between the delta and the highlands, cooperatives in the latter regions being somewhat favoured with lower tax rates. Finally, only a very small percentage of the tax payments could be withheld by the cooperatives themselves for their accumulation funds (officially 3 % in the low-level coops and 5 % in the high-level ones)⁶. Agricultural tax collection was somewhat simplified when the low-level cooperatives became high-level units , where only taxes on the private plot were still paid on an individual basis. Agriculture was also taxed in an indirect way through low procurement prices ,with profits realized in processing agricultural materials and in foreign transactions⁷. Agricultural procurement (including tax payments ,quota and above-quota sales to the State) measured in (low) official prices tends

therefore to underestimate the relative importance of agriculture in producing resources for accumulation. Although the State would lose money in its distribution of food products against stable low prices (the price of 1 kg of rice would hardly change in nearly 25 years), in this way it was able to keep real wages in the urban industrial areas very low indeed, which it saw as an important asset in the industrialization drive.

Tax on industry and trade (thue cong thuong nghiep) was paid by enterprises in different forms. State, joint State-private, cooperative and private industrial, trade and transport companies paid a business tax on gross receipts, in which particularly the rapidly expanding State sector became an important source of tax revenue. There was a differentiated scale for branches and sectors. Industry and the construction sector had a rate of only 2 %, while machine-repair units paid 5 %. Cooperative and State stores paid 2.5 % and trade enterprises 7 %. Some enterprises such as banks, the airline service and postal services were exempted from this form of taxation⁸.

Commodity tax (thue hang hoa) was levied on a number of--mostly non-essential--commodities, at rates varying between 5-50 %. Raw materials, means of production and some basic necessities were exempted or their tax rates were very low. State enterprises paid this tax on the basis of the government purchasing price or the production cost, private individuals paid on the basis of free-market prices⁹. Joint State-private, cooperative (non-agricultural) and private enterprises paid also a progressive income tax on business activities. These tax rates varied for industry, construction and transport from 8-40 % of profits and for trade between 10 and 50 %, clearly showing the use of tax as an instrument to control the activities of particularly the private sector in order to avoid a spontaneous tendency towards capitalism¹⁰. As the private and joint State-private sectors were rapidly declining in size, this part of tax revenue lost its relative importance from the early 1960s.

With the tax reforms of December 1959 the handicraft cooperatives were allowed to allocate 20-25 % of this income tax for their accumulation funds.

Small traders were confronted with a tax on peddlers which was 5 % for farm, forestry and mineral products and 7 % for other products. If, however, a peasant--and very likely his wife-- would peddle his (or her) own products, no tax was required.

Finally, there were taxes on alcohol (private production was officially forbidden in December 1959, but remained widespread), salt and on the slaughter of livestock¹¹.

Secondly, receipts from enterprises and undertakings (thu tu xi nghiep va su nghiep) rapidly increased in importance and became from 1958/1959 onwards the biggest single source of revenue on the budget.

In the early years of the post-1954 decade the State enterprises-- still not many in number-- fell directly under the budget, i.e. the budget provided all the necessary funds for investment and working capital. The budget received all the profits and covered all losses, a complete form of 'administrative management' that would later be partly replaced by the introduction of principles of economic accounting (khozraschet) that created economic relations based on contracts and plan targets agreed upon between enterprises and State financial agencies. From 1960 this system was introduced, although it is questionable if in practice it was really implemented at all.

State enterprises had to transfer on a regular basis a certain proportion of their planned profits, and furthermore were obliged to create depreciation funds for transfer to the budget--on the basis of original purchase rather than replacement values-- and to return all surplus working capital. With minor exceptions payments of enterprises had to be done through the National Bank, a practice which was generally dodged, keeping large amounts of cash in order to operate faster in purchasing material supplies¹².

Receipts from State enterprises increased from a mere 6.5 % of total budget revenue (32 million Ð) in 1955 to even 62.8 % in 1964 (1177 million Ð). This is however not specifying which sector was responsible for the creation or realization of this budget revenue¹³. A study published in the Vietnamese scientific journal Nghien Cuu Kinh Te (Economic Research) in 1963 gives

us interesting insights into the distribution of profit and tax (lai va thue) remittances to the budget, in the Vietnamese economic terminology often equated with accumulation (tich luy). It reported that the commercial sector, domestic and foreign trade, provided more than half of the remittances of State enterprises to the budget. In 1959 this was respectively 26.7 % and 35.9 % of the total while industry provided not more than 20.3 %. The industrialization programme increased industry's contribution, in 1961 (the last year reported in the study) this was already 31.0 %, but still both trade sectors provided for nearly half, resp. 25.1 % and 23.5 %¹⁴.

One has to realize furthermore that certainly not all industries were in fact making profits. There were some highly profitable industries, notably in the light industrial sector, while other industries were producing with great losses, due to high investment costs, low efficiency and low labour productivity. This probably does not apply to the mining industry that exploited the country's rich coal fields in the Hong-gai/Cam-pha basin, which in spite of similar problems was bringing in a substantial part of the foreign exchange earnings.

Thirdly, Foreign aid was an important external source of revenue, nearly exclusively coming from the socialist countries, in the 1955-1964 decade in nearly equal shares mostly provided by China and the Soviet Union. It was crucial in several ways. In the budget accounts (see Table 1) foreign finance is around 23.8 % of total revenue for the years 1955-1964. There are however strong arguments for assuming this share to be higher in reality. Imported capital and consumer goods were sold on the domestic market by State owned foreign trade corporations, profits made in these transactions being transferred directly to the budget as domestic revenue within the item 'receipts of enterprises and undertakings'¹⁵. Furthermore the exchange rates reported (that certainly differ from the exchange rates used in the bargaining processes) of the Rouble (USSR) and Yuan (China) also underestimates the real value of foreign aid. Lastly, amounts of foreign aid (in grants and

long-term loans) published by the authorities in the national currency or in Roubles , are far larger than the published shares of budgetary revenue¹⁶.

The issue of government bonds to attract savings played only a small role. What would become a more and more non-budgetary form of investment finance was bank credit (since 1960) , which itself was made possible by rapid money creation (and insufficiently by individual deposits) , contributing to inflationary pressures (see below).

Budgetary expenditure

In government expenditure five functional groups appear on the budget : economic construction (kien thiet kinh te), social and cultural expenditure (xa hoi , van hoa), defence (quoc phong), administrative management (quan ly hanh chinh) and other items (cac khoan khac).

The largest item on the budget, expenditure for 'economic construction' shows also the most rapid growth , from 39.8 % of total expenditure in 1955 to 62.3 % in 1964 (see Table 1). This expresses the fundamental change in the structure of the economy and the growing importance of the State sector, both in terms of its size (with an rapidly increased wage-bill as well) and in investment programmes financed through the budget for economic expansion (see below). For example in State industry alone the number of workers and civil servants grew from a mere 21,200 in 1955 to 126,700 in 1960, reaching the tenfold level of the 1955 figure at the end of the FFYP , namely 221,300 in 1965¹⁷.

In the item 'economic construction' it is necessary to note that a successively growing share is not specified. Possible expenditures are likely to be firstly the subsidies to consumers (it was estimated that in the years of the FFYP annually 40 to 50 million Dong was paid as subsidies to back the government's food distribution policies¹⁸), secondly expenditure for defence like investment in factories directly or indirectly producing for defence and related research, and thirdly emergency expenditure in the case of bad harvest , as occurred in the years 1957 , 1960 and 1963.

Total expenditure on 'defence' apart from what appears in the budget accounts is in reality very hard to estimate. In the late 1950s and early 1960s when emphasis on the reunification and liberation struggle in the South became overt, more expenditure certainly must have been reallocated to defence than can be seen from the budget accounts. It is furthermore likely that most or possibly all military aid from the socialist countries did not appear in the budget at all.

Finally, under 'other' expenditure, amortization and interest payments of long-term loans slowly entered the budget, growing particularly during the early 1960s, when all foreign aid received in the form of long-term loans had to be paid back in spite of the very soft conditions under which they were granted.

On the whole--as traditionally in state socialist economies-- the budget figures show a small surplus, except those for 1960, which may be an indication of the severe economic crisis that occurred during that year, with the poorest agricultural performance in years¹⁹.

INVESTMENT POLICY

Investment undertaken by the State and mostly realized through budget (no interest bearing) transfers became soon the main engine for economic growth in the DRV. The allocation of budgetary investment to economic sectors and branches expressed well the factual policy of economic growth which developed throughout the decade, not always being in accordance with expressed policy intentions or ideological conceptions of the leadership.

Apart from reconstruction of the severe war damage, particularly in transport and communications, very soon the build-up of a comprehensive (State-run) manufacturing industry became for the North Vietnamese policy makers the indispensable element in building socialism.

Table 2

Table 2 : Budgetary investment in the DRV ,1955-1964 (million Đông)

	Centrally-run industry ^a		Local industry ^a	Agriculture		Total budgetary Investment
	Group A	Group B		Irrigation	Other	
1955	8.1	1.4	0.2	21.0	1.8	140.5
1956	56.5	21.5	1.6	28.9	7.4	260.1
1957	66.7	37.1	1.2	21.6	5.9	251.0
1958	70.2	44.0	2.4	35.2	12.6	314.0
1959 ^b	118.5	74.7	5.6	24.5	32.5	494.2
1960 ^b	186.0	62.7	7.2 ^d	29.3	41.4	659.5 ^c
1961	236.8	74.0	17.6 ^d	49.4	59.7	731.5 ^c
1962	246.6	62.9 ^e	21.2	72.4	77.0	731.7
1963	243.5	47.4 ^e	19.7	79.4	83.3	714.0 ^f
1964	279.6	62.3	15.8	110.7	64.0	753.1 ^f

Sources :

- Nam Nam..(1960),pp.99,103 .
- So Lieu Thong Ke(1963),pp.17,21,63,64 .
- Vo Nhan Tri(1967),p.541 .
- Tran Phuong(1967), p.13 .

Notes :

^a Nghien Cuu Kinh Te,nr.16,August 1963,p.81 presents other estimates for industrial investment than given here. However the differences are rather small. NCKT did not divide these investments for central and local industries. What is interesting to note is furthermore that another source informs us that 15.5 % of total investments in local industries went to Group A during 1961-1964 (this would become 66.8 % (!) during 1965-1968 when decentralization was forced because of the escalated war). See: Etudes Vietnamiennes(1976), p.189. See for comparison the statistical note on industrial investment at the end of this article.

^b While 1955-1959 data were given in absolute figures by NNXDKTVH the data for 1960 is estimated. The 1960 plan (at least in one version) gave: 277.3 (Group A); 53.5 (Group B); and 6.4 (local) ,which is a doubling of investments in group A and an even greater decrease for group B than finally realized. Our estimate comes from SLTK (1963), that gave as 'adjusted' figure for overall investment 659.5 million Đông and the subsequent shares of distribution.

^c Overall investment for 1961 was originally reported by VNA as 731.5 million Đông. According to Tri, p.540 , it should be around 720.2 million Đông. The VNA report gave a share for Group A, probably (and this goes also for Group B) including local industry too. The growth rates with 1960 as basis are not consistent with the shares given. Calculating backwards the 1960 figures could be rather lower. Because of all these inconsistencies both years must be handled with considerable care.

^d Etudes Vietnamiennes(1976),p.196 gives a share of 5.6 % for average local industrial investment in the years 1961-64. Hence 1961= 17.6 million.

^e Here SLTK(1963)pp.17 and 21, contradict each other. The first would give 47.4 million Đông, the second comes to 40.0 million Đông. The former is chosen-seemingly being more realistic.

^f Tri(1967),p.541 ,provides shares for 1964 and from the separate growth rates the total is estimated. Rastorguyev(1965),p.35, gives however 764.7 million and Leon Lavallee(1971),p.58 gives 760 million Dong.

^g3 Annees(1959),p.93, gives somewhat different figures for 1955-1957 : 28.2 million Dong (1955); 50.1 million Dong (1956); and 33.3 million Dong (1957).Many figures in this statistical handbook are deviating from later published ones. One factor is likely to be the difference in prices used. According to Tri(1967),p.540, the figures for 1961-64 are also somewhat different for investment in agriculture. If one takes 1960 =100 as base year the growth indices and shares of the total investment in the budget are as follows: 1961 :168.2 (16.2 %); 1962 : 220.2 (21.3 %); 1963 : 236.4 (23.4 %); 1964 : 254.4 (23.0 %); For the year 1962 the share of total budgetary investment of 21.3 % is also given in SLTK(1963)p.21 ; that source confirms the estimates for 1960 in our table , but gives for 1963 another figure: 22.6% .All these minor differences are probably caused by the revaluation of investment data for 1960 which was done in 1963.

In Table 2 one can note the explosive growth of investments in industry , with an emphasis on the centrally-run producer goods industry (group A). There was a real 'boom' in investments in this sector from 1959 ,when it received 118.5 million Dong (a growth of 68.8 % over the previous year), jumping to 186.0 million Dong in 1960 and even 236.8 million Dong in 1961. It is therefore interesting to note that the 'industrialization drive', normally understood to have taken place during the years of the FFYP (1961-1965) in fact started earlier and even saw some stagnation and set-back in the midst of the FFYP-period. One of the reasons for the latter phenomenon is at least the investment tension that had been caused by simultaneous execution of many industrial construction sites, often ill-planned and with ever increasing gestation periods , shortages of construction materials (real and artificial) and a substantial waste of capital.

Most investments in group A went to the branches of electricity, steel and cast iron , and chemical production (in 1963 these branches received respectively 20.8 % , 27.7 % and 11.6 % of total investments in centrally-run industries²⁰). The industries producing consumer goods (group B) received substantially less, which is partly because of their lower capital/output ratio, but mainly because these industries or handicraft cooperatives were neglected within the economic policy. Investments did not grow after the year 1961 (a year that on the whole showed a change towards more 'pragmatic policies') , they were on average lower during 1961-1964 than in 1959-1960 ,and in 1963 there was even a major decrease in investment in group B. The consequence of this policy was partly a growing shortage of consumer goods ('goods famine'),jeopardizing the developing policies of material incentives towards the peasantry. Not only centrally-run consumer goods industries lagged behind, also the regional/local industries--in majority set-up during the years 1959-1963 and important producers of agricultural implements and of consumer goods-- only received a small piece of the investment pie.

One of the policy items that time and again was stressed in leading statements was that of a "mixed choice of techniques", in which modern techniques

--mostly introduced in centrally-run heavy industries, exist next to simpler semi-mechanized techniques-- to be used in small or medium-size industrial enterprises. The idea has much resemblance to the Chinese expression of walking on two legs. In the North Vietnamese case this policy was indeed adhered to but the size of the legs was quite unequal. We have seen that the overwhelming part of investment undertaken by the central authorities went to modern industry, and local industries--however large in numbers and crucially important-- received little real attention and support from the State²¹. A fundamental idea that was one of the main underlying factors of this factual policy --particularly developing since 1959-- was the so-called "law of priority development of producing means of production" (quy luật ưu tiên phát triển sản xuất tư liệu sản xuất) which was subscribed to by the North Vietnamese leadership. This traditional Soviet view that the output of the producer goods sector should increase faster than that of the consumer goods sector²² had already been criticized by the Chinese in 1956. In reality, however, the growth of investments in the producer goods sector in China during the Great Leap Forward (1958-1959) was even greater than before. Particularly the agricultural sector remained heavily under-capitalized until the deep economic crisis of 1960-1961 left no other alternative than a radical change, leading to the 'agriculture first' policy. Apart from their criticism of the absolute priority for heavy industry, the Chinese introduced also their heretical view on the 'choice of techniques'. While industrialization in the Soviet Union had been based on the nearly exclusive choice of modern techniques, the Chinese introduced their 'walking on two legs' policy, combining modern with simple, mostly capital-saving techniques. In the case of North Viet Nam, it has become clear that elements of both positions were present in the economic policy intentions as regards the development of industry (and implicitly its relationship with agriculture). However, in the final analysis, within the overall impressive growth of investment in the industrial sector, some sectors such as the industry producing farm implements, the consumer goods industry, the handicraft sector and also, at the moment of their greatest

expansion , the local industries , lagged behind in accumulation mainly because of insufficient investment allocations initiated by the State. This accumulation bias towards State-run modern industry was in fact only partially adapted towards the end of the decade.

In relation to the overall budgetary investment for capital construction industry received an increasing share. During the four years of the FFYP this had even grown to 45.3 % of the total figure²³. During the decade the industrial apparatus expanded greatly ,starting from scratch with a reported number of 19 medium and large-scale enterprises, while at the end of the decade there were more than 1,000 State operated enterprises, of which more than 200 were centrally-run²⁴. This was certainly a great expansion in productive capacity (and also in output performance in certain branches), but it is questionable how efficient these investments were, taken into account many reports complaining about underutilization and malfunctioning of industrial units.

Budgetary investments in agriculture were far less than those in industry as we can see from the second part of Table 2. As share of the total ,agricultural investment by the State even went down to only 10.7 % of the total in 1960. As a consequence of the poor performance of this sector particularly in that year, policy was adapted somewhat in favour of agriculture, particularly through the construction of irrigation and flood-control works-essential in a 'wet rice culture' such as the Vietnamese. However, the rapid growth in investment is overstating very much the positive effect for the agricultural sector as a whole , because an important part of total investments (possibly about half) went to the State farms, which contributed only very little to the total gross agricultural product, their share varying between 0.5 % in 1960 and 1.1 % in 1963²⁵. So a seemingly important change in the allocation of investments for the agricultural sector was certainly up to the critical year 1963 of only relative significance for the major production units of the sector, the cooperatives. Only when during 1964-65 a

'nation-wide movement for irrigation' was launched a more substantial reallocation took place, although certainly not at the cost of investments in heavy industry²⁶ (see table 2).

Apart from the public investment as we discussed here, financed directly by the budget, investments in particular in agriculture were growing through loans provided by the State Bank or by the credit cooperatives. Investments paid out of 'accumulation funds' of the cooperatives or State enterprises, not financed by budget transfers or bank loans, were very small in comparison with other investments. Agricultural and handicraft cooperatives had a minimal accumulation and often did not accumulate at all, while State enterprises in industry had very small room to manoeuvre outside the budget (and the plan).

Finally, a more important source was 'labour investment', mostly in the form of peasant labour spent on the construction of infrastructural water conservancy works or roads. It is difficult to estimate the overall contribution of labour investment. A high estimate for 1961 would lead to about 90 million Đông in that year, while a low (and probably more realistic) estimate for 1963 comes to about 17.5 million Đông as labour investment in agricultural infrastructure. Data is lacking for more accurate estimates in this respect²⁷.

MONEY AND MONETARY POLICY

One of the priorities of the DRV government after the reestablishing of peace in 1954 was to unify and stabilize the unit of money. A contradiction existed between the 'old' liberated areas, with large amounts of money in circulation and relatively few goods to buy, and the 'new' ones in which the money stock was much smaller and the amount of goods available greater. New money issues were necessary to replace the French controlled Piastre by the Đông, to finance part of the budget deficit and to create credit funds for the State Bank. In an economy still dominated by the private sector, and as such for its development dependent on the functioning of market relations, a stable unit of currency was obviously very important. On the other hand, it

would also be needed for future planning and for the stimulation and control of production and distribution²⁸.

During the first years of the resistance war, prices of basic necessities had skyrocketed, but from the second half of 1951 onwards the price levels started to decrease somewhat as a consequence of general improvement of production, the new credit system and the strengthening of fiscal and monetary policies after liberation²⁹. In 1955 and the first half of 1956, prices of basic necessities dropped. But particularly in the urban centres, during the second half of 1956 and the first half of 1957, shortages of consumer goods combined with speculative activities of certain strata caused a rise in prices.

The quantity of money in circulation had increased rapidly during this period for several reasons. Firstly, peasants holding money in cash which they had hidden during the land reform in order not to be branded as a kulak started to spend this money when the rectification of errors campaign had begun (late 1956). Secondly, during 1956 supplementary issue of money had been necessary to finance part of the capital construction plans that were (according to a Soviet source) "excessively stepped up and did not correspond to the possibilities that existed at that time"³⁰. Thirdly, Bank credits rapidly expanded, partly financed by note issue, and fourthly, the increase of wages in the State sector and the increasing activity of the State on the market in agricultural products played a role. While demand for consumer goods was rapidly increasing, production was still very limited and a large disequilibrium between money in circulation and goods and services supplied was emerging.

During the critical period of early 1957, a number of legal measures and changes in economic policy were undertaken to curtail inflation and to improve the financial situation of the State. In April of that year, a new law against speculation was decreed. The still existing commercial credit system run by private lenders was practically banned and payments within the State sector were required to be done through bank transfers. Credits to the

private sector were heavily curtailed and the growth in State expenditure was slowed down (see Table 1).

All these measures contributed positively to the stabilization of prices and the reduction of the quantity of money in circulation. This would seem to indicate a 'monetarist' explanation of inflation and its resolution. However, the structural incapacity to produce enough consumer goods (and the underestimation of their importance) was the key to the inflationary pressures. The import of large quantities of consumer goods (while at the same time food was exported) in 1957 would only temporarily take off some pressure as regards the supply side.

On the 28th of February 1959, the government decreed a money reform that would introduce the (new) Dong against a rate 1 (new) Dong = 1,000 (old) Dong³¹. The reasons for this large-scale monetary reform were political as well as economic. The economic reasons were, firstly, to simplify the unit of account. The ratio 1/1,000 was chosen because³²:

an old 1000 dong note actually became the basic unit of accounting in trade, in the population's payments, and also in the settlement of accounts between institutions and enterprises.

Secondly, by changing the currency and setting an upper limit of 2000 new Dong to the amount of money that could be changed, the State Bank accumulated not only knowledge about the total amount of money in circulation but also control over the 'surplus money' that could only be deposited and not withdrawn. This reform dealt a heavy blow to a small but wealthy group of capitalist families, maybe not more than around 4,000 in total. For example, in Ha-noi city, these families owned, according to the officially published statistics on the money reform, an average of 11,728 (new) Dong, while a public servant only possessed 139 Dong³³. Taking the maximum personal limit into account, it would mean that about 40 million Dong was saved forceably in this way. It proved that not only was there an unequal distribution of money holdings between urban and rural areas, namely 36.1 % against 63.9 % (while only 9.3 % of the population lived in the former), but within Ha-noi only 3.5 % of the population held 42.1 % of the money!³⁴ In the country-side it was noted that about 30 % of the peasants had no money at all for

transactions. Our estimate would be that on average peasant households at the time of the monetary reform had as a rule less than 10,000 (old) Đ = 10 (new) Đ in cash money to use for transactions.

The reform brought also possibly unexpected outcomes, namely³⁵:

In the course of the execution of the monetary reform it became evident that many enterprises and institutions did not adhere strictly to financial discipline and had large amounts of cash on hand, often 20 to 30 million dong in old notes, representing 10-15 % of the total monetary circulation.

This meant that in spite of the regulations, many payments were still done in cash and outside the official circuit. The money reform reduced the accumulated money stocks of the enterprises substantially, at least for sometime. However, in the end the money reform did not contribute much to a lowering of the rate of growth of money in circulation. In the three years 1959-1961, which were the years of great industrial expansion, money circulation expanded even more rapidly than after the changes in economic policy in 1957. It was estimated by one source³⁶ that if 1958 is taken as a base-year (=100) the index for 'total commodities in society' (hang hoa ban le xa hoi) in 1962 stood at 129.6, while the index for money in circulation (tien te luu thong) had increased to 146.7.

During the following year 1963 inflationary pressures increased again. The supply side was constrained by poor agricultural performance, but particularly by poor procurement performance. Increases in agricultural purchasing prices and subsequent increases in credit extensions to State trading organizations gave a rise in money in circulation. In the absence of substantial growth of supply of commodities to the market, this increased inflationary pressures³⁷. With the general economic improvement in the following year, these would somewhat be reduced.

Banks and credit policy

Already during the resistance war against the French the DRV State Bank (founded in 1951), as supplier of credit and the issuer of money (together with the Ministry of Finance), had been transformed into a government institution (in the 'maquis') for economic control.

During the resistance war, short-term credits had been introduced with the issuing of the Bank Dong in order to provide in particular domestic trade organizations and private traders with working capital. Long term credit was given to peasants but in 1952 it proved that primarily the rich peasants were profiting, which led to a halt of this policy³⁸. In the first three years of the post-war decade (1955-1957) credit policy was directed towards facilitating domestic trade. State enterprises and organizations were all budget financed and as such the State provided the investments and the working capital. The absence of any economic accounting principles led soon to problems well-known in other socialist economies, such as the 'aimless and ineffectual utilization of various kinds of capital'³⁹. With the introduction of some khozraschet principles and the first steps on the road to industrialization during the years 1958-1959, the necessity to create a credit system that would also reach the industrial enterprises became apparent. Until then the State had provided 100 % of the working capital, but in the domestic and foreign trade sectors already in 1958 up to 70 % of the working capital was provided through short-term bank credit.

The important 14th Plenum of the CC of the Party in December 1958 decided to expand credit relations between the State Bank and the industry and handicraft sector. Decreasing the burden for the State budget, tightening financial control and increasing efficiency were the main objectives of this new policy. From February 1959 onwards, the official norm became that 30 % of the working capital (in industrial enterprises) should be financed by short-term credits. Possibly it was in practice even more than that. By 1960 the system was generalized, and on the eve of the FFYP the State Bank began experiments to give full credits during the initial production period of new enterprises in order to stimulate production. Although still the bulk of short-term credit went to trade, from 1959 onwards industry appeared somewhat more strongly in the flow of credits.

The rapid expansion of credits did not proceed, however, without causing some substantial problems. Firstly, this was because an important part of Bank resources for credits was financed by the issue of new notes. Hence,

money in circulation grew faster than the volume of commodities in circulation. Secondly, working capital was often used in a wasteful and irrational way⁴⁰. Increasing the material stocks in exaggerated ways was a normal phenomenon. Probably also some working capital was used for investment purposes. This contributed to extra pressure on the already problematic supply of capital goods and raw materials.⁴¹

A second feature of credit policy during the decade is that the State and cooperative sectors were more and more favoured with bank credits, the latter particularly after 1958, when cooperativization of agriculture and handicrafts had begun. From 1957 onwards, credits to the private and joint State-private sectors were curtailed or practically cut off⁴². Credit policy by the State Bank became therefore a powerful instrument to forward the rapid change in production relations that took place.

However, the policy of the State Bank towards agriculture seems to have been--to say the least--very reserved. Pham Hùng, member of the Politbureau (nowadays still a very influential figure in Vietnamese politics) and responsible for agricultural policy, criticized this attitude at a conference on investment and financial management in March 1961. He said that from the planned volume of 31 million Dong for the year 1960 the State Bank had only loaned 18 million Dong to the peasants. An investigation of the Bank itself had concluded that this deficiency was caused in the first place by the hesitation cadres had shown, fearing that loans would not be recuperated, being afraid to 'lose State funds'. He emphasized the political tasks of the banking system that should more actively and consciously conduct its mobilizing and redistributive role⁴³.

During 1961-1964 long-term and short-term credits to the cooperative sector increased by a factor of 4.6 in relation to the years 1958-1960. Of the total amount of credits the agricultural cooperatives received 56.6 %, according to a detailed review of the activities of the State Bank in the DRV. At the end of 1964, long-term credits already accounted for 30 % of the fixed funds of agricultural cooperatives according to the same source⁴⁴.

In general it seems that for quite some time, at least up to late 1960, credit policy was seen as of secondary importance. It followed more or less the requirements set by production, but particularly of commerce, in a passive way. A more conscious and active credit policy in which the provision of credits to economic sectors could be used to stimulate production and to exercise a greater control over production and distribution only slowly started to develop afterwards.

ACCUMULATION AND ITS SOURCES OF FINANCE

Before discussing accumulation during the first decade in the DRV--in particular in relation to its sources of finance--it is necessary to note that the treatment of accumulation as a concept, handled in the concrete North Vietnamese context is--to say the least--rather inadequate⁴⁵. This is partly due to a certain vagueness in the Vietnamese economic vocabulary, at least in the officially published documents of which the present author is aware, but even more due to the loose handling of the concept by Western scholars. In state socialist economies normally accumulation is being defined as net additions to fixed assets (in the productive sphere), net additions to working capital and increase in stocks of consumer goods. If foreign savings are excluded and National Income is the Net Material Product (NMP) without taking into account the foreign sector, then the 'accumulation rate' is defined as the domestic savings rate of the Produced National Income (S/Y_p). However, if foreign savings (foreign aid in grants and loans) are included the accumulation is normally compared with the National Income Distributed ($(S+F)/Y_d$)⁴⁶.

In spite of the fact that it is certainly not always clear which concepts are exactly being used in Vietnamese economic publications, one has to introduce them in order to be able to analyse the data thoroughly⁴⁷. This is done in table 3.

Table 3

Table 3 :

National Income and Accumulation , DRV : 1957-1964
(Current prices, millions of Dong)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
National Income:	2624 ^a	2869 ^a	3352 ^a	3362 ^b	3593 ^b	3862 ^b	3931 ^b	4359 ^b
Accumulation(%) :	24.6 ^{cd}	20.7 ^{cd}	19.1 ^{cd}	18.4 ^d	18.4 ^d	17.3 ^d	16.9 ^{de}	18.1 ^e
(Dom. savings) :	(11.7) ^c	(13.7) ^c	(13.7) ^c	(10.9) ^f	(10.7) ^f	(8.1) ^f	(7.3) ^f	(7.3) ^f

Notes and main sources :

^aThe figures for the years 1957-1959 are given by Nam Nam..(1960),p.76 and explicitly stated to be in current prices (gia hien hanh). However, our main sources are differing considerably here :

-3 Annees..(1959),p.44 , gives for 1957 : 2,590 million Dong ("provisional figure" , current prices);

-Nhan Dan ,5/1/1960 ,p.2 repeats this figure for 1957 and presents another, slightly different one for 1959 : 3,356 million Dong ;

-Kinh Te Viet Nam(1960) , p.269 comes with again a slightly different series : 2,580.7 million B (1957); 2,892.6 million B (1958) and 3,330.6 million B (1959) without giving the sort of prices used, while differences are left unexplained.

-Le Chau(1966), p.294 and repeated by Lavallee(1971), p.117 used the same figures as presented in table 3, but as being given in "1957 constant prices". This must be incorrect as this year was never used as basis for measurement. Lavallee comments that it is possibly a question of a printer's error ("coquille"). However,when growth indices are used to calculate subsequent years, even small deviations create rather sizeable differences in absolute terms.

-Lastly, Nguyen Tien Hung(1977) ,states (pp.105,107-8) that Y was given in "constant prices", while actually referring to the same sources as used here, which explicitly give the National Income (thu nhap quoc dan) in current prices.

^bVo Nhan Tri (1967),gives us rather contradictory information. On one and the same page growth indices for 1960 and 1964 (with respect to 1957) appear to be : 1960=128.1 and 1964=166.1 , while for the years 1957-1963 the following series is shown (previous year=100):

<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
108.58	114.88	102.70	106.9	107.5	101.8

and further "provisional figures" for the years 1963 and 1964 with respect to 1960 : 1963=120.4 and 1964=129.6; Firstly, the growth indices for 1957-1959 are not consistent with the absolute figures presented by NNXDKTVH ;Secondly, the figure for Y in 1960 is calculated in table 3 on the basis of its comparison with 1957 rather than 1959. It is very unlikely that in a crisis year such as 1960 Y would grow by 2.7 % over an exceptionally good year (!); Thirdly, the "provisional figure" for 1963 is not used as it is much higher than the combined figures given in the series, again for the reason that 1963 was a 'bad' year;

Another source: Duong Dinh Gi(1978),p.17, gives a somewhat different set of growth indices without specifying which prices are involved:

1960	1961	1962	1963	1964	1965
100	106.9	118.3	119.7	130.8	137.6

Hung(1977), pp.105-113, presents a section in his book on "quantitative trends", complete with regressions and plots. However, when looking at it carefully, the statistical work done turns out to be rather sloppy. Apart from the fact that many of his references are not used, wrong or contradictory (without any mentioning of it) he comes up with estimates which he claims were "calculated on the basis of annual growth rate given by the Central Statistical Office". In fact he uses the yearly growth rates provided to us by Tri, rounding them off to:

1960	1961	1962	1963	1964
103	107	108	102	108

It is therefore not surprising that his series of estimates are quite different from ours. One can further imagine that subsequent calculations on the partition in C and I (on the basis of in themselves not very reliable shares) in the National Income aggravate the statistical errors. Hung's series are:

	1957	1958	1959	1960	1961	1962	1963	1964
National Income:	2624	2869	3352	3453	3694	3990	4070	4395

Finally, to be as complete as possible here, a more recent source, La R'D'Viet Nam(1975) gives a series of indices that only differs slightly from Tri's. The values for the years 1962-1964 (1957=100) are:

1962	1963	1964
152	154	168

^cSee: Kinh Te Viet Nam(1960), p.269, which presents the following table, adding that if the share of foreign aid is included the accumulation is 24.6 % in 1957, 20.7 % in 1958 and 19.1 % in 1959:

	Y	Accum. (%)	Cons. (%)
1957	2,580.7	302.6 11.7	2,278.1 88.3
1958	2,892.6	397.08 13.7	2,495.52 86.3
1959	3,330.6	455.15 13.7	2,875.4 86.3

(millions of B, with shares given following the absolute figures rather than the other way around), indicating that 'accumulation' in the table is in fact 'domestic savings'.

If we take the shares from the National Income figures of NNXDKT VH we could still get around 24.2 %, 20.9 %, 19.0 % resp., which is only a small difference.

3 Annees..(1959), p.44 gives us as share for domestic accumulation again a different figure, namely 14.08 % (for 1957), and even 26.14 % if foreign aid is included ("provisional data").

^dSee: Tri(1967), p.522, for 1957-1963:

	1957	1958	1959	1960	1961	1962	1963
(%) :	11.0	14.5	19.2	18.4	18.4	17.3	17.0(*)

(*): "provisional data";

This suggests that from 1959 onwards foreign aid was included in the 'accumulation rate', possibly because since that year a substantial change in the composition of that aid took place towards a much greater emphasis on producer goods and a much smaller component of consumer goods and even raw materials. (See: Tri(1967), p.557);

Nguyen Lang(1972), p.26, who follows Tri's growth index for 1960, explicitly says that in that particular year 'internal accumulation' was 18.4 % of National Income. With the economic crisis that took place one can hardly imagine that this was indeed the case.

Hung(1977),p.108, in spite of half a page of other references, uses in fact these figures, without even referring to the particular page in Tri's work.
^e See: Lavallee(1971),p.117 (who in a number of cases had additional information from the Vietnamese Economic Institute for the years 1963-64).Hung gives here 17.0 % and 17.0 % resp. without specifying his source ,while at the same time including Lavallee (amongst others) as one of his sources(!);
^f While for 1957-59 shares of 'domestic savings' in National Income (= National Income Produced) have been published , for the other years it is very difficult to estimate these shares. However, a serious attempt is made here , taking the 'accumulation rate' in the table and comparing it with the National Income and the foreign aid as shown in the budget accounts. Apart from the fact that foreign aid may have been higher than stated in the budget, there is another serious distortion here , namely the difference between National Income Produced and National Income Distributed. All the figures suggest to the present author that from 1959 onwards the 'accumulation rate' was given as $S+F/Y(P)$ which is obviously not correct as it should have been $S+F/Y(D)$. Therefore , the given shares must be handled with care , although the main line of development is not really affected very much.

Although Vietnamese data are too incomplete to draw any definite conclusions, we have tried to advance in analytical and empirical terms on the issue how large accumulation was and how it was financed. In the notes to table 3 sometimes criticism is expressed on the way other authors handle the Vietnamese data. The same data are revalued carefully and additional important data are presented which have not been used until now.

Two interesting features are to be seen immediately. Firstly, domestic savings, which went up in wake of the land reform and the first full year of cooperativization (1958-59), decreased considerably until 1963, only to stabilize somewhat then. Secondly, foreign finance (as taken from the budget accounts) within accumulation (S+F), is substantially larger than has been estimated until now, inversely increasing its share in comparison with domestic savings. We will discuss both features in detail below.

Addressing ourselves first to our estimates on domestic savings, we can see an increase from 11.7 % in 1957 to 13.7 % in the years 1958 and 1959 (see: table 3). In those two years the general economic situation improved considerably, in large measure because of two consecutive good agricultural years. The rapidly expanding domestic demand for food could therefore be met while for other 'basic needs' imports under aid agreements in particular 'eased off' the tension between consumption and accumulation. In 1957 no less than 50 % of foreign aid was spent on imports of consumer goods and raw materials while this was still 48.9 % and 39.2 % in the following two years⁴⁸, with a decreasing share for consumer goods and an increasing share for raw materials (of which a substantial part was used for domestic consumer goods production). Another factor explaining the short-lived increased domestic savings rate is the socialisation drive during these years, which brought State and cooperative control over private capital in many sectors and branches of the economy. With the economic crisis in 1960, which, as I have discussed in detail elsewhere⁴⁹, was partly the consequence of the 'leap forward' in industrialization, the (too) rapid cooperativization process and neglect of the sectors of agriculture and handicrafts, combined with the continued high rate of growth of the population (3.5 %), it is not

surprising that domestic savings decreased. In fact a close look at the balance of trade and the spending of foreign aid reveals a sudden drop in imports of consumer goods and raw materials during this year, which means that domestic production of consumer goods had to make up for previously imported products⁵⁰. On the other hand during 1961-1962 there was a rapid increase in the imports of capital goods in the form of complete factories or equipment. In spite of an increased procurement of agricultural products by the State (through tax payments in kind and quota sales against low purchasing prices) after the formation of the agricultural producer cooperatives, the production of surplus by these and other cooperatives was still very low and in many cases probably even non-existent. The near constancy of the accumulation rate is therefore quite deceiving, as domestic savings went down rapidly to the level of an estimated just more than 7 % in 1963, the year in which to our understanding another economic ('procurement') crisis can be observed, which could only be off-set in the short run by 'emergency imports' of raw materials and consumer goods having at the same time direct consequences for the economic policies pursued.

In our discussion of the budget we have already noted that foreign finance was probably larger than accounted for. This means that in table 3 the accumulation rate could be substantially higher than estimated on the basis of budget accounts and official figures on accumulation. In any case we can draw from table 3 the important conclusion that foreign finance throughout the decade has been the backbone for accumulation in the economy⁵¹. Data on foreign aid to the DRV have to be treated with the utmost care. When comparing published data on separate foreign aid agreements, total figures of foreign aid and external finance mentioned in the budget all are different and even there is substantial difference between several official N-Vietnamese sources themselves. This problem has been discussed by the present author elsewhere, so here we will confine ourselves to the most important conclusions. Firstly, the most frequently used figures on foreign aid (amongst others by Vo Nhan Tri) are 2,468.3 million Dong for 1955-1960 and 1,762.5 million Dong for 1961-1965, including both received aid as well

as earmarked aid, the second period almost certainly covering only up till 1963/64 , and not including the new aid agreements signed early in 1965 after the start of the US-bombing. Secondly, estimated figures on the budget for foreign aid do not add up to more than respectively 1,554 and 1,487 million Dong for these periods , hence substantially less. This could be partly explained by the mentioned "hidden" parts of revenue out of foreign aid in the budget. Thirdly, comparing aggregate data on foreign aid in domestic currency and those published in foreign currency (Rouble and Yuan) with the official exchange rates , one can be certain that the latter were not used in practice, implying a substantial overvaluation of the Dong⁵². In general therefore ,the role of foreign aid in the accumulation process has been heavily underestimated.

CONCLUSIONS

(1)

In the ten years of relative peace which have been analysed above the budget became rapidly the main instrument of the State in redistributing National Income in support of a State controlled accumulation process. Budgetary revenue , in the first few years still largely dependent on agricultural taxes (paid in kind) soon rested on direct receipts from the State sector itself , through budget transfers of State enterprises. It is interesting to see that this generated surplus came particularly from the commercial sector , both domestic and foreign trade , through price differentials and profit transfers. In this way the agricultural sector was certainly indirectly taxed. Budgetary expenditure concentrated on investment programmes , current expenditure within the rapidly expanding State sector (the wage bill for example , any losses covered in State enterprises and food subsidies), social programmes , defence and last but not least since the early 1960s the servicing of the foreign debt (in spite of the very soft conditions under which loans were granted). Altogether the expansionary policy was accompanied with an insufficient growth of domestic revenue which , as we have shown , in itself was partly dependent on profits made on imported goods. Hence a growing fiscal gap was the consequence , only to be financed by increased foreign aid.

(2)

The investment policy which was developed gave great priority to industry , from 1959 onwards mainly to heavy industry , while light industry, handicrafts and agriculture (the cooperatives and the still existing private sector) were neglected. Large projects , often ill-planned and with long gestation periods, had preference which led to a certain investment tension to the detriment of the development of medium and small scale projects. The celebrated 'walking on two legs' formula was never abandoned but in practice the legs were quite unequal in size. Investment policy was dominated by an

accumulation bias towards the newly developing modern State sector , particularly in manufacturing industry but also in agriculture. State farms although contributing very little to production increase swallowed up an important share of the investment funds. This rather unbalanced strategy for economic growth led already towards the midst of the FFYP to disequilibria , particularly noticeable in slow growth in the sectors of agriculture and consumer goods production.

(3)

A passive credit policy , in which rapidly growing credits were provided for working capital (with little provisions for repayment) combined with a rather uncontrolled growth of the money supply in order to cover for increasing government deficits caused a disturbing disequilibrium between the money in circulation and the goods and services supplied. A growing tension between consumer demands and supply of consumer goods and raw materials could in the first years still be 'eased off' by large imports. However ,with the imports of more and more capital goods shortages of consumer goods and consequently black market circuits and inflation became a problem for the DRV government. In spite of the money reform in 1959 a radical change in the allocation and the use of credits did not substantiate. State industries and commercial enterprises forged on a large scale the rules and regulations by withholding cash and buying and selling in secondary circuits. Another consequence of both the system of 'administrative management' and of the credit policy was the 'playing safe' attitude enterprise managers developed which led to stockpiling.

(4)

Although in the data on the State budget the share of foreign aid is on average less than one quarter of total revenue , arguments have been presented that foreign aid in fact was much more important than is suggested by official publications. Undervaluation of the foreign currency , the hiding of parts of foreign aid in the profit transfers to the domestic budget revenue and unrecorded foreign aid , all lead to the conclusion that foreign aid was the backbone for accumulation during the period analysed. A

further analysis of the share of domestic savings in overall accumulation shows that collectivisation hardly contributed to increasing the domestic savings rate. In fact after an initial increase following the land reform , domestic savings as a share of National Income decreased rapidly during the first four years of the FFYP to a level of around 40 % of recorded total accumulation. However , it seems justified to suggest that actual accumulation was higher than presented in the statistics , with an even greater share of foreign aid in it.

Although the importance of foreign aid should be emphasized and its positive and crucial role must be acknowledged , negative sides can be mentioned as well. A growing foreign trade gap could only be financed by this foreign aid , and although conditions for extending loans (mainly from China and the Soviet Union) were very soft indeed , the repayment of the debt became an increasingly pressing issue during the FFYP. A certain 'import mentality' in which foreign aid is believed to cover for any shortage , was certainly present as a consequence of this external dependency that had come to exist , in spite of the self reliance ideology of the DRV leadership.

Notes :

- ¹ 3 Annees.. (1959), p.118 ,on state procurement:

	1955	1956	1957
taxes	652,982	336,812	352,063
purchase	28,720	195,941	232,349
totals	681,702	532,753	584,412
- ² V.S.Rastorguyev(1965),p.44; Pham Gia Kinh(1964),p.55.
- ³ V.S.Rastorguyev(1965),p.46; Nhan Dan ,3/3/1964,p.3.
- ⁴ In 1963 also the quota rates were fixed for a three-year period,on the basis of the 1961-62 average;see Charriere(1966),p.31 and White(1985),p.101.
- ⁵ Nhan Dan,2/11/1963 ,p.1, reported a price increase of 20 to 25 %. I have estimated elsewhere that in 1964 paddy procurement (taxes,quotas and above quota sales) reached a peak of 20.6 % of gross total paddy output (Spoor, (1985),p.40). Charriere(1966) and White(1985) suggest higher figures.
- ⁶ V.S.Rastorguyev(1965),pp.45-46.
- ⁷ Etudes Vietnamiennes(1970),p.164 confirms this point of view.
- ⁸ V.S.Rastorguyev(1965),p.39.
- ⁹ Ibid.
- ¹⁰ Pham Gia Kinh(1964),p.55.
- ¹¹ V.S.Rastorguyev(1965),p.41; Pham Gia Kinh(1964),p.58.
- ¹² With the money reform vast amounts of cash holdings were discovered in State enterprises(see note 35), while in 1961, during a national inventory, one discovered "that stock-piles of metals (cast-iron, steel, copper, lead, aluminium, zinc and tin) and stored timber are voluminous, surpassing by far our estimates"(Nghien Cuu Kinh Te,no.3(1961);JPRS-10,891 pp.50-54).
- ¹³ Chr.White(1985),p.98, incorrectly says: "Most strikingly, despite the fact that Vietnam is primarily an agricultural country ,it is the profits of the state-owned industrial sector which have supplied the overwhelming majority of domestic budget revenues".We will show in fact it was the commercial state sector who did so and not the industrial sector.
- ¹⁴ Vu Ngoc Khue(1963),p.30.
- ¹⁵ Vu Ngoc Khue(1963),p.26, comes also to this conclusion, which was already hypothesized by the present author looking at the budget and foreign aid figures.
- ¹⁶ See: Spoor(1985),Ch.4 for a detailed discussion.
- ¹⁷ Nam Nam..(1960),pp.169,213; Vietnamese Studies(1976).pp.207-8; Vo Nhan Tri (1967),p.322.
- ¹⁸ Etudes Vietnamiennes(1967),p.161.
- ¹⁹ I am indebted to Michael Ellman for pointing out to me the particular significance of a budget deficit in a state socialist economy.
- ²⁰ So Lieu Thong Ke(1963),p.67.
- ²¹ It is mostly understood that the North Vietnamese strategy was a good example of the "mixed choice of techniques" strategy. See for example: Tran Ngoc Bich(1972). He claims also that there was an essentially 'balanced growth'(p.76), but fails to provide any substantial evidence for his position.
- ²² M.Ellman(1979), pp.119-128.
- ²³ Hung(1977),p.142 : 53 %, based on unfortunately quite erroneous calculations. I.Norlund(1984) ,p.95 ,who reproduces Hung's figures , does not mention this particular share, but gives later in the article the planned one : 48.5 %.

- ²⁴Based on several Vietnamese reports. Recent Vietnamese statistics, published in Ba Nam Phat Trien..(1978), tend to overstate the growth in numbers(p.73; compare with Spoor(1985),p.96).
- ²⁵Thanh tich..(1960),p.36; So Lieu Thong Ke(1963),p.47.
- ²⁶Hung(1977),p.80, argues that this was a shift "from emphasis on heavy industry to stressing the importance of agriculture and light industry", as in China during the last two years of the FFYP. Looking at his own estimates of industrial investments this was certainly not the case. According to our understanding 'policy intentions' were certainly not put 'into practice' here.
- ²⁷Spoor(1985),p.39.
- ²⁸Griffith-Jones(1981) is a substantial contribution to the debate about the role of money in the 'transitions to socialism'. It seems that in the Vietnamese case this role was rather contradictory. In expanding rapidly short term credits to the state and cooperative trading sector, market control indeed increased. However, lack of supply of essential consumer goods and agricultural implements caused increasing divergence between money in circulation and goods on the market. This rather active role of money is in sharp contrast with the passive or conservative attitude to using credits to stimulate production (in financing particularly additions to fixed capital).
- ²⁹Kinh Te Viet Nam(1960),p.31 ; Tran Duong and Pham Tho(1960),p.70.
- ³⁰V.S.Rastorguyev(1965),p.72.
- ³¹A very similar monetary operation took place in China in 1955, when the Yuan changed in value, with an even more drastic exchange rate of 1:10,000.
- ³²V.S.Rastorguyev(1965),p.78.
- ³³Tran Duong and Pham Tho(1960),pp.120-121.
- ³⁴Ibid.; The urban population share is taken from Nam Nam..(1960),p.71.
- ³⁵The citation is taken from V.S.Rastorguyev(1965),p.80; The original sources is: Tran Duong and Pham Tho(1960),p.125.
- ³⁶Tran Duong(1962), pp.131-132; Nguyen Lang(1972) gives somewhat deviant data.
- ³⁷According to Chr.White(1985),the strong rise in prices on the free market took place primarily after the bombing had started in 1965. However, already during the second half of the FFYP reports were made public criticising the "wide spread circulation of fraudulent goods in free markets".(See: Nhan Dan, 30/3/1964,p.3 for a good example).
- ³⁸V.S.Rastorguyev(1965),p.102.
- ³⁹Tran Linh Son(1962),p.5.
- ⁴⁰Cong Nghiep (Industry),no.22,16/1/1960;JPRS-5013,p.49.
- ⁴¹It is interesting to make a comparison with what R.W.Davies(1958),p.158 wrote on credit policy in the Soviet Union:
Bank policy had to steer a difficult course.Too much credit would lead to overstocking and waste; too little credit would lead to hold-ups in production from understocking. Too little bank control over the finances of enterprises would tempt them to depart from the plan; too great a control would deprive management of initiative.
- ⁴²According to 3 Annees..(1959),p.134, credit to the private sector in agriculture went down from 15,970,000 B(1956) to only 946,000 B(1957), while in industry and handicraft the decrease was from 8,253,000 B to 3,498,000 B. Nguyen Lang(1972),p.25 gives another impression. According to him until 1957 all credits went to individual peasants and in the years 1958-1960 this share went down to 62.5 %(1958);17.6 %(1959) and 10.8 %(1960). An important qualification he makes is that 'individual peasants

continued to receive aid, but in the form of "collective loans" per group of families'.

Bulletin d'Information du Comite Central du Parti Travailleur du Vietnam, no.8-9(Ha-noi,1961),pp.6-7.

44 Nguyen Lang(1972),p.27.

45 Le Chau(1966),p.303, for example uses an incorrect definition of material accumulation, namely the total accumulated fixed assets ,compared with the National Income of a particular year.

46 J.Wilczynski(1977),p.78.

47 I.Norlund(1984) does no more than repeat Tri's figures (which are certainly not without contradictions and question marks).

48 Vo Nhan Tri(1967),p.557.

49 Spoor(1985),Ch.I.

50 Spoor(1985),Ch.IV.

51 Hung(1977),p.89; L.Lavallee(1971),p.119, says that "towards 1964" foreign aid formed about 50 % of internal accumulation, without giving good reasoning for this statement. He uses in fact also Tri's figures on aid. Chr.White(1985) refers also to L.Lavallee. Hung calculated that during the TYP 62 % and during the FFYP 34 % of planned investment was financed by foreign resources. However , these estimates do not reveal that it concerns here planned (better : expected) foreign finance related to planned (and not realized) investment. To give an example of the range of inaccuracy , Hung gives 5,100 million Dong as planned investment for the FFYP (=1,020 million D/annum).He does not say that in 1963 this planned figure had already been lowered to another planned figure of 3,883 million Dong (=777 million D/annum) while realized investment during the first four years of the FFYP was around 733 million Dong.

52 Spoor(1985),Ch.IV, for further details.

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AnnexA Critical Statistical Note on Industrial Investments

Nguyen Tien Hung(1977),p.142 , gives the following table on 'Budgetary investment in industry 1955-71' for the DRV, in million of Dong ,annual averages and constant 1959 prices.

"Industry Group/ administration	1955-57		1958-60		1961-64		1965-68		1969-71	
	amt	%	amt	%	amt	%	amt	%	amt	%
Group A	44	66	142	67	308	78	304	82	350	76
Group B	23	34	70	33	87	22	67	18	111	24
Total	67	100	212	100	395	100	371	100	461	100
Central Admin.	67	100	208	98	371	94	278	75	346	75
Regional "	--	--	4	2	24	6	93	25	115	25
Total	67	100	212	100	395	100	371	100	461	100

Investment in industry as % of total development investment :

Group A	20	31	41	27	30
Group B	11	15	12	6	10
Total	31	46	53	33	40

Sources : So Lieu Thong Ke, 1955-1959 (Ha-noi, 1960), p.99; So Lieu Thong Ke, 1967 (Ha-noi, 1967), p.13; DRVN, La Republique Democratique du Vietnam (Ha-noi, ELE, 1975), pp.67, 76-79; Etudes Vietnamiennes, no.44, 1976, p.196; Leon Lavallee, L'Economie du Nord Vietnam (Paris, CERM, 1971), p.58. "

A careful look at the various sources (which we have used widely in our article above), reveals the following striking examples of the inaccuracy of this (important) table:

¹ The figures Hung gives as being absolute are not published as such in the sources he uses, but are simply calculated on the basis of (a) the growth indices published by La R'D'Viet Nam(1975), pp.76-79 and the annual average for 1955-57 is taken from his first source (which is the same as Nam Nam..(1960)). Immediately Hung makes three mistakes : firstly, the 1955-57 annual average is 64.8 and not 67 million $\text{\text{D}}$; secondly, the same source gives on page 103 a careful division into Group A, Group B and local industry giving averages of 43.8 (A), 20 (B) and 1 (local); thirdly, and more grave than the previous ones, the annual average for the following period 1958-60 was in fact not 212 million $\text{\text{D}}$ but considerably less, basically because 1960 was a 'crisis year' and planned figures were far above realized figures. According to So Lieu Thong Ke(1963), the annual average for 1958-1960 would come to 190.4 million $\text{\text{D}}$ (see table 2), while another Vietnamese source, Nghien Cuu Kinh Te, August 1963(16), p.81, even comes to 179.5 million $\text{\text{D}}$, a figure one can find in a source which is cited by Hung himself, namely Lavallee(1971), p.58.

² The outcomes for 1958-60 (as mentioned in note 1) and for 1961-64 are much higher than the figures that are known largely in absolute form, published in different sources at the epoch. For example (see table 2), the realized budgetary investment in industry, annual average for 1961-64, is not 395 million $\text{\text{D}}$ as Hung claims, but 331.9 million $\text{\text{D}}$, while the share of investment in industry in the total investment was not higher than 45.3 % (Etudes Vietnamiennes even gives 46 %), and certainly not 53 %. As in note

1, one cannot escape the inconsistency of Hung's figures with that of Lavallee(1971),p.58 , who by the way is himself mistaken , giving the total--revised-- investment for the FFYP as if it was all industrial investment.

³The source which Hung claims to have used ,Etudes Vietnamiennes(1976), can not be effectively traced back in his outcomes. Why ? My assumption is that this particular source first divides the investment into the categories of centrally-run and regional industries, and thereafter gives growth indices and shares for the centrally-run industries separately according to the division group A and group B. The Etudes Vietnamiennes figures in fact are more interesting , as on foregoing pages insight is given in how the regional industries were divided in group A and B for receiving budgetary investments.

⁴Hung ,in his book which is full of mistakes (see other notes in this article), does not care much about the problem of prices or the index number problem. Above this table he just puts "1959 constant prices" while in his sources this is just not clear at all, and even more likely to be current prices. Later on , from 1970 onwards the DRV authorities would change some published figures to a different base (1970=100), but in most cases it is unknown which prices are used.

To the eyes of non-statistically trained reader these points made here may seem somewhat irrelevant. However, if growth indices are used to estimate absolute outcomes for subsequent years , there is danger of a multiplication of errors and unreliability, which makes the above table in fact useless. This criticism is implicitly also directed to uncritical use of this (or other) tables. An example is Norlund[1984],p.95 ,who cites the first part of the table without any discussion whatsoever of its sources and actual value, which would have been essential ,as her article was dealing with industrial development in the DRV and the SRV. Hung's figures are treated in a similar uncritical fashion by Vickerman[1985].