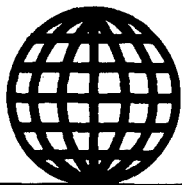


JPRS-ATC-89-007  
31 AUGUST 1989



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# ***JPRS Report***

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## **East Asia**

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***Southeast Asia  
Vietnam: TAP CHI CONG SAN***

No 3, March 1989

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**The Machine Revolution—A Pressing  
Requirement of Renovation**

*42100005 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 1-4*

[Nguyen Huu Tho; published in FBIS-EAS-89-086, 5  
May 89 pp 64-66]

**The Conflict Between the Economic Bases and the Political Statues—An 'Essential Link' in Today's Social Renovation Process in Our Country**

42100005 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 5-9

[Nguyen Ngoc Long; published in FBIS-EAS-89-091, 12 May 89 pp 54-57]

**The Special Characteristics and Contents of the Initial Stage in Advancing Toward Socialism in Our Country**

42100008 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 10-13

[Article by Le Thi, Professor of Philosophy]

[Text] 1. When talking about the period of transition to socialism, we must determine "transition from what to what." From the viewpoint of Marx, this means moving from a highly developed capitalist society to the first stage of communism. He stressed that only after a long and painful period of birth would it be possible to enter the initial stage of communism. When does this period of "birth" start? It starts after the proletarian revolution, that is, after the working class has seized power and begins carrying on socialist transformation and socialist construction. But it can also be said that this period of birth starts within capitalism with the preparation of the material and social conditions that give rise to socialism. If a country has not gone through this preparatory stage within capitalism, when it begins building socialism, it will have to replicate this preparatory process even if in a very abbreviated form.

The start of the birth of socialism in different countries can be totally different, as the revolutionary practices of the past several decades have proven. Finally, how can we tell when this period has come to an end?

According to Marx, after this long period of birth comes the first stage of communism, a society in which the economic, ethical, and intellectual spheres still bear the scars of the old society, that is, scars produced by capitalism. Thus, if I understand Marx correctly, the process starts from a highly developed capitalist society, and at the conclusion of the transitional period, we will have built a society that still bears the scars of the old society. Thus, what marks the initial stage of communism? To what degree does it still bear the scars of the old society and in what respects? The answer is different for each country.

To summarize, reviewing the theory of Marx and Engles on the period of transition to communism permits us to make the following observation: They discussed the transitional period as if it were a stage between highly developed capitalism and the initial stage of communism. The social conditions at the start of the process of building communism discussed by Marx and Engles are completely different from the social conditions that exist in Vietnam today. Because of this, the economic and

social conflicts that they said needed to be overcome are completely different from the problems facing our country today, a backward agricultural country that is advancing to socialism. Thus, not only must we have a correct understanding of socialism but we must develop the theory of scientific communism. We must supplement and renovate this based on today's new conditions and the dynamic practices of our country's revolution.

Our country is advancing to socialism in conditions peculiar to Vietnam. From where have we started and to where are we going in order to implement communist ideals? Those are the questions that we must examine scientifically. It isn't necessary to put those special features within the framework of abstract general principles. Instead, within the multi-faceted movements, the special characteristics contain the essence and universality of socialism.

2. Our country began building socialism in conditions completely different from those proposed by Marx and Engles.

In Vietnam, there is not a sharp conflict between the highly-socialized production forces and capitalist ownership relationships. Thus, the leading task is not to eliminate private ownership but to concentrate on expanding the production forces, developing a commodity economy, and quickly doing away with the self-sufficient economy. Reforming and building the new production relationships and building the regime must revolve around supporting the key task, which is to expand production (with the aim of improving the people's standard of living). In this, democratizing economic and political life is an extremely important motive force.

Now that expanding production has been determined to be the leading task, attention must be given to the laws of production forces. In this, the use of science and technology in production is the decisive factor. At the same time, we must find suitable forms of ownership and distribution that will stimulate production. Based on a multi-faceted pattern of production relationships, a suitable class structure and social strata will exist for a fairly long time. This will include many social elements with different interests, aspirations, and ideas. Thus, solving the economic and social conflicts presently existing in our country will not be simple, and it cannot be done in a dogmatic manner.

Given the viewpoint that a communist society, even in its initial stage, must be more highly developed economically, politically, and culturally than a capitalist society, even though our country is following the path of bypassing the stage of capitalist development, we must still achieve the standards of a capitalist country in order to advance to socialism. What that means is that we must make the basic economic, scientific, technical, and cultural advances already made by capitalist societies.

We have some very simple and impractical views on bypassing the capitalist stage of development. An important reason for this is that we have not adhered to dialectical laws between intermittence and continuity in historical development. In bypassing the capitalist stage of development and advancing directly to socialism, we must examine the political system. But the historical process cannot have holes. Our society cannot make sudden leaps or advance too rapidly. To bring about real change, we must pass through the successive stages of economic, social, cultural, and scientific development. What this means is that to become a socialist society, a higher form of society than capitalism, we must go through the process of industrialization, modernization, and democratization (similar to the material, technical, and cultural conditions created by capitalism). Historical development takes place continuously and so we cannot simply bypass the natural evolutionary steps. There can be development only when the subjective efforts of people are in line with the movement of the objective laws. This is not something that can be achieved easily or quickly. This requires a great effort on the part of the laboring people, along with the correct leadership lines of the communist party.

Although highly-developed capitalism has created the economic and social preconditions for the victory of socialism, our country lacks those preconditions. Our country's advance toward socialism is the result of many factors, among which the political factors play a decisive role. But these cannot replace the other factors. During the 1960's, we often spoke about Vietnam being at an intersection and either advancing to socialism or taking the capitalist path. The party made an effort to guide the people along the socialist path. This observation was correct concerning our country's two development possibilities after winning national independence in the north. But taking the path to socialism at that time was not an objective economic necessity. However, after we chose the socialist path under the political leadership of the communist party, nothing could reverse this even though there were many difficulties.

Correctly understanding the social conditions in our country, which was advancing to socialism, helped us to see the tasks that had to be carried out and how they differed from the tasks that Marx and Engels had discussed for a highly developed capitalist society during the period of transition to socialism.

In order to advance to socialism in conditions in which the country has not gone through the capitalist stage of development, meaning that the necessary economic and social preconditions mentioned by Marx are not present, we must go through a stage of creating those preconditions. That is a very important characteristic of our country's advance to socialism. This is a special task during the present "initial stage."

What tasks must be carried out during this stage of creating the preconditions, that is, during the present initial stage?

We must complete tasks similar to those completed by the bourgeois revolution. But this must be done by the working class, meaning a neo-democratic-bourgeois revolution. At the same time, we must begin building socialist economic and cultural bases and make preparations for shifting to building socialism in an all-round manner.

In order to create the economic and social preconditions for socialism, given that the tasks are similar to those of the democratic-bourgeois revolution, what exactly must we do? We must liberate the production forces. In particular, we must liberate the laborers, form a labor market, quickly expand the production forces, apply the scientific and technical advances, expand commodity production, build domestic market relationships and foreign markets, build democracy, uphold people's rights, free people from their feudal fetters, develop culture, science, and technology, and improve theoretical thinking. Based on this, we must improve the people's material and spiritual living conditions by implementing democratic measures, treating people justly, and ensuring the interests of each laborer.

As Lenin said, the more backward a country, the more complicated historical steps it must take in advancing to socialism. It must pass through complex and long intermediate stages and gradually advance to socialism through many small transitional steps. It cannot advance directly to socialism all at once. During the initial stage here, economic and cultural development must be guided toward socialism. We must build an economy in which the people are enthusiastic about developing the economy based on socialist guidelines. But this does not have to be a socialist economy in all respects. Based on developing the five economic elements, applying the scientific and technical advances in production, and expanding the commodity economy, we must gradually build socialist economic bases. In the stage of creating the preconditions for socialist construction and transformation we cannot carry on socialist transformation directly in an all-round manner. Rather, we must move in the direction of socialism. That means that the laws of socialism have just begun to be manifested in a number of specific problems in the economic and social activities of our people.

It should not be thought that we will have reached the end of the transitional period after completing the initial stage and the next several stages (whether there will be two or three stages cannot be determined) in order to enter the stage of socialism, that is, the first stage of communism. During the initial stage, we will create the preconditions for socialism. After that, we will gradually build socialism in both breadth and depth. Thus, in my view, the process of advancing to socialism in our country can be divided into many stages, and it is not necessary to call the first several stages a period of transition.

Looking at the economic, cultural, and scientific aspects, socialist construction in our country must pass through

many steps. These steps are very difficult to demarcate clearly or define using clear standards. They depend on the country's actual and specific conditions. Based on the experiences of fraternal countries, today, determining whether a country has concluded the period of transition to expanded socialist construction is not easy, and many people have different ideas on this. To what degree have production relationships been reformed? How far has industrialization progressed? Our country does not have to stay within any predetermined framework.

In summary, when looking at the special characteristics, contents, and steps in advancing to socialism here, the important problem is to recognize our country's social conditions. We must recognize these conditions when entering the path of socialist construction given the

special characteristics concerning distribution and the economic, class, and social problems that must be solved.

Starting from the viewpoints mentioned above, I think that there must be a new understanding concerning the transitional period in our country. We must take a long and winding path using flexible forms and methods during the initial stage, such as the contents of the most recent resolutions of the Politburo: Resolution No 10 on renovating economic and agricultural management, Resolution No 16 on renovating the policies and management mechanism with respect to the production installations and economic elements outside the state sector, and so on. This is not a step backward but a step in the right direction given our country's conditions and circumstances.

### The Pressing Tasks of Youth Work Today

42100008 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 14-17, 4

[Article by Phan Minh Tanh, head of the Department of Mass Agitation of the Central Committee]

[Text] In conditions in which youths face many urgent and serious problems, the implementation of Politburo Resolution No 26 of 4 July 1985 on youth work has satisfied some of the needs of life and received the approval and support of the entire party and all the people.

During 1986 and 1987, almost all of the localities held meetings to study and gain a thorough understanding of Resolution 26. Almost 30 provincial and municipal party committees issued resolutions or directives on youth work. Many places such as Quang Nam-Danang, Lam Dong, Ho Chi Minh City, Haiphong, and Hanoi conducted sociological studies on the youth situation and put forth many specific solutions. In particular, the Military Commission of the Party Central Committee and the Ministry of Defense have formulated plans to guide the party organizations and military units in studying and gaining a thorough understanding of Resolution 26. They have provided help in evaluating youths more correctly and putting forth more effective measures in order to manifest the strengths of the youths in the military. The Ministry of Interior and a number of other sectors have organized studies on Resolution 26 and have implemented active policies on youth work. The Ho Chi Minh City Communist Youth Union has striven to mobilize every potential in order to solve the new problems in the youth movement and in building the union. Many of the youths' social problems have begun to be solved using new and effective methods. Examples are the problem of laborers and jobs, the problem of enrolling students and laborers and looking after cultural and recreational needs, the problem of fashionable clothing, love and marriage, and the problem of educating youths and children who have committed crimes.

However, few results have been achieved, and the results that have been achieved have not satisfied the expectations of society, the needs of youths, or the requirements of youth work. Many of the party committee echelons leading the implementation of the resolutions continue to "leave things half done." They issue a resolution and feel that they have done their job. The union is given a "blank check" to organize and implement things. Many administrative echelons consider themselves to be "outside the movement." They feel that that is the job of the youth union. The mass organizations and other social organizations tend to feel the same way.

As for the youth union, many union organizations are passive and inactive, even in explaining the resolution. They rely on the party committee echelons and make empty appeals. Tardiness in youth work and the youth movement is still a problem.

The youth situation and youth work are putting forth many new problems. Among these are several serious problems that are putting great pressure on society.

We cannot ignore a rather painful truth, that is, there has been a serious decline in the quality of education. Youths and children are exposing the confusion in determining the style of life and in determining the direction of values and faith. Because of this, many people have become very concerned, and some have even become pessimistic. They lack hope and are very worried about social realities and the complex changes that are taking place in the country. The party and state have not created the material and spiritual conditions to educate youths and mobilize their potential to the maximum extent possible.

Thus, the urgent task today is to strengthen leadership in youth work and implement positive measures to solve the youth problems.

Above all, the understanding of the party committee echelons, administrative organizations, and all of society must continue to be renovated. The views and thinking of many cadres in the party have changed very little and have not kept pace with the changes undergone by youths. Feudal, paternal, conservative, and unscientific thinking is still very prevalent in viewing the young generation and their problems. If the party committee echelons and authorities lack a scientific outlook and feeling of kindness, they will not be able to see and solve the problems of our youths. They must have confidence in the wonderful nature, patriotism, and revolutionary spirit of the young generation, and this must be clearly manifested in actual practice through their positions and policies and in their daily attitude. The viewpoint that regards the union as an organization for mobilizing laborers or for showing off must be eliminated.

The party committee echelons must renovate their leadership with respect to the union and discuss the problems and important tasks with the union as equals in order to manifest the creativity and will power of the youth union members, youths, union organizations, and associations. They must pay attention to things and implement suitable mechanisms to ensure the rights of youths in the struggle to build social democracy. Conditions must be created to enable the youths to discuss and make decisions concerning their problems and the general tasks of the country in order to give them a concept of responsibility toward society. It will not be possible for the renovation movement in our country to advance unless we renovate the nature, contents, and leadership formulas of the party's youth activities.

Providing jobs for youths is a major social problem of youth work. Today, we have more than 6 million people who do not have jobs or whose jobs are unstable. In the cities, each year another 600-700,000 people are added to the ranks of the unemployed, and 90 percent of these are youths. Even though the echelons and sectors have made a great effort to solve this problem, so far no

solution has been found. The state (all echelons) has made investments to provide jobs for youths. But along with this, favorable conditions must be created to expand the movement in which the people organize things themselves and provide jobs for youths in accord with the guideline of expanding the collective, private, and family economies. In particular, the large and small collectives of the Youth Union and of the Youth Federation must be encouraged to organize commercial, production, and service units in order to attract young laborers.

Involving large numbers of youths in international cooperative labor is very important. The party, state, and mass organizations must give more attention to organizing and educating those involved in cooperative labor and looking after their interests. They must strongly criticize the authoritarianism, favoritism, and passivity displayed by a number of people and organizations with respect to the youths going to participate in cooperative labor.

It can be said that the speed with which we stabilize society depends to a great extent on providing jobs for youths.

Educating and providing vocational guidance to youths must be tied to the socio-economic development strategy. An effort must be made to create a force of young technical laborers in the country's key economic and technical sectors. At the same time, youths must be trained to provide them with skills. The vocational education system must be expanded quickly using a variety of forms. In this, priority must be given to the technical sectors, such as the machine, electronic, and chemical sectors, in order to support the related sectors and the key sectors. Our state is still poor, but it must still concentrate investments on this sphere and reserve a suitable percentage of the income from cooperative labor, including mobilizing the donations sitting idle at our embassies, to support the need to open additional vocational classes for youths.

Another important problem is that active measures must be implemented to educate and improve the quality of youths and children. Today, they do not have adequate capabilities, their occupational outlook is unclear, and there are many shortcomings concerning personality and "practical" tendencies. Also, other negative aspects in many of our youths are on the increase. This is without mentioning that fact that many youths in the mountain, coastal, and other populated areas are illiterate. Along with overcoming the weaknesses in the economic and social management mechanism, attention must be given to building a comprehensive, rational, and long-term policy system in order to increase the effectiveness of national education and improve the quality of the activities of the cultural, public health, and physical education sectors. Attention must be given to investing in these sectors. Our educational reform program is now encountering many difficulties. Experience has shown that a correct policy on youth proselytizing must always be

closely tied to a good educational policy. Thus, an extremely important problem is to give more attention to providing youths with a comprehensive education and increasing the responsibilities of the union, units, and student associations in the schools and improving the quality of their activities.

Policies on youths are always social policies directed toward the future. Along with showing concern for the youth targets (youths in the agricultural and industrial sectors, youths in the armed forces and those who have completed their military obligation, ethnic minority youths, religious youths, and other special classes of youths, including depraved youths), there must be a correct viewpoint and rational investment policy for expanding the ranks of young intellectuals in every sphere. There are many difficulties and shortcomings concerning this. We do not yet feel assured concerning raising and educating the students in the schools and are still discontent with employment activities and the procedures and policies aimed at stimulating the creativity and progressive nature of our young intellectuals. Regardless of whether they are subordinate to the localities or central echelon and regardless of where they are located, the training centers, colleges, and higher schools and the party committee echelons, authorities, and mass social organizations of the localities must regard youths as a valuable national resource and give them adequate attention. The party and state, together with all of society, must implement a system of economic, scientific, ideological, and organizational measures in order to improve the quality of the students and make better use of the existing ranks of intellectuals. This must be regarded as an important national policy.

The party committee echelons and authorities must give attention to and provide leadership in building and solidifying the Ho Chi Minh Communist Youth Union and help the union quickly improve the quality of its members and the quality of the youth union bases and help the union increase its role in general in society. The party committee echelons must point the union organizations in the right direction politically and provide guidance in building a rank of good cadres. The administrative organizations must create the material and spiritual conditions necessary for the union to improve its operating contents and methods in carrying on youth movements.

The Ho Chi Minh Communist Youth Union must affirm its position and contribute to overcoming the existing difficulties. It must not be pessimistic or stress objective causes. Youths cannot "make demands" but must ask themselves what they can do to build confidence, develop aspirations and a new and wonderful personality, eliminate the shortcomings, perfect things, and enrich material and spiritual values for both themselves and society.

One truth that must be recognized is that the prestige and attraction of the youth union among youths and society in general have declined. A rather large number



of union members who hold various positions in party and administrative organizations, in economic organizations, and in other spheres have degenerated into bureaucrats and opportunists and are involved in corruption. Is it that communist images of the union are fading from their minds? If the sign of youths during the struggle for national liberation was revolutionary heroism and a spirit of the "three readies" and "five assaults," what is the sign of youths during the present period of building a democratic and civilized society? What has the union done, together with all of society, to provide jobs for, train, and provide entertainment for youths in order to develop their political personality and ethical qualities? The union can answer those questions only by renovating its mode of operations, launching a revolutionary action movement among the youths, and increasing the number of operating forms of the Youth Federation in order to organize and educate the youths. Naturally, in order to launch a number of youth movements, the party must renovate its youth proselyting activities with respect to viewpoints, organization, mechanism, and policies. But the union cannot sit by idly or rely on others.

Mobilizing the youths is an urgent problem of great complexity. We must act on the advice of General Secretary Nguyen Van Linh: "The party and state organizations must implement effective and specific measures to help the youth union strengthen its effectiveness and creativity in carrying on activities, give attention to the legitimate interests of the youths, and, above all, provide jobs and enable the students to study and engage in recreational activities. As for youths, special attention must be given to unifying obligations and interests. On one hand, youths must be prepared to make contributions. On the other hand, attention must be given to satisfying the minimum and rational needs of youths as much as possible. The objective circumstances and difficulties cannot be used as an excuse."<sup>1</sup>

#### Footnotes

1. Nguyen Van Linh: "Renovating Youth Union Activities," Thanh Nien Publishing House, Hanoi, 1988, p 14

#### Renovation, Immediate and Long-Term Manifestations in Literature and the Arts

42100005 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 18-21

[Bang Viet; published in FBIS-EAS-89-095, 18 May 89  
pp 52-54]

#### Further Discussion on Social Justice

42100008 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 22-25

[Article by Pham Quang Nghi, MA in Philosophy]

[Text] For a rather long time now, our country, like many other socialist countries, has declined to discuss

the problem of social justice. Many people think that socialism is the incarnation of justice and so whenever they talk about socialism, they always praise it. But reality is somewhat different.

In our country today, the question of what can be done to ensure social justice is a burning issue. Every day, we are deeply moved by the words of President Ho: Do not fear deprivation. Fear only injustice. Do not fear poverty. Fear only unrest among the people.

The principles of justice contain rich and varied contents. In this article, I will discuss only the issue of ensuring social justice based on the principle of distribution according to labor.

To solve the problem of social justice correctly based on the principle of distribution according to labor, we must start from the viewpoint of giving priority to the common and highest interests of socialism. These interests are higher than the interests of any one class. This idea rejects the idea of separate interests and special rights for a certain group of people. This is in accord with the interests of all of society and exposes those elements of distribution and rewards that are improper even though they are called "collective." This means that the methods and forms used to carry on distribution must be democratic and open to inspection by the people.

In each society, there is usually a tendency for each class as well as each individual to want to get as much as possible. Because of this, every society must control the conflicts when carrying on distribution. People usually have different ideas on social justice, and they have different ideas when putting forth measures and policies on the distribution of material goods and on spiritual and cultural values.

Under socialism, for things to be fair based on the principle of distribution according to labor, there must be a system of policies and measures, and these must constantly be supplemented and perfected. This system of policies includes policies on wages, taxes, retail prices, social subsidies, and rewards and punishments and priority policies.

In our country today, this system of policies and measures is incomplete. There are many loopholes, and, in particular, it has not had a wholesome effect in production and life. The regulatory role of the distribution policies has not shown any concern for the highly productive and good quality laborers. Less attention has been given to producing more and more goods for society and, based on that, carrying on distribution according to labor than to dividing the few goods of society equally.

Because the policies and measures of the state have not been implemented properly, a process of self regulation outside the control of the state is taking place in society. Distribution is being carried on in a very disorderly manner. This applies to the distribution of products and

to various standards and rights, such as education, medical treatment, jobs, and travel abroad.

It must be realized that because of the mistakes and shortcomings in implementing the principle of distribution according to labor, there are a number of people who are using their positions to appropriate a large amount of property belonging to the state, to the collectives, and to other laborers. In a number of cases, these violations of the principle of social justice are even more serious than they would be in a capitalist system. That is because capitalism has a system of rather strict laws that intimidate people. But in our country, the laws are weak.

Surrounding the problem of social justice are many specific problems that must be solved. The public is rightly upset by this lack of social justice.

Those policies that are contrary to the principle of distribution according to labor must quickly be revised. The policies must be re-examined beginning with the most basic policies, such as the wage system, the pricing system, and social policies.

Today's wages are far out of line with the quality and amount of labor manifested in the products and the value of the scientific and technical creations and inventions provided to society. Today's wage system has the nature of a social insurance fund and deviates from socialism's civilized principles of distribution. This is pushing aside activeness in labor, production, and creativity and eroding the spirit of making sacrifices, struggling, being in the vanguard, and setting an example. This is due to the temptation of being able to enjoy a good life without having to work or by doing only a little work. Instead of seeking "places to work," people look for "places to spend," with the result that the staffs in the distribution and circulation sectors are bloated at a time when the work sites, factories, and fields need laborers. This has created a psychology of possession and competition on the path of gaining fame and wealth. Instead of trying to make contributions, people focus on seeking special rights and interests.

For many years, we said that our wage system was a progressive system because of the small gap between the minimum and maximum wages paid. It was finally realized that that was a manifestation of the concept of average-ism, which we had to correct using a variety of methods. In recent years, we have used the formula of raising the wages of almost everyone on the state staff once every 5 years. But raising wages based on productivity has been limited to a specific percentage. This has created a psychology of laziness and average-ism.

Everyone knows that the pricing policy can have a major and quick impact on the economic elements, on production, and on the incomes of the people. The distribution policies must be implemented correctly through the pricing system. The product and commodity exchange relationship between the state and farmers must be changed in order to manifest equality in the economy and contribute to strengthening the political alliance

between the two fundamental classes in society, that is, the workers and the peasants.

The distribution policies must be supplemented and revised as soon as possible in order to oppose the concept of average-ism and special rights and privileges and encourage people to manifest their capabilities. The policies must focus on creating a material and spiritual motive force in labor, production, and creative research. Only by doing this will it be possible to implement the social policies and carry out the social priorities.

The social priority policy is one element in the system of policies aimed at ensuring social justice. This is different from special rights and privileges. It has great economic, political, and educational significance. It manifests the payment of wages for past or future labor based on the value of the contributions in the future.

In socialism, especially in the initial stage, there are many economic elements, and the wages of the various elements in society will definitely be different. On the other hand, there is a clear difference in distribution between manual and intellectual laborers, between those who engage in simple labor and those involved in complex labor, between those who manage the work and those who execute the work, and between the strong and the weak. When putting forth distribution policies and measures, not only must this situation be recognized, but guidelines must be set to stimulate the various categories of laborers in order to achieve good results and high quality. For example, today, it is understood that the value of brainpower and of scientific discoveries for the production process is increasing. Intellectual labor has great significance in the material production sphere. Along with the scientific and technical advances, to have good manual laborers, they must be well educated and trained. Many people misunderstand the Marxist view on productive and nonproductive labor, with disastrous results. Unfortunately, concerning this problem, many people who consider themselves to be "Marxists" misunderstand things just like modern capitalists. We must quickly change people's viewpoints and the methods of carrying on distribution based on the increasingly important role played by the ranks of intellectual and scientific and technical cadres in social production. An attitude of giving attention to this is in accord with the viewpoint of social progress and social justice. It is also in accord with the interests of all of society.

The principle of "from each according to his ability, to each according to his labor," contains an inequality between people. This inequality starts from the fact that distribution according to labor is necessary, and from the social aspect, this inequality is legitimate. This inequality exists in order to stimulate laborers and overcome the problem of people living at the expense of others. This is a positive and progressive inequality. Average-ism cannot be implemented in the name of fairness. Lenin said that this "fairness" was economically irrational. For us, this is a dangerous and negative type of fairness.

Reality is a wise and fair teacher. Beginning now, we must base things on the actual distribution situation in order to put forth a number of measures aimed at limiting manifestations of social injustice caused by elements outside the control of the state. These secret mechanisms must be turned into democratic and open policies and measures. For example, policies must be implemented immediately to increase the incomes of people who are working in those sectors slighted by society and who are not being paid a suitable wage. This includes teachers, public health personnel, scientific and technical cadres, and some workers in heavy industry and workers who perform dangerous jobs. Conversely, with respect to those jobs that pay too much and that are creating a large gap with respect to common workers, policies must be implemented immediately to regulate incomes. For example, income schedules can be set (before the implementation of a progressive income tax) for people going abroad, for diplomatic tours of duty, for each trip by sea, for each year spent working at a port or international hotel, and so on. Or high taxes can be imposed on a number of commercial sectors that sell luxuries and earn high incomes.

Life can inform the policymakers of what needs to be regulated. Because in life, there are secret regulatory mechanisms. Everyone knows about these mechanisms and is controlled by these to some degree. The methods are not complex. The state often says, correctly, that those entrusted with responsibilities have forgotten about their regulatory role and allowed others to abuse the socialist ideal of social justice. They have implemented things in a very clever manner, from "investment" procedures to the principle of "to go to the West, you must 'pay.'"

Implementing social justice based on the principle of distribution according to labor is a struggle. We cannot remain idle at a time when countless injustices contrary to the nature of socialism are occurring.

Implementing a system of policies and measures to ensure that the principle of distribution according to labor is carried out correctly during the initial stage of the transition to socialism in our country is an urgent but very difficult and complex task. If the policies implemented are to fulfill the real requirements, we must carry on broad movements to exchange ideas and not confine this to theoretical research or policy-making circles. This must be carried on in the labor collectives and among the masses. This is particularly necessary in the case of major policies. This will help us avoid doing things in an administrative, bureaucratic, and authoritarian manner. This will also help us avoid making mistakes because of petty motives or because of wanting to maintain the special rights and privileges of the people proposing the policies.

We already have the political and economic preconditions necessary for waging a struggle for social justice. But designing a system of policies and measures and

forms to implement these is not easy. Making an historical turning-point from legal justice to justice in actual life is a great undertaking. We must quickly overcome the mistakes in the distribution policy, particularly the concept of average-ism, and in the policies of granting special rights and privileges, which are giving rise to many negative phenomena in social life. The party advocates carrying on a movement to purify and increase the combat strength of party and state organizations and make social relationships more wholesome. This movement is essential. This is not simply a political and ethical movement but is a movement of profound economic significance. If this is carried out well, this will contribute greatly to solving the problem of social justice in our country.

### **The Peasant and Rural Area Problem in Expanding Agricultural Production in An Giang**

*42100008 Hanoi TAP CHI CONG SAN in Vietnamese No 3, Mar 89 pp 26-30*

[Article by To Thanh Tam, deputy head of the Department of Propaganda and Training, An Giang Provincial CPV Committee]

[Text] The Sixth Party Congress advocated: "Agriculture must be pushed forward in the direction of large-scale production, with the main requirement being to quickly increase the volume and proportion of agricultural commodities."<sup>1</sup>

In implementing the party's policy, in recent years An Giang has made a great effort using many active measures to expand agriculture. In 1988, grain yields reached more than 1 million tons (the highest ever and an increase of 12.8 percent as compared with 1986). The yield averaged 550 kg per person. Many peasant households had a very high income. An Giang purchased a large quantity of grain and fulfilled its obligation to the state. The small industry and handicrafts sector was able to expand. An additional 9,200 new production installations were established, most of which were in the private sector. These attracted 26,300 laborers, equal to the total number 11 years ago. This contributed to increasing the value of industrial production 20.6 percent as compared with 1986. The social product has increased an average of 11.1 percent over the past 2 years, and the national income has increased 11.3 percent. A total of 57,000 jobs have been created for laborers. The standard of living of the laborers is more stable, and the number of people living below the poverty level has declined from 16 percent to 13 percent. The number of negative phenomena has declined, and security and social order have made progress.

Reality in An Giang shows that to expand commodity production, there must be a number of certain conditions, with the decisive condition being that the producers must control the manpower, production materials, and agricultural products that they have produced. This will be just an empty slogan if the policy on

expanding commodity production is not made specific and correct policies and measures are not implemented to encourage the peasants to engage in production enthusiastically.

The initial results achieved in expanding agricultural production in An Giang are the integrated results of a series of new policies on peasants and rural areas. After the Party's Sixth National Congress and the Fourth Congress of the provincial party organization, with a renovation viewpoint, the An Giang Provincial CPV Committee implemented many resolutions on economic and social development with the aim of gradually solving the problems in order to advance. These resolutions opened up new directions, created new and favorable conditions, mobilized the revolutionary zeal and active spirit of the people, and helped the economy to advance. The following are a number of points that should be noted:

1. The policy of manifesting the ownership role of the peasants in agricultural production has been concretized in the form of specific policies to ensure that the peasants are really in control of the fields, means of production, and products that they have produced.

In past years, the reason why peasants in An Giang were not enthusiastic about production was that they felt hopeless in the face of the policies that divided the fields in the name of equality and average-ism. Collectivization was carried on by "seizing" the fields of the peasants. And in reality, a number of people used their powers to occupy a large area that included many good fields. In many places, the peasants did not have the freedom to grow crops on their fields but had to follow the general "plan." This did not produce any real results. During the period 1983-1985, when the collectivization movement was at its height and no one relied on the awareness of the peasants, agricultural production in An Giang actually declined. Grain yields declined from 950,000 tons (1985) to 850,000 tons (1986). This downward trend would have continued if a correct policy had not been implemented promptly to stop this.

In 1986, An Giang decided to allow peasants in areas where there was a shortage of land to clear land in sparsely populated areas with a high land average. They were allowed to transport rice back on condition that they pay the agricultural tax. In the past, that was regarded as "tilling the land of another locality," and the local authorities considered this to be illegal. In order to gain the trust of the peasants in this new policy, beginning in 1987, the province implemented a policy of providing 1-2 hectares of residential land to each household to encourage the peasants to settle in these areas and engage in settled farming there. In 1987 and 1988, many places dug canals to bring in water from the Hau River and grow two crops with high yields instead of just one crop with a low yield. Altogether, the peasants contributed more than 5 billion dong to carry this out in cooperation with the state. In many places such as Long Xuyen City and Phu Tan and Cho Moi districts, the

peasants were very enthusiastic about this and asked permission to open up fields and engage in multicroping in Phu Hoa, Vinh Khanh, and Vinh Phu villages in Thoai Son District, Vinh Nhuan and Vinh Hanh in Chau Thanh District, and many other villages in the Long Xuyen quadrangle.<sup>2</sup> Thus, during the 1988 summer-autumn season, An Giang increased the rice area to 92,000 hectares, an increase of more than 10,000 hectares. In the 1988-1989 winter-spring season, the area increased to 120,000 hectares. Yields have averaged 3.5-4.0 tons per hectare.

The peasants were very enthusiastic when they were issued land-use permits and allowed to decide by themselves what crops they would grow and what livestock they would raise. To encourage them to produce a particular type of agricultural product, the authorities use economic measures, particularly by raising the purchase price and ensuring that the peasants have distribution points. An Giang has gained experience in expanding the cultivation of jute and mulberry trees.

The ownership rights of the peasants also had to be defined with respect to the other means of agricultural production.

**Agricultural machinery:** After liberation in 1975, An Giang had a rather large number of machines, including 2,100 tractors and 56,000 small generators. But because of the erroneous pricing policies and because the production collectives did not manage or use them properly, two-thirds of the tractors were soon in a state of disrepair, with the result that there was a lack of draft power. In 1986 the province decided to return the remaining tractors to the former owners for repair in order to promptly support the 1987 production seasons. Today, the tractors in the province are owned by one of three entities, that is, the state, the collectives, or private individuals. These three entities are emulating to manifest economic results.

**Gasoline, fertilizer, and insecticides** are production materials needed by the peasants. In the past, based on the method of contracting in advance and paying later, because of the many middlemen involved, the means of production usually reached the producers late and they were often not the right type. This caused problems for the producers, or they had to spend a lot of money on the "black market" to purchase what they needed. The province has now switched to business practices. The agricultural materials stores sell a wide variety of items, and the peasants can purchase materials at any time. The peasants no longer have to worry about running out of gasoline at critical moments or of not having insecticide when insects attack the rice as in past year.

As for the types of agricultural products, in the past the situation was totally irrational. The farmers produced rice but could not transport the rice to sell it. And they couldn't store it in bins. They had to sell it to the state at a very low price. Because of this, the farmers did not want to work the fields. Now, with the new policy, after they have paid the tax, the peasants can use the rice as

they see fit. They can sell it, give it away, or stockpile it. This has made them much happier.

The policies mentioned above have brought a breath of fresh air to the rural areas of An Giang. The rural areas here are undergoing a transformation. In only 2 years, rice yields have increased greatly. Many houses with red tiled roofs have sprung up amidst the fields of green rice. The farmers have grown enthusiastic about production. In many places, collectives and individuals are doing an excellent job.

2. The problem of transforming production relationships in agriculture is now understood better. Reform is being carried on by giving attention to results, ensuring that production expands and that the lives of the peasants improve, and ensuring that the peasants are connected to the dictatorship of the proletariat and that they are fellow travelers of the working class. Any reform that results in a decline in production or the standard of living is inappropriate. Reality in An Giang shows that the only correct reform measure is education, persuasion, and a willingness to wait for the peasants to wake up. It is totally wrong to apply pressure or use force. During the national democratic revolution, the peasants were the "main force." Now, during the socialist revolution, it is totally unreasonable to view them as "factors for the spontaneous outbreak of capitalism." There have been times when people have "harassed" a number of individual peasants just because they had not joined a cooperative or production collective.

For more than 2 years now, the movement to transform agriculture and the peasants in An Giang has been carried on with the following requirements:

The first thing is to oppose and eliminate exploitation. But it must first be determined whether there is exploitation before posing the matter of opposing or eliminating this. Today, the great majority of the peasants in An Giang are both the producers and consumers. Whom have they exploited? As for a spontaneous outbreak of capitalism, if this is happening, it is taking place very slowly. It will not happen in a day, a month, or a year. Thus, there is no need to rush into things. Things must be studied carefully in order to implement correct measures to deal with this. People should not be in a hurry to oppose or eliminate things immediately, because the middle peasants who possess means of production play a very important role. They are helping the peasants who lack means of production, and their economic influence is very great.

Agricultural transformation must focus on persuading the peasants to produce based on the general plans and support the needs of society. The state must implement economic policies and measures to stimulate growth in the sectors needed by society. If they see that a profit can be made, the peasants will produce voluntarily.

Transforming agriculture must aim at expanding the production forces, gradually reducing backwardness, and modernizing production. The technical equipment and

materials for agriculture are the fundamental conditions for collectivizing agriculture, building a worker-peasant alliance, and building the relationship between the peasants and the socialist state. Through the technical and material factors, unity must gradually be formed based on two models: the peasant and peasant model and the state and the peasant model.

There must be solidarity, cooperation, and mutual aid between the sectors, economic elements, and individuals engaged in production.

Finally, transformation must gradually lead to building new and wonderful social relationships in the rural areas and to raising the peasants' standard of culture.

Based on these requirements, An Giang has concentrated on solidifying and building agricultural cooperatives and production groups by expanding the scale and improving the quality of the collectives, having the collectives switch to providing production services with a very orderly management apparatus, and having peasant households serve as accounting units. Those state units and collectives that have suffered losses for a long period have been disbanded or switched to a more suitable form of production.

3. Social policies regarding the peasants and rural areas in An Giang have been put forth based on a revolutionary and scientific viewpoint. Millions of peasants live in the rural areas. Through the ages, they have been submerged in darkness and suffered great deprivations. In raising agriculture to a leading position and regarding agriculture as the No 1 problem, it is essential to give attention to building the rural areas with the basic and most pressing requirements. In recent years, An Giang has gradually fulfilled three major requirements:

An infrastructure has been built in the rural areas. It has built communications routes, an electricity network, and rural markets. In An Giang, the river routes are convenient during the rainy season but pose an obstacle during the dry season, because the canals are shallow. The roads are usually flooded or muddy during the rainy season.

Along with water conservancy, in recent years, many places have dredged the canals, raised the banks of the canals, expanded marine and land communications, and gradually expanded activities to more remote areas. The medium and low-voltage carrier lines have been expanded, which has provided the rural areas with more electricity. Markets have sprung up in many places, particularly at the points where the canals and roads converge. Together with the state, the people have enthusiastically built market roads. My Hoa Hung Village in Bac Ton Duc Thang has an excellent network of roads and electricity carrier lines. In Vinh Khang Village, the canal banks have been raised, and the people have paved the roads, enabling two-wheel and small four-wheel vehicles to pass through. The province has invested in expanding and upgrading a number of roads and carrier lines to the rural areas.

Cultural, educational, public health, and social welfare projects have been built. To date, almost every village has a school, a public health-maternity clinic, a public place to watch television, a broadcasting system, a place to show video cassette tapes, and a "friendship" center. Although these are not magnificent and although they do not have every convenience, this is the starting point for the new cultural life in the rural areas.

The religious and ethnic minority problems have been solved correctly. In An Giang Province, 80 percent of the people are Catholics, and there are more than 700,000 Cambodians and 1.2 million Chams. The great majority of the Catholics and minority peoples are peasants. In the past, the Americans and their puppets used religion to divide the nation, encourage the Catholics to oppose the revolution, and distort the policies and positions of the party and state. With the viewpoint that religious and minority problems must be dealt with in the policies on peasants and rural areas, the Provincial CPV Committee has advocated allowing people to practice the religious beliefs of their choice and follow the customs and practices of their group. It has protected the legitimate religious organizations of the people based on correctly implementing the policies on peasants and rural areas. The attempts by bad elements to use religion and ethnicity have been promptly crushed. Because of this, during the past 2 years, the province has limited the spread of rumors and superstitions, manifestations of public disorder, and attempts to weaken the spirit of Catholics and Cambodians.

4. The village echelon has been strengthened. The policies on peasants and the rural areas, which are aimed at stepping up agricultural production, have in fact been implemented in the villages. Thus, the village echelon has become a very important echelon. Given An Giang's conditions, a small village has 10,000 people and 2,000 hectares of land. A large village has more than 20,000 people and 10,000 hectares of land. The village echelon must be turned into a strong and self-reliant echelon in the plans and budget. This echelon must be able to provide leadership in expanding agricultural production and building the new rural area.

In building the village echelon, the most important thing is to build a leadership core, that is, strengthening and purifying the primary party organizations so that they can organize the implementation of the positions and policies. In this, the key is to build a rank of excellent cadres skilled in mobilizing the masses and in performing economic tasks. The Provincial CPV Committee has advocated actively training cadres on-the-spot, reorganizing the apparatus and reducing the

size of the administrative staffs at the provincial and district levels, and sending cadres to work at the primary level. Emphasis is being placed on training the party committee and party chapter secretaries, village headmen, directors of marketing cooperatives, public security chiefs, and heads of the village military units. During the past 2 years, the province and districts have sent more than 200 engineers and cadres with similar standards to strengthen the villages. Chau Thanh District has 12 villages, and all 12 village secretaries have been strengthened by the district. Along with carrying on cadre work, the province has advocated budget quotas for the villages, turned the village echelon into an echelon with a budget, and enabled the villages to handle their financial affairs themselves. After implementing this policy for 2 years, An Giang now has many villages that are carrying out this task well. A total of 119 of the 135 villages and subwards have managed to balance their budgets. Many villages have budgets of hundreds of millions of dong and have invested in the construction of schools, roads and bridges, and public health stations. During the recent party organization congresses, many young and energetic cadres entered the primary party committee echelon and joined the district and city CPV committees. Today, the number of people belonging to the An Giang party organization far exceeds the old number of 6,000, which was the figure for many years.

Based on the initial achievements scored by the new policies, An Giang is continuing to exploit every potential in order to expand commodity production and commodity circulation within and outside the province, build up the infrastructure, continue to strengthen the villages and subwards, promote the implementation of the social policies, and stabilize production and the standard of living based on the spirit of the resolution of the Sixth Party Congress. In particular, An Giang is giving attention to extracting minerals and expanding many industrial and small industry and handicrafts sectors in order to attract laborers and provide jobs for the people.

#### Footnotes

1. "Sixth Congress Documents," Su That Publishing House, Hanoi, 1987, p 48
2. The Long Xuyen quadrangle is situated on the right bank of the Hau River within the sphere of four cities, that is, Long Xuyen, Rach Gia, Ha Tien, and Chau Doc. It has an area of more than 500,000 hectares. Of this, 290,000 hectares are located in An Giang. The remaining area is located in Kien Giang and Hau Giang provinces.

**Through the Sections of Recording Tape**

42100005 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 31-33

[Nguyen Trung Thuc; article not translated]

**On State Monopolization in the Foreign Economic Sphere***42100008 Hanoi TAP CHI CONG SAN in Vietnamese  
No 3, Mar 89 pp 34-36*

[Letter from Pham Minh Tri, Ho Chi Minh City]

[Text] State monopolization in the foreign economic sphere is one of the basic and key problems of the socialist state. But in order to carry out this function well in the country's present situation, the following pressing problems must be solved:

1. The state must formulate a long-term foreign economic strategy and rational import-export policies for each period. The policies, measures, and tools used to implement the foreign economic strategy must be formulated based on large and far-sighted targets with the aim of making effective use of the capital, materials, and techniques brought in from abroad, and providing good support to exploiting the country's economic capabilities expanding the national economy in a stable and firm manner. When formulating an economic strategy, the emphasis must be on economic results. Because for many years now, even though we have had access to large sources of capital from outside the country, for various reasons we have not made effective use of these sources. One of the reasons is that the policies and import-export mechanisms have been inefficient. Formulating strategies, stratagems, policies, and measures must be done in a synchronized manner in order to promote the activities of the sectors in the foreign economic sphere. At the same time, we must avoid the situation in which "each person plays his own instrument." While the state advocates stimulating and expanding a number of sectors, there are still regulations and procedures of the state and sectors that are creating difficulties and obstacles for the operations of these sectors. (There are conflicts between the Tourist General Department and the Customs General Department, between the import-export policies and the setting of import-export tariffs, and between encouraging overseas Vietnamese to remit money home and the regulations concerned.) On the other hand, people must understand that state monopolization in the foreign economic sphere does not mean simply stipulating import-export quotas and issuing import-export permits, which could limit the functions of the agencies involved in foreign economic activities and lead to manifestations of "authoritarianism" when issuing these permits or prohibiting the import and export of certain goods.

2. The relationship between exports by the central echelon and by the localities must be handled correctly, and steps must be taken to ensure that exports by both the central echelon and localities expand. I think that the only way to do this is by implementing economic policies and measures. This cannot be done by using state management and administrative regulations and procedures. As for exports by the central echelon, particularly to socialist countries, changes must be made in the policies and mechanisms in order to exploit the bartering

and trading capabilities and foster economic and technical cooperation with fraternal countries. In recent years, because we have not had suitable policies and mechanisms, central echelon exports have increased more slowly than local exports. There have even been times when the central echelon has failed to mobilize enough goods for delivery to other socialist countries, but the localities have had goods to export to other places.

As for exports by the localities, we should not follow the old path: based on the yields of the localities, set delivery norms and norms for the following year at a higher level than before without providing the material conditions (materials, capital, and so on) necessary to fulfill the norms. With that method, the plans cannot be very realistic or have a basis for implementation. As a result, the export plans are implemented in a passive and unstable manner. When the central echelon encounters difficulties in mobilizing export goods, problems arise in regulating local exports. Thus the relationship between the central echelon and the localities is in a vicious circle. On the other hand, the responsibilities and obligations of the localities toward the central echelon must be clearly defined in a rational and appropriate manner (including re-examining a number of policies and regulations on the percentage of foreign remittances to be turned over to the central echelon, the rate of exchange, export and commodity tariffs, customs procedures, and so on).

3. The irrational aspects of the present import-export policies must be corrected. Recently, the state implemented an import-export and commodity tariff policy. Although this was implemented just recently, it is already clear that the collection of these taxes has put a heavy financial burden on the import-export units. In just a short period of time (from April to September 1988), the Ho Chi Minh City Import-Export General Corporation had to pay more than 7 billion dong in taxes, which was equal to 85 percent of the amount of imports purchased in 1987 and 70 percent of the amount of imports purchased during the first 5 months of 1988. The collection of these taxes (particularly the export and commodity taxes) has not only had an effect on promoting production and exports but has also reduced our country's ability to compete on world markets. This is because we are collecting export taxes at a time when other countries, including countries with a strong economy and strong export sector, are not only not collecting export taxes but are using state budget funds to subsidize exports. The commodity tax is calculated based on market selling prices (which are moving higher), which means that the tax will spiral higher and higher. This will lead to a situation in which the import-export units will not have enough money to pay the tax let alone carry on business activities. Today, a widespread situation is that many import-export units owe taxes. Besides that, with respect to foreign remittances, they must sell the foreign currency to the state even though they will suffer losses because of the stipulated exchange rate. (This is because of the difference between



the real rate of exchange for exports and the stipulated internal account exchange rate.) As a result, the more the localities export, the larger the remittances to the state and the larger the losses suffered by the localities. This problem has not yet been solved in a satisfactory manner. This poses a major problem for units involved in import-export activities, particularly local exports.

4. The agencies responsible for carrying out the monopoly functions of the state must be clearly determined. Based on the present mechanism, in the foreign economic sphere, along with state monopolization (through the Ministry of Foreign Economic Affairs), there is also "monopolization" by the administrative sectors and ministries. This situation has led to "local" tendencies and a new authoritarianism under the name "special sector management." This is also causing many difficulties with respect to centralized and unified management and special sector management based on the

correct meaning of that term. The state will encounter problems in concentrating the foreign currency collected (from exports and other services) in order to use it to meet the requirements of economic development. On the other hand, with respect to organization, this situation has generated a conflict between centralized and unified management and the sharing of state powers with the ministries and sectors. In view of this, I feel that the only organization that should perform the monopolization function of the state in foreign economic activities is the Ministry of Foreign Economic Affairs.

To handle the relationship between centralization and democracy, between the central economy and the local economy, and between central echelon exports and local exports, in the foreign economic sphere, there should not be many different organizations carrying out similar and overlapping functions. This will just make an already complicated situation even more complicated.

### Four Plans on the 'Problem of Inflation and the Formulation of a Plan To Control Inflation in Our Country'

42100008 Hanoi TAP CHI CONG SAN in Vietnamese No 3, Mar 89 pp 37-74, 36

[Text] Editor's Note: This is a continuation of the article published in the February 1989 issue TAP CHI CONG SAN. This article resulted from a scientific debate on "The Problem of Inflation and the Formulation of an Anti-Inflation Plan in Our Country" that was organized by TAP CHI CONG SAN and the Department of Economics of the Central Echelon in October 1988. In this issue, we are publishing the complete text of four anti-inflation plans synthesized from more than 40 plans presented by various sectors and scientists at the debate mentioned above.

#### PLAN I

Starting from the viewpoint that inflation here started from an ingrained imbalance common to all socialist countries that use an economic model calling for highly centralized planning, this imbalance was concealed during the time that the country was at war because of the great amount of aid provided to us. But after the south was liberated and the country unified, this imbalance became clearer and clearer as the amount of outside aid declined, and there has been a sharp rise in inflation during the renovation process to switch to socialist economic accounting methods because of the serious mistakes made again and again in handling the "price-wage-currency" problem. Some people have been under the illusion that inflation (mistakenly regarded as "wholesome") can be used to overcome this ingrained imbalance in the economy without having to change the structure of the system. This plan presents urgently needed measures aimed at putting a stop to this inflationary psychology and, based on this, implementing basic measures to quickly right this imbalance and bring inflation down to a level that can be tolerated by society and the economy.

#### I. The Sources, Special Characteristics, and Harmful Effects of Inflation in Our Country

Just as in other socialist countries that are building the economy using the highly centralized planning model, inflation in our country started from a constant imbalance in the social reproduction process, which we will call an ingrained imbalance. This imbalance was caused by structural defects in the system.

1.1. Real causes: The socialist economic system, which is constructed on the model mentioned above, is really a highly centralized economy that relies on a "distribution-payment" system based on material relationships and that is operated by "imposing behavior."

People think that once the means of production have legally been made public property, with that viewed as the foundation and strength of the socialist system, we will have eliminated free exchange between independent

enterprises. The socialist state, the entity that represents the interests of all of society, that plays a role similar to that of a patriarch, that holds all power in its hands, and that serves as "manager," regulates every activity in society. The relationship between the socialist state and the state-operated economic units is similar to the affectionate relationship between a father and his children. The state provides the necessary factors, supervises things closely, sets prices, and determines product distribution by location. Production is separate from circulation. The producers do not have to think about the consumers because there is an imposing apparatus to handle this work. All the state-operated economic units have to do is concentrate their efforts on fulfilling the plans based on the norms and orders given from above. The state takes their profits and compensates them for their losses. These enterprises do not have to worry about going bankrupt, because if something goes wrong, the state will take care of it. These enterprises can survive regardless of what the conditions are and regardless of their technical or managerial standards provided that they fulfill the plans given to them by higher echelons. In this situation, enterprises are rewarded by higher echelons and are paid a fixed amount based on product costs. The higher the costs, the higher the profits. Thus, no one would be foolish enough to struggle to lower product costs. Enterprise directors display their talents in bargaining with the aim of reducing the norms in order to make it easier to fulfill the norms. They look for large quantities of state materials sold at low prices, which they can reserve, or steal. They use their talents to obtain capital construction investment capital and liquid assets with the aim of constantly expanding production, even when checking product costs, in order to increase profits. But they give little attention to applying the scientific and technical advances or improving techniques and management, because that could bring them bad luck in fulfilling the planned norms. Thus, all the directors have to do is please their superiors. They don't have to be experts in anything or know anything about business.

The reasons for this both here and in other fraternal socialist countries is that production expands primarily in breadth but not in depth. The scientific and technical advances are applied slowly or they are very difficult to apply in production and life, and the productivity of social labor is inferior to that of the developed capitalist countries.

In order to ensure that materials are not supplied late and to prevent production from stagnating because of machine breakdowns and a lack of parts, which could affect fulfilling the planned forms, the enterprises employ more laborers than are actually needed and borrow additional money to purchase reserve materials. Because all enterprises behave like this, excessive demands are made. The ever-increasing needs of the enterprises for materials, money, and manpower put a burden on the budget and are completely independent of the enterprise's financial position. This is based on a

trust that has been tested by time: The socialist state will compensate them for all their expenditures, no matter how large, reduce their taxes, and provide subsidies. For them, the state is the perfect insurance company. In such conditions, no one can correctly analyze the relationship between expenditures and revenues.

Thus, the excessively high demand for production materials is closely related to the inflationary deficit, because the increase in the cash balance of the people has not been matched by a corresponding increase in the volume of consumer goods supplied by the enterprises. This inflationary deficit has been created on both the supply and demand sides.

The existence of a body of regulations that gives rise to excessive demand has created an ingrained imbalance in our highly centralized planned economy, an imbalance that has nothing to do with the overly optimistic plans formulated by the politicians and central planners. Of course, these people can make the situation worse. This is the real source of the inflationary deficit in a socialist economy based on the model of a highly centralized and planned economy.

1.2. Special features of inflation in a socialist country: For a long time, economists in the socialist countries declined to study the problems of inflation in a planned and centralized economy, because they thought that prices in these countries were in general stable. Thus, how could there be inflation? This superficial view has recently begun to change now that the inflationary process in a number of socialist countries has become clearer and clearer. When preparing for economic reform, the key element of which was to give greater independence in commercial production to the economic units, people recognized from the very beginning the danger of exposing this underground inflation, that is, inflationary deficits, and eroding the achievements of renovation at a time market imbalance. People were particularly concerned about the danger of this in the situation in which there was an ingrained imbalance in the market sectors, such as consumer goods and services. Thought was given to establishing a system of economic regulatory tools to prevent these things from happening as a result of huge consumer demand giving rise to a loss of control over the operation of the economy at the macro level. This is without mentioning setting prices in a situation in which there is only limited competition on domestic markets: some of the prices will still be set by the central organizations; the enterprises will be free to change the rest as they see fit. The economic units have combined the effects of macro control with the liberal relations concerning cooperation and competition. Combining the prices set by the state with the free prices set by the markets has produced bad results and contributed to the sudden rise in inflation.

After the economic reforms in Hungary (1968-1987), Poland (1968-1987), and China (1978-1987), inflation increased quickly. At first, it increased at a relatively slow rate but then increased more and more quickly.

Today, inflation there is in full gallop. (See tables 1 and 2)

**Table 1: Rate of Inflation, Based on Retail Prices, in Hungary and Poland (Yearly Average, %)**

Stage	Period	Hungary	Poland
Before reform	1961-1967	0.7	1.6
After reform:	1968-1973	2.1	1.3
	1974-1980	5.3	6.2
	1981-1987	6.8	28.7

**Table 2: Rate of Inflation, Based on Retail Prices, in China (Yearly Average, %)**

Stage	Period	Rate of Inflation
Before reform	1971-1977	0.6
After reform	1978-1982	3.0
	1983-1987	5.9

1.3. Special characteristics of inflation in our country: In our country, imbalances in the economy began to appear after we implemented the first 5-year plan (1961-1965). But this was concealed for a long time because of the large amount of aid coming in from abroad. After the south was completely liberated and the country was unified, because of the erroneous policies that were implemented to maintain the old currency in the south, the economy of Vietnam, which had just been unified after more than 30 years of war, had to bear the inflationary effects left behind by neocolonialism at a time when foreign aid was declining. Also, economic relationships were switching to state store exchanges, with loans and payments. Thus, the imbalances in our economy could be seen more clearly than before, and they piled up during the process of implementing the policy of expanding the scale of industrialization and stepping up the rate of socialist reform in the rural areas and cities in southern Vietnam.

Even though the socio-economic situation and conditions were different from in the past, we adhered to the old regulations and continued to advocate building the economy of Vietnam based on the old model and strategy even though Vietnam only recently unified the north and the south, which have their own special characteristics. We continued to pattern things on a highly centralized economic management mechanism based on a "wartime mobilization" model in order to run our crippled economy after the war. Thus, not only was it impossible to eliminate the imbalances in the economy but the number kept increasing, and inflationary deficits appeared openly. What is more, there were several successive natural disasters during the period 1978-1980 that affected agricultural production. The wars along our southwestern and northern borders increased the seriousness of the imbalances in the

economy. The final manifestation of this is that the country's finances (including our international balance of payments) showed a serious deficit. To overcome this, the state abused its power to print money and put a huge amount of currency, which the country really didn't have, into circulation to eliminate the budget deficit. As a result, demand payments (the amount of money serving as means of circulation and payments for reserves and accumulation) exceeded the supply capabilities of the national economy.

Much currency has been put into circulation, but the volume of commodities produced has been small. This has driven up prices on the free markets. In turn, free market prices have driven up lead-in prices and the product production costs of the state sector.

As the gap between free market prices and fixed state prices continues to widen, more and more budget funds will have to be spent to compensate production, and speculation in materials and commodities whose prices have been set by the state will spread like an epidemic. This will create waste and cause serious losses for the country.

As inventories increase and materials and commodities continue to stagnate, the tight money situation will grow more and more tense. More and more compensation will be paid to those suffering losses, and the state will have to adjust lead-in and lead-out prices and wages and increase the amount of currency and credit in order to maintain the so-called "necessary level of credit" based on the new price floor. After that, the state will have to "freeze prices and wages" in order to control inflation. But pushing currency and credit onto the markets will also push up free market prices and so the inflationary cycle will begin anew. The point that should be noted is that the "price-wage-currency" adjustment periods will grow shorter and shorter and because of this periods of inflation will occur more often and the level of inflation will go higher and higher. (See Table 3)

**Table 3: Rates of Inflation, Based on Retail Prices, and Rates of Increase in the Money Supply (based on yearly average, %)**

Stage	Period	Rate of Inflation	Rate of Increase in the Money Supply
Before reform	1957-1960	0.7	4.4
	1961-1964	2.5	13.3
	1966-1970	2.3	6.3
	1971-1975	0.7	35.4
	1976-1980	21.2	34.6
After reform	1981-1985	74.2	86.8
	1986	478.2	348.8
	1987	301.3	280.5

Table 3 shows that inflation in Vietnam has switched from an underground inflation in the years when the

country was at war to an open inflation following the liberation of the south and the unification of the country (1976-1980). The rate of inflation skyrocketed after we implemented economic reforms, which started with the implementation of the resolution of the Sixth Plenum of the Party Central Committee, fourth term, (September 1979), and the situation grew even worse after 1985.

1.4. Effects of inflation in our country: The sharp increase in inflation has had a great effect on the country's economy. The tight money situation has affected the various elements of the economy differently. In this period of high inflation, the velocity of currency in the hands of the consumers has increased rapidly and prices have skyrocketed. Because of this, only those elements with the ability to turn over currency quickly can make a profit. The economic elements with longer production and business cycles and a slower capital turnover will encounter difficulties and even lose capital.

The circulation sector has the capabilities to turn over capital faster and so capital will flow into this sector. The production sector, particularly the state-operated production sector, has a longer production-business cycle and receives state subsidies. Thus, withholding goods from the market and waiting for prices to go up is common. This is done in order to profit from the price differences. This means that they are eating up their capital and so the shortage of capital in the state-operated production sector is growing even worse. The private economic sector generally operates in industries with short production-business cycles. They do not receive subsidies and must compete using money. Thus, capital tends to flow from the state-operated sector to the private economic sector and to the free markets.

As inflation grows worse, the production sector, particularly the state-operated production sector and heavy industry, will face an ever more severe shortage of capital. Thus, unless inflation is halted, it will have a disastrous effect on our country's economy.

Because the velocity of money is much slower in the rural areas than in the cities, the peasants do not have the capabilities to protect their cash incomes or avoid the terrible effects of inflation. This is why the peasants want to keep their products instead of selling them for cash. Instead, they exchange their products for the things they need or sell just enough to have some money to buy what they need at the moment. This situation has impeded the expansion of agriculture and caused problems for supplying food to urban dwellers and supplying raw materials to industry.

The terrible effects mentioned above are the result of the devaluation of the currency. The currency can no longer carry out its function as a means of savings. Inflation has made it difficult to measure the value of our currency, with the result that the economy has lost an important tool for calculating things, determining economic results, and formulating correct plans.

While changing cash income equivalents, inflation has gradually led to a redistribution of real income in society. People with relatively fixed cash incomes, such as people who are paid wages, who receive subsidies and

assistance, and who have been granted a scholarship, are suffering the most, because their real incomes have declined rapidly as a result of the rapid increase in inflation. At the same time, the incomes of businessmen, particularly people engaged in commercial activities, have increased in keeping with the rise in prices. This is one of the serious social effects of inflation. In order to limit this, the state must find a way to protect those with relatively fixed wages. There are many such people in our country and so the pressure to increase the budget deficit is increasing, which will only make inflation worse.

Besides destroying the function and means of saving and the function of measuring values, inflation has also destroyed money's function of settling accounts. People are looking for other and more secure means of settling accounts to replace our devalued currency. In our country, gold and dollars once played this role. In the situation in which this is no longer possible (because the state has forbidden this or does not have enough gold and dollars), people are withholding goods from market until they have the means to purchase the items they need immediately. Because of this, at a time of high inflation, bartering is increasing. People refuse to simply sell goods but always demand to "convert" their goods for other commodities and products. The problem is that people do not always purchase the goods that they really need. Instead, they may purchase goods that can be hoarded and exchanged for commodities that they really need. This trend toward bartering has led to an irrational hoarding of commodities and materials, caused commodity circulation to move in zigzags, and led to an irrational increase in circulation expenses.

The trend toward bartering in economic relationships during a period of severe inflation will push back the renovation process, which is aimed at switching the country's economy to planned commodity production.

Because sources of raw materials and energy are very limited, it is difficult to expand production in order to make a profit during this period of high inflation. Thus, the tendency to consume the "false profits" of the capital differences created by inflation is increasing. The funds outside the control of finance and banking officials are swelling, which is the clearest characteristic of a period of rampant inflation. Expenditures on nonproductive ideas are very large, and this will make inflation even worse. The national income will decline, and exploitation of the country's resources will increase. The forests and oceans will be exploited until they are "dry." People will grow weary physically and become corrupted spiritually. This is why people say that the destructive effects of inflation are even more terrible than those of war.

## II. Causes of Inflation in Our Country

In looking at the special characteristics of inflation in our country, we have analyzed the causes of inflation, which was revealed publicly during the period 1976-1980,

particularly during the economic recession of 1978-1980. Since 1981, inflation here has skyrocketed (see table 3). The average annual rate of inflation has shown a sharp upward trend. It is clear that the sharp increase in inflation during the "price-wage-currency" reforms in 1981, 1985 and 1987 is closely related to the rate of increase in the money supply (see table 3).

In our view, the conflicts and irrational aspects concerning prices and wages are not due just to the methods of setting prices and wages. Rather, as analyzed above, they stem from the structural defects in a socialist economic system based on a highly centralized planning model.

The state enterprises in our country came into existence in the cradle of state subsidies. They are just symbiotic elements whose rightful owner is the socialist state. Their existence depends totally on the state. Their production and business activities are characterized by a lack of dynamism and ineffectiveness. If we used profit-and-loss accounting based on world market prices, almost all of the state enterprises would show a loss. Many of these enterprises no longer have a reason for staying in business and should have been disbanded long ago. But to date, in the great storm of inflation, not one enterprise has gone under. Even though the state has raised prices, it has thrown them many buoys, that is, financial-budgetary buoys (compensation for losses and prices, wage subsidies, and so on), and capital buoys (liquid asset credit loans in order to establish material reserve funds within or outside the plans, with the loans carrying a rate of interest that is lower than deposit rates and that is much lower than the rate of inflation).

At a time when the economy is heating up too much because of the imbalances, instead of implementing policies to step up the velocity of the liquid assets in order to benefit the economy, the banks are throwing the enterprises buoys in the form of liquid assets with excessively low rates of interest and innocently contributing to the rapid formation of commodity-material reserves.

Actually, the credit level on these reserves is already more than 90 percent. The value of the materials and commodities stockpiled at the commercial production installations was 833 billion dong as of October 1988 (an increase of almost five times as compared with the same time the previous year). As of October 1988, the liquid asset credit debt had risen to 1,025 billion dong (an increase of more than 2.5 times as compared with 1987). What is particularly worrisome is that the expansion of credit investment in the commercial and material spheres is increasing and now accounts for more than 80 percent of the increase in the liquid asset credit debt.

Besides the erroneous policy in issuing money based on the new price floor every time that prices were adjusted in 1981, 1985, 1987, and 1988 and the policy of adjusting prices suddenly after the 1985 currency change (which exceeded the the money supply index), holding

credit interest rates below deposit rates and the rate of inflation has led to an expansion in credit investment. In our view, this is one of the main causes of the sharp rise in inflation.

Today, the inflationary psychology is weighing heavily on social life. It has affected every family and greatly increased the inflationary pressures. Unless resolute action is taken to solve the problem, this could push our economy to the brink of collapse.

An urgent question that must be asked is: Why haven't we learned the lessons of failure after adjusting prices on four separate occasions? Why do we continue making the same mistakes over and over?

Is it that the people who are formulating the plans to renovate the economic management mechanism in our country still think that we can use "price-wage-currency" techniques and inflation (regarded as "wholesome") to overcome the ingrained imbalance in the economy? Do they think that there it is unnecessary to change the structure of the system?

Our analysis as presented above has totally refuted those suppositions.

Thus, to effectively solve the problem of inflation, which is now a very serious problem in our country, we must thoroughly renovate the economic management mechanism and resolutely eliminate outdated viewpoints in order to liberate the potential, strengthen macro management, regulate supply in order to put an end to the inflationary psychology, and, based on this, implement basic measures to quickly redress the imbalance and reduce inflation to a tolerable level.

### III. Program To Overcome Inflation in Our Country

Now that we clearly recognize the special characteristics of inflation and its terrible effects on the economy and have determined the causes of inflation, we can determine targets, time limits, and ways to eliminate inflation in our country.

3.1. Targets of the program to overcome inflation in our country: As analyzed above, the subjective mistakes that have been made have resulted in a sharp rise in the underground inflation (which stems from the structural defects of an economy built on a highly centralized planning model). This has seriously damaged the renovation process and had a negative effect on national development. Because of this, the immediate target of the anti-inflation program is to put forth special measures to halt the inflationary psychology in order to halt the present attack of inflation. After that, basic measures will be implemented to quickly redress the imbalance and reduce inflation to a level acceptable to our society and economy.

Concerning principles, the long-term targets cannot be separated from the immediate targets and vice versa. For example, if we stress only the long-term targets, that is,

"redressing the imbalance and eliminating the shortages in the economy," and ignore the immediate targets, such as solving the problems that are causing difficulties for production and circulation, restoring confidence in the currency, reducing the rate of inflation, and, based on this, eliminating the inflationary psychology, we will not be able to hit the long-term targets. Conversely, if we focus our attention only on the immediate targets and do not give attention to creating the conditions necessary for hitting the long-term targets, we will not be able to achieve good results. For example, if we concentrate on "reducing inflation" but do not implement measures to hit the long-term target of "eliminating the causes of inflation," actual experience shows that managing the economic-financial activities will be handled in a passive manner. People will have negative and pessimistic views, and in just a short period of time, there will be another sharp rise in inflation.

3.2. On the time limit for reducing inflation: Because of the actual pressures of life and the heavy pressures of the present period, the immediate targets must be hit within a short period of time (within 15 months). We must then turn our attention to hitting the long-term targets in order to stabilize the economy and society (within 2 years).

3.3. On a number of viewpoints and principles to guide the formulation of an anti-inflation program:

3.3.1. A number of basic viewpoints:

Our country is facing serious difficulties and challenges which are every bit as serious as those faced during the war. Thus, opposing inflation requires that we implement special and resolute measures. The anti-inflation program must be regarded as the task of the entire party and all the people. Every person and sector must be mobilized to participate in this program, and the state must resolutely carry out the program to the end in order to stabilize the economic and social situation as soon as possible and create the conditions necessary for carrying on industrialization in order to develop the country.

In order to implement the above viewpoint, we must create within the party and the people, particularly the young generation, a strong ideological concept of participating in the anti-inflation program with the aim of "eliminating poverty and pushing the country into the modern age."

The effects of the measures put forth in the anti-inflation program must be gauged in advance in order to make predictions about what could happen and have other plans ready to deal with the situation, especially the social effects.

3.3.2. On a number of principles for guiding the formulation of an anti-inflation program:

The anti-inflation measures must aim at freeing the social production capabilities, exploiting the potential of the economic elements, expanding the commodity

economy, creating many jobs for the laborers, tying the expansion of domestic production to expanding economic cooperation and exchanges with the international community, and actively participating in an international and regional division of labor.

The anti-inflation program must be closely tied to the three economic programs and must not hinder the implementation of the resolutions of the party and state on renovation based on the spirit of the Sixth Congress.

The anti-inflation program must be closely tied to renovating economic management based on eliminating bureaucratic centralism and state subsidies. It must contribute to creating a favorable environment to enable the economic units to display their independence in production and commercial activities.

The anti-inflation program must contribute to overcoming the immediate difficulties, which are becoming worse and worse. At the same time, the new and favorable factors must be exploited. Such factors include the international situation, the new production strength that will be strengthened (electricity, oil, apatite, and so on), and masses who are enthusiastic about renovation and national development.

The measures in the anti-inflation program must be of a general, comprehensive, and synchronized nature—and not narrow in scope—in handling the techniques concerning prices, wages, and currency in order to contribute to turning the country's situation around.

The measures in the anti-inflation program must be practical and simple, easy to understand and implement, and in accord with the country's present situation. The measures must be easy for the various-echelon agencies and authorities in the dictatorship of the proletariat to understand so that they can implement the program in a uniform manner.

Every specific measure in the program must manifest an effect on the macro operations plane of the socio-economic body in order to contribute to improving the present situation and creating favorable conditions and a favorable environment for talented and idealistic specialists who can satisfy the urgent needs in order to defeat poverty and backwardness and bring the country into the modern age.

#### 3.4. The stages of the anti-inflation program:

The anti-inflation program in our country will be carried out in three stages:

Stage 0: This is the stage of intense preparations for implementing the anti-inflation program.

##### 0.4.1. Time of implementation: 3 months.

##### 0.4.2. Contents:

1. Establish a National Anti-Inflation Committee: Our country's economy is facing serious challenges, and the

country must deal with devastation that is every bit as serious as that suffered during the war. In order to overcome poverty, we must apply special measures and concentrate all our might on managing the country. The establishment of a National Anti-Inflation Committee will show the people that the party and state are resolved to reduce inflation here. The committee will have the following functions, tasks, and organizational structure:

The National Anti-Inflation Committee will be a high-level committee and will be headed by the chairman of the Council of Ministers. The chairman of this commission will have full power to dismiss people at all levels in the administration and economic units without regard to status within the party if he feels that a person is not carrying out the anti-inflation orders and stipulations of the commission, and he has the authority to appoint a replacement.

In exercising this power to dismiss people, he does not have to go through the party system or through the courts in stage 1 (which is expected to last 12 months). Rehabilitating or disciplining people will be handled by a special court after the conclusion of stage 1.

This committee must prepare a number of draft laws and submit them to the National Assembly for approval and issue a number of orders for implementation during the first stage. It must prepare some of the material conditions necessary during the anti-inflation program.

Anti-inflation committees must also be established in the provinces and cities. These will be chaired by the chairmen of the provincial and municipal people's committees. These people will be responsible for implementing the measures and policies promulgated by the National Anti-Inflation Committee. At the same time, they will serve as members of the National Anti-Inflation Committee. The powers of the chairmen of the provincial and municipal anti-inflation committees will be similar to those of the chairman of the national commission with respect to subordinate echelons.

2. Prepare a number of draft laws to submit to the National Assembly: To smash the inflationary psychology, after the National Anti-Inflation Committee is formed, steps must be taken to prepare a number of draft laws on opposing speculation and hoarding, on freeing commodity circulation, on the ownership rights of citizens, on the right to carry on economic activities freely, and on consumer associations. The specific contents of these draft acts will be discussed in greater detail in Appendix A.

3. Establish reserve funds for gold, hard currencies, grain, and essential consumer goods: A National Department of Reserves will be established. It will be subordinate to the National Anti-Inflation Committee. This department must create a basis for reserving grain and essential materials and consumer goods (medicines, insecticides, fertilizer, and so on). This work will continue to be carried on in the later stages of the anti-inflation program in order to have a "strong" reserve

system to prevent anything unexpected from occurring between now and the end of 1990. This will contribute to stabilizing the markets and the lives of the people and, based on this, putting an end to the inflationary psychology and restoring the people's confidence in the leadership of the party and state. To do this, in stage 0, the following tasks must be carried out immediately:

Resolute measures must be implemented to satisfy the 1989 grain needs and create a reserve with a minimum of 300-500,000 tons of grain.

Additional capital must be concentrated by selling materials and stagnant commodities and materials. Money must be issued within the limits allowed (see appendixes A and B) in order to purchase the surplus grain of the peasants and buy export goods.

Foreign currency must be concentrated (see Appendix A) in order to purchase gold, grain, and essential materials and consumer goods so that there are sufficient reserves for 1989.

After a certain amount of grain has been reserved, the chairman of the National Anti-Inflation Committee will issue a public statement via the mass media on supplying grain promptly and in adequate amounts to the cadres, workers, and civil servants in the municipalities and industrial zones who are on a salary. In the cities and towns subordinate to the provinces, this will be the responsibility of the chairmen of the provincial anti-inflation committees.

4. Establish special subcommittees within the National Anti-Inflation Committee: To help the National Anti-Inflation Committee prepare an anti-inflation program and work out the details, the following special subcommittees must be established: a reserves subcommittee, a finance and budget subcommittee, and a currency and credit subcommittee. There must also be a number of control and inspection units, such as a price and currency control unit, a stagnant materials control unit, and a finance and budget control unit.

#### Stage 1:

1.4.1. Period of implementation: 12 months.

1.4.2. Work contents: The urgent measures discussed in Appendix A must be implemented with the aim of creating an open environment in freeing the social production capabilities, exploiting the potential of the economic elements, mobilizing domestic capital for investment in production and business, attracting foreign investment capital, and creating powerful incentives to pull the country out of the mud of "self-sufficiency." By the end of stage 1, inflation must be brought below 20 percent a year. Special courts must be established to try those who violate the laws promulgated during this stage.

#### Stage 2:

2.4.1. Period of implementation: 24 months.

2.4.2. Work contents: The basic measures discussed in Appendix B must be implemented in order to expand commodity production, point the economy in the direction of world markets, and actively participate in an international division of labor during the first years of the 1990s with the aim of quickly overcoming the shortages and imbalance in the economy, stabilizing prices and the value of the currency, and bringing inflation below 10 percent.

#### Appendix A: Urgent Measures

1. The following basic laws must be promulgated in order to strengthen the confidence of the masses in the leadership of the party and state:

1.1. Law on the ownership rights of citizens: According to this law, the state recognizes the property ownership rights of every citizen. This includes immovable property, gold, foreign currency, and means of labor. The state cannot question the sources of these items. The purpose of this is to mobilize the existing potential for production and business and create many commodities and services for society. Every encroachment on the private property of citizens will be dealt with harshly.

1.2. Law on the right to engage in economic activities: The state will allow every citizen to engage in economic activities freely. People will be free to live where they want (in conjunction with economic measures to prevent people from flocking to the cities, coastal areas, and islands), and they will be free to change professions and social elements.

The purpose of this law is to free the peasants from the shackles binding them to the fields, encourage an expansion of the artisan industry and handicrafts and service sectors in the cities and rural areas, create conditions for bringing about specialization, cooperation, and modernization in agricultural production in order to step up the process of "urbanizing the rural areas," and reversing the long-standing situation in which there has been a "ruralization of the cities."

The state must do everything possible to stimulate people to contribute capital and link the economy using various forms in order to produce goods and engage in commercial activities not prohibited by the state, including currency activities (private banks can be established).

1.3. Law on freedom of circulation: The state will allow all commodities that were produced legally to circulate freely within the country.

The state will allow gold and foreign currency to circulate freely. The state will exercise only the controls necessary to prevent gold and foreign currency from flowing out of the country too rapidly.

The banks can engage in commercial activities involving gold and foreign currency.



The state will permit many "intershops" to be opened. They will be permitted to sell to every target in order to attract foreign currency to the markets.

The state will establish organizations to service money from overseas Vietnamese in order to attract foreign currency to the banks.

Every citizen and overseas Vietnamese will be allowed to deposit his hard currency in a commercial bank (the state will not question the source) and earn a suitable rate of interest.

The state will allow people to import scarce raw materials, equipment, and essential consumer goods. In general, the state will not impose an import duty on these goods. Tariffs will be used only to limit the import of a small number of goods that can be produced domestically to satisfy the needs of the people.

1.4. Law on opposing speculation and hoarding: The state prohibits speculation, hoarding, and other activities that disrupt the markets with respect to essential goods such as rice and medicines.

The state prohibits hoarding those types of goods managed exclusively by the state.

Those who engage in speculation and hoarding and who disrupt the markets will be punished harshly.

1.5. Law on protecting the rights of the consumers: In order to protect the interests of consumers at a time when the market mechanism is still weak, the state will allow the formation of a Consumer Association to help the state control price techniques and promptly block increases in prices of a monopolistic nature.

1.6. The above laws are aimed at exploiting the potential existing within the country and the capabilities that can be mobilized from abroad in order to end the shortages in the country, encourage people to invest in expanding production, commodity circulation, and services, and create many jobs for the laborers with the aim of creating a favorable environment for an expansion of commodity production, expanding production strength within the country, and attracting gold and foreign currency into the hand of the state.

2. Currency and credit: In stage 1, the following measures must be carried out in the currency and credit sphere:

The specialized banks must be separated from the state bank. These banks must be transformed into commercial financial units. The state bank must carry out its function of controlling the supply of money and promulgate laws to manage the currency market. The Currency-Credit Subcommittee must prepare and submit draft plans to the National Anti-Inflation Committee for approval and completion during stage 0.

Additional banks that specialize in handling gold and hard currencies must be established (based on the plans

that the state bank submitted to the National Anti-Inflation Committee in stage 0). The state will permit these banks, based on foreign currency activities and with the help of the state bank, to actively import gold for sale within the country in order to contribute to stabilizing the price of gold.

The use of foreign currency by organizations and production units that are not involved in foreign currency activities must be eliminated and prohibited. The foreign currency obtained from various sources must be concentrated in the foreign commerce banks.

The local authorities and state organizations will not be allowed to obtain foreign currency on their own. Units with import permits can purchase foreign currency at the foreign commerce banks based on the official rate of exchange and a 3 percent service charge.

The currency-credit policy must be revised with the aim of protecting the credit assets of the banks:

a. The credit assets issued by the state bank to the state-operated banks, private banks, and credit cooperatives must be converted to gold, and there must be mortgages in gold or a hard currency.

b. Policies on fixed rates of interest for each type of objective must be implemented, but deposits and loans must be converted to gold in order to settle accounts within the time period. The conversion factor will be publicly announced by the National Anti-Inflation Committee via the mass media based on the price of gold on domestic markets.

c. Economic units can name assets in any form in order to arrange mortgages at the banks.

The rate of putting cash into circulation must not be allowed to exceed 40 percent a year.

The exchange rate for rubles and dollars must be based on the commercial price mechanism. The export association must be allowed to handle the specifics based on the types of commodities. The director general of the bank must manage things with respect to exchange rates.

3. Prices: There must be unity based on the principle of suitable purchase prices, equal prices, and commercial selling prices based on an agreement between the producers and the consumers. The auction of materials and equipment must be expanded, and there must be a mechanism to supervise bidders, that is, the producers and businessmen. The state must implement policies to support the prices of a number of essential products.

The state must exert an effect on prices mainly through indirect measures, that is, through guaranteed prices for grain and agricultural products for export and through national reserves in order to control market prices for essential consumer goods. Except for a small number of goods and products whose prices are still fixed by the state, the economic bases must be allowed to set prices based on the principle of mutual agreement, but the

prices cannot be lower than those stipulated in the price framework for a number of types of goods.

4. Wages: With respect to the commercial production sphere, the state will set the minimum wage based on the real wage level as of September 1985. The units must arrange to pay the wages themselves based on the results of the commercial production activities. The wages will be included in product production costs.

The work sector must switch to profit-and-loss accounting and pay a portion of the wages. The state will pay a portion during stage 1. Tuition, lodging, and service fees must be collected in the education and public health sectors beginning in 1989.

As for the administrative sector, depending on the economic and financial situation at the beginning of stage 1, nominal wages can be increased, wage fund quotas can be implemented, and the monthly cost of living index announced by the National Anti-Inflation Committee can be used to factor prices into monthly wages. Preparations must be made for reforming wages for this sector in stage 2.

5. Finances and the budget: Investment in capital construction must be stopped, except for a few key projects at the national level.

Resolute steps must be taken to reduce the budget deficit, and a rational revenue-expenditure policy must be implemented.

State revenues and other taxes must be collected based on business profits, and income taxes must be levied on the economic units in order to regulate things.

A sector price index must be used in order to collect industrial-commercial taxes based on stable tax rates.

After the above measures have been implemented in the 3-month period, finance and budget control units, stagnant materials control units, and price and currency control units must be sent to the localities and economic units to check on the implementation of the laws and orders issued by the National Anti-Inflation Committee, take action on the spot against those economic units that have suffered losses and failed to meet the challenges in this stage, deal with those units that have committed violations, and gain experience and make adjustments in order to carry out things during the remaining 9 months. Once we have hit the target of reducing inflation to below 20 percent, we will move into the second stage of the program.

#### Appendix B: Basic Measures

1. Prices: There must be a switch to a one-price mechanism. Prices should be guaranteed only for grain and a number of agricultural products for export.

The state must implement indirect measures to regulate market prices, stipulate minimum prices for a number of types of goods, and levy heavy fines against economic

units that commit violations in order to stop the production and circulation units from avoiding paying taxes.

2. Wages: The production and work sectors must switch to profit-and-loss accounting and pay the wages themselves.

Wages in the administrative sector must be reformed based on a wage scale that will encourage the cadres, workers, and civil workers to become deeply involved in technical and professional activities.

A system of allowances based on a percentage of the wage must be implemented.

3. Currency and credit: The currency and credit policies implemented in stage 1 must be revised so that they are in accord with the real situation in this stage.

The specialized banks must be turned into tools to promote foreign investment by implementing policies to give favorable loans to foreign enterprises that have investment capital and to help the corporations that use high technology and the factories that produce export goods.

The state bank must be given all-round financial management powers with respect to the various echelons, sectors, and economic units.

The rate of putting money into circulation must be controlled to ensure that this does not exceed 20 percent during the 1st year of stage 2 and 10 percent during the 2d year of this stage.

4. Finances and the budget: Investment capital for capital construction can be issued (though the banks so that the capital can be recovered) only for projects that will return the capital quickly.

Revenues and expenditures must be balanced, and revenues and expenditures must be rational.

A value added tax must be applied, and an individual income tax must be imposed.

During this stage, the state must use credit levers through the banks and its power to tax in order to regulate supply and demand and incomes and set guidelines for the development of the country.

The target of this stage is to reduce inflation to below 10 percent a year. If this target is hit, the anti-inflation program can be regarded as a success and the National Anti-Inflation Committee can be regarded as having completed an historical mission.

#### Plan II

The inflation in our country is a complicated type of inflation. Thus, to oppose inflation, we must make a detailed analysis of the causes of inflation and the things that have complicated inflation based on the real situation in the country.

### The Causes of This Abnormal Inflation

1.1. The idea of using inflation and the socio-economic management mechanism without respecting the laws of economics and currency circulation is one of the main causes of inflation here. This cause is manifested as follows:

1.1.1. The desire to use "wholesome inflation" (without a clear understanding of what this is) to create capital for socialist industrialization has been seen in the ideas presented by a number of leaders since the 1960s. The draft political report presented at the Fourth Party Congress talked about "boldly issuing currency," whose actual purpose was to violate the laws of currency circulation.

1.1.2. A policy of putting pressure on prices by compensating for prices and putting pressure on wages through supply prices was implemented in order to keep inflation below 13 percent a year throughout the years of the resistance against America. That continued until the implementation of the resolution of the 8th Plenum of the VCP Central Committee (Fourth Session). The surplus money in circulation did not cause prices to rise as happened during the resistance against France. Instead, this had a complicated effect based on the difference in prices on the free market and the organized market. The pressures caused by these price differences generated passivity among those in positions of power, ruined the principle of distribution based on labor for many decades, and created a psychology of consuming cheap goods below value, which created major obstacles for adjusting prices in accord with the law (if the prices of commodities had been raised to their proper level, the markets would not have accepted this).

1.1.3. "Leap-frog" type price management is a mistake that is contrary to the methods of dialectical materialism and the laws of currency circulation. This is because this uses fixed methods to deal with frequent devaluation of the currency. This way of managing prices has caused the rate of currency circulation to skyrocket and led to a sharp rise in the rate of inflation by putting money into circulation.

1.1.4. There are a number of people who have advocated a policy of laissez faire. This has led to the formation of policies that have generated inflation or complicated inflation. For example:

Countless small enterprises that did not obey the law of constantly increasing labor productivity came into being, and this disrupted the distribution of materials and circulation of products.

The response to the orders to make money tighter, such as reducing the cash deficit, naturally led to the implementation of policies that gave priority to cash for consumption (wage expenditures and expenditures for national defense).

1.2. The nonproductive staff has been allowed to become too swollen because of the idea of wanting to solve the unemployment problem using the state staff.

This swollen staff has led to low wages and violations of the law of distribution based on labor. This has generated an attitude of taking things easy and sitting on the fence and led to a serious decline in labor discipline.

1.3. Production has not achieved good results because of a lack of a sense of responsibility and because cadres are not selected for positions based on their capabilities.

Capitalism is now operating using collective forms (public corporations). The shareholders select the director very carefully based on his special capabilities because they are going to give him the power to use their private assets. We turn over socialist assets and social management powers but do not pay any attention to their special capabilities. Political standards for selecting cadres to lead and manage the economy have often degenerated into "apolitical" standards, because inferior cadres have ruined production and destroyed people's confidence in socialism. When the real capacity of capitalist enterprises drops to below 80 percent, the enterprise is faced with losing capital and going bankrupt. But it is common for the capacity of our state-operated enterprises to drop below 50 percent.

1.4. The budget deficit is becoming more and more serious because of implementing erroneous financial policies, using state subsidies, guaranteeing revenues and expenditures, and not knowing how to increase revenues and ensure the effects of the expenditures.

At the end of the 1970s and beginning of the 1980s, the budget was chasing a fake "balance" using long-term state subsidies, arbitrary wage policies, and a redistribution of the incomes of wage earners through inflation in order to create sources of revenues. The capital construction expenditures did not achieve anything. There was a loss of balance, and compensatory expenditures and prices changed the shape of the budget and squandered the value of the surplus products.

The policy of guaranteeing revenues throughout the state sector and the policies on depreciation and the profits of state enterprises to cover every expenditure to recreate fixed assets and replace the equipment and machinery have stifled the creativity of the bases, tied the hands of the good enterprises that have the ability to expand production, and caused untalented directors to rely on others.

Maintaining the price of equipment and raw materials for too long and relying on assistance and loans has led to a serious budget deficit and destroyed the rational scissors difference between the price of agricultural products and the price of industrial goods. The taxes on certain types of commodities have been changed many times, and this has exhausted production, which is the source of budget revenues.

Local budgets are balanced by using revenues from production to cover the expenditures of nonproductive activities. Price differences have eaten up all of the capital and exhausted the central budget.

In particular, negativeness has taken money from the budget from both sides, reduced the sources of income through squabbles over enterprise and corporation profits, and increased "negative expenditures" for the construction of extravagant projects (stores, markets, and offices).

It can be said that this is an abnormal type of budget deficit.

1.5. The banks rely on distributed capital to implement a credit and state subsidies policy that has achieved very little and maintain an exchange rate that is contrary to the laws and that has stimulated imports.

Today, the credit and state subsidies policy based on low interest rates (negative interest rates) and a system of loans tied down by administrative management have been revised somewhat, but the state subsidies debts have not been eliminated from the total debt. At a time when credits are being used to control inflation, nothing has been done to reduce the influences on production. The policies on managing currency and regulating currency circulation have lost their effectiveness, but we have not used the interest rate and credit levers to restore them. The exchange rate has been revised, but it is still not in accord with the currency's real decline in value because of the effect of the law of currency circulation. Thus, this is still a major obstacle for exports and the production of export goods, and it is still stimulating imports.

1.6. The planning system is still engulfed in the bureaucratic centralism and state subsidies mechanism. Things are done slowly, and planning is subjective, lacking balanced and objective calculations.

The calculations to balance the plans originating at the bases are ruined by the norms given. The norms that are given retard the expansion of the enterprises. Measures for resolving the imbalance are lacking.

1.7. The material supply organizations are dominated by negativeness, which is the result of the materials distribution mechanism. This has disrupted distribution and circulation.

The distribution of materials at below value has given rise to negative aspects and led to arbitrary distribution. The materials don't reach the places where they are needed, and scarce materials flow to the black markets.

## II. Reasons for the Great Increase in Inflation During the Period 1981-1985

2.1. Because of the policy of issuing money based on the new price floor contrary to the law on the amount of currency needed for circulation.

The 1981 price adjustment was actually an acknowledgment of the currency's loss of value up to that year. The amount of currency needed for circulation based on the adjusted price was equal to the amount of currency actually in circulation ( $K_t$ ). Thus, issuing additional money based on the price floor made  $K_t$  larger than  $K_c$  based on the price adjustment. Based on theoretical and real calculations, the skyrocketing inflation in 1981 and 1985 showed that this was a mistake. This was also shown by the concept of relying on inflation to provide money for purchasing agricultural production. Money was needed to increase the price of industrial goods, raw materials, and materials to compensate for the rise in the purchase price of agricultural goods.

Because of the erroneous money supply policy, adjusting prices in accord with the law of value and the law of currency circulation led to skyrocketing inflation.

2.2. Because of the sudden adjustment of prices after the currency change and because of failing to follow the supply index.

Arbitrary pricing using currency to compensate for high prices was no different from pouring that money into building a dam to block the current of prices. That dam put great pressure on prices. Prices increased five-fold in 1981 and 10-fold in 1985. The sudden price adjustments destroyed that dam and led to a flood of currency. This "currency flood" occurred 10 days after demonetization struck a fatal blow to the recently issued currency. Usually, the chance to demonetize a currency occurs only once in many years in order to reduce the amount of money in circulation and create a balance between  $K_t$  and  $K_c$  in order to stabilize the currency. Thus, after demonetization, prices usually decline or at least remain unchanged. In 1978, after the demonetization in southern Vietnam, prices declined 25 percent because of the purchasing psychology based on the old prices. That was the case even though based on the new currency, prices had to be adjusted upward 25 percent. This psychology was in accord with the amount of money withdrawn after demonetization.

Thus, it must be said that the sudden price adjustment after the 1985 demonetization was an historical error in both theory and practice, because that was not in accord with the money supply index at that time, which was declining and not increasing. If the price adjustment had come before the demonetization, that would have created a powerful force for the new currency.

Prices are controlled by the law of value and the law of currency circulation. If we are skilled at using these two laws, we can adjust prices in a way that is beneficial to the economy, particularly at a time when the country has most of the commodities and currency in its hands. But the State Price Commission has never done that while the bourgeois has controlled prices on world markets. And even in our country, they have controlled the price of gold and other commodities (including the price of tobacco sold by countless small tobacco sellers). Petty

traders have listened to their simple explanations and not thought about whether they were being cheated. They have either sold at a low price at a time when prices were rising or kept their prices high, with the result that their goods have stagnated.

Mistakes concerning prices have continued up to the present time, most recently concerning the price of airline tickets, which was disclosed in the press, and the price of gasoline, which has increased from 400 dong to 800 dong. These are all painful mistakes, because looking at value, setting prices like this seems to be correct. But because prices are set based on other prices, with prices "leapfrogging" like this, an inflationary psychology has arisen and this has had a terrible influence on currency circulation and prices.

The mistakes of the fixed price mechanism have brought along a series of results that a number of writers regard as the direct causes of inflation. These are:

The scissors difference between industrial and agricultural products has been narrowed and this has affected industrial production and seriously reduced budget revenues. The state has a tendency to hold down prices, and it has a much greater ability to hold down the price of industrial goods. It is easy to order state enterprises to sell their products at a low price.

The state budget has a huge deficit because of the hurried price adjustment. Only a small portion of the price difference created by the adjustment to the prices of state enterprise goods has been received. Thus, the sources of revenues cannot keep pace with the money supply index and increase in expenditures based on prices. Both revenues and expenditures have been seriously hurt by the distribution "systems" put forth by the authorities to reduce profits, the items that must be paid into the budget and shared through the price differences, the semi-supply and price system, and the 1,001 wasted items.

Most of the prices ordered by the state are not in accord with the economic laws and so lower echelons cannot carry out the orders when purchasing or distributing commodity products. Because of this, circulation and distribution have been disrupted, and there is no longer any discipline.

2.3. Negativeness has followed inflation: After the 1985 demonetization, there was a period in which prices rose daily, which created the conditions for the growth of negative aspects. A typical example is that representatives of the state signed contracts to purchase goods at a higher price than the market price in order to create the conditions for sellers to offer bribes. Only 1 month after market prices rose, the losses sustained as a result of paying such high prices were recovered. Rapid price increases have created the economic conditions to enable cyclical trading to expand, and this has stimulated an increase in the velocity of money. This has just made inflation worse.

It is also necessary to see the changes that this has undergone. In 1987, because of the ban on cyclical trading and because the rate of inflation and price increases declined (from approximately 400 percent in 1986 to 100 percent), negative aspects in general and cyclical trading in particular declined.

What is so frightening about negativeness is that it is an ally of inflation. Thus, it secretly encourages inflation and looks for ways to prevent the implementation of the anti-inflation measures as if not wanting to settle accounts by transferring accounts out of fear of leaving a trail in the books. Cash is held in order to earn interest and spend money on wasteful items. This has led to a shortage of cash at the banks. This is a dangerous complication of inflation, because this is destroying the sources of money for purchasing and production. It has also caused many people to confuse inflation (a surplus of money in circulation) with deflation (a shortage of money in circulation).

2.4. Because of restoring wages without creating suitable economic and financial conditions:

The policy of putting pressure on wages using the semi-supply system prior to the 1985 demonetization violated the law of distribution based on labor but did control inflation during those years. That is because incomes declined because of the reduction in wages. This was actually an invisible tax that was easy to collect but that destroyed the trust of the people. It did reduce the budget deficit. The new wage policy that was implemented after this historical demonetization caused inflation to skyrocket (even though it did correct the mistake with respect to violating the law of distribution based on labor). Little attention was given to the other economic and financial conditions necessary for restoring real wages. For example:

There was no policy to reduce the size of the staff in a resolute and suitable manner.

No measures were implemented to increase revenues from increases in the prices of materials, raw materials, and industrial products to compensate for the increase in wages.

The idea of boldly issuing more money based on the new price floor (this led to a period in which there was never a shortage of cash, which had never been the case before) resulted in each sector using inflation to pay the new wages (this period lasted for only a very short time—about 1 quarter). After that, the central bank had to issue an official letter warning about "skyrocketing" inflation with budget loans totaling more than two-thirds of the amount of currency in circulation.

Printing more money to restore wages quickly did away with the results of restoring wages, because prices increased faster than money could be printed and put into circulation. Thus, in this price-wage spiral, wages could never keep pace with prices. Thus, this cause must be analyzed based on the situation, that is, after wages

had returned to their old levels, with "only enough to live on for 10 days out of the month," that cause no longer existed. It has returned to a latent potential, ready to cause inflation to skyrocket if we ever start printing money to solve the wage problem.

### III. The Program To Reduce and Then End Inflation

A committee to fight inflation and negativeness must be established immediately. It must have the authority to transfer or fire any leading cadre (at any echelon) who opposes or fails to implement the anti-inflation measures. First of all, this committee must direct the debates very carefully and settle each reason and anti-inflation measure. These debates must be democratic and scientific. More specifically, they must always compare things with objective economic laws to see whether things are being done in accord with these laws. The good results that can be achieved together with the negative things that could occur must be predicted in order to find ways to prevent negative results.

Before the anti-inflation program is implemented, the Council of Ministers must discuss the economic laws related to prices, wages, and currency and have a unified viewpoint on fighting inflation in order to avoid a situation in which "each one plays his own instrument" and there is a lack of discipline when implementing the anti-inflation program. Viewpoints must be unified based on having the secretaries and chairmen of the provincial and municipal people's committees uphold the laws.

The program to reduce inflation is as follows:

Step 1 (predicted to last about 3 months): Inspect prices and cash in order to hit the following targets:

Examine the correct and erroneous aspects of the price control mechanism and create the conditions for adjusting prices.

Break the link between the negative block and the enemies of the anti-inflation program.

Redistribute the income of the negative block and speculators who have used inflation to grow rich.

Reduce the staff by purifying the ranks of cadres and immediately dismissing those cadres guilty of negative acts.

Investigate shortages discovered when conducting inspections for the budget.

Concentrate the cash in the banks and reduce the amount of money in circulation in order to make adjustments for purchasing needs.

The measures implemented in this step could have the following consequences, which should be looked at ahead of time and which can perhaps be used to prepare for the second step:

1. When assembling cadres to train them how to control prices, there may be rumors about an impending currency change or price adjustment. People with money may start buying goods. This will speed up the rate of currency circulation and that will push up prices.

2. Resistance by the negative groups when they see the danger that this poses to them.

3. Speculators purchasing and hoarding goods.

4. Destructive acts by the enemy.

5. The regulatory apparatus of many organizations and enterprises could be disrupted by the struggle against negativeness.

To block these bad effects and make use of them, the following measures must be implemented:

1. Mobilize the integrated strength of all the people, public security forces, and armed forces to destroy the speculators and find mechanisms to control their prices in order to block them and finally smash them.

2. Arrange suitable sales formulas to preserve the commodity forces and sell the stagnant goods of the socialist economic elements.

3. Have a flexible gold business mechanism in order to recover the incomes of the gold traders and discover their pricing mechanisms.

The above outcomes will be different if the negative groups and speculators learn the national secrets in the anti-inflation program. Thus, prices could fluctuate if consumers rush to purchase goods. Because of this, a large quantity of essential goods must be readied ahead of time in order to sell the goods to the cadres, workers, and civil servants as needed in order to avoid disrupting real wages too much.

Step 2 (predicted to last about 6 months): Restrain prices by prohibiting price increases and adjusting prices.

Target: To eliminate the complications of inflation and reduce the level of inflation to its 1985 level.

In step one prices may rise because of psychological factors. Once these factors have been eliminated and the velocity of the currency returns to normal, prices should increase more slowly or even decline. On the other hand, the cash concentrated through the inspection will enable people to have cash for making purchases. The above factors form the economic basis for issuing an order prohibiting price increases, except for those goods whose prices will gradually be increased by the state, with the reasons for this clearly explained. Prices must be increased slowly in order to gradually smash the psychology of purchasing goods based on "sold like give-away" prices, which has reduced the scissors difference between agricultural and industrial products and had a bad effect on industrial production and budget revenues.

To ensure that the prohibition on raising prices is effective, price control units must be established. Cadres, workers, and civil servants must take turns participating together with youth union members and members of other mass organizations. A temporary tax on goods whose price has been raised or fine must be imposed to recover the profits made by raising prices without permission from the state.

Beginning from this step, measures to fight inflation must be implemented in a synchronized manner. Measures that achieve results must be strengthened and perfected. Among the anti-inflation measures, the following measures must be given attention and adjusted:

3.1. The budget must be balanced by collecting the existing taxes. In this, the recently promulgated commodity tax must be changed, shortfalls must be resolutely opposed, and an income tax must be imposed. This is a fair tax that will fight negativeness and create a basis for formulating a currency receipts and expenditures balance sheet for the population, which is an effective tool for regulating currency circulation. As for expenditures, a public relations system must be formed to create a basis for prohibiting negative types of expenditures that are troubling the people.

### 3.2. Implement a flexible policy on interest rates:

Interest rates must be raised and lowered based on a price index that takes the supply index into consideration. When lowering interest rates, the original rates for money deposited at the banks and credit cooperatives will be maintained. Only when interest rates move higher than the price index, which could have an adverse effect on production, will these rates be lowered.

Favorable rates of interest must be given to borrowing units that have increased the turnaround time of their liquid assets.

High rates of interest and other resolute measures must be used to eliminate ineffective bank debts lying immobile in stagnant goods, excess currency in the vaults, and assets that were seized. These assets must be used to support loan needs in order to expand production and purchasing.

Of all the anti-inflation measures, the most effective measure is interest rates. The United States has used many measures to fight inflation (including selling gold), but it was not until they raised interest rates to 20 percent that they were able to end the worldwide currency inflation of the dollar. For the past several months, prices have risen more slowly. This is because the banks and credit cooperatives have made use of interest rates on deposits, with the rates sometimes exceeding the price index.

### 3.3. Implement a flexible but resolute gold and silver management policy:

The gold and silver workers must be concentrated in state enterprises in order to limit outside activities. They

must be paid a suitable wage. The state gold and silver enterprises must satisfy the needs concerning jewelry and public health in order to regulate the price of gold. The price of gold will be higher than the market price when the market price of gold declines.

### 3.4. Reduce the staff using many forms:

A large percentage of the military forces must switch to carrying out economic activities so that they become more self-sufficient.

Negotiations must be held to open service stores in other countries, including capitalist countries. Laborers within the country must then be attracted to engage in export activities directly or through doing work on contract.

People with negative traits must be dismissed immediately. They must then be investigated and prosecuted. If they did not do anything wrong, they can be reinstated or work on contract.

Wage fund contracts must be implemented for each work unit so that each section and office conducts negotiations to switch to production or goes to work outside.

### 3.5. Eliminate the false barrier between the free markets and the organized markets that was created by the huge price compensation of the budget.

A one-price policy must be implemented immediately through a policy of paying wages based on the price index. To do this, the budget must be assured of increased revenues based on the index. Reducing the staff in accord with proposal 3.4. will create the conditions necessary to implement the system of wages based on the index.

### 3.6. Announce a standard currency based on the prices of six specific goods tied to the supply index:

The standard currency will be calculated based on the price of rice, meat, cloth, furniture, bicycles, and gold. The standard currency index will be compared with the supply index in order to keep it below the supply index. Thus, it will be both a norm and a decisive condition for reducing inflation.

This is in preparation for step 3.

Step 3 (predicted to last about 1 year): Implement policies and measures to fight inflation based on expanding production.

Target: To reduce inflation to an insignificant level, that is, below 10 percent a year.

The anti-inflation measures in use in the capitalist countries have a serious contradiction. That is, although they fight inflation, they hold back the expansion of production. Thus, the problem is to find anti-inflation measures that will not have an adverse effect on the expansion of production.

The bureaucratic centralism and state subsidies economic management mechanism, voluntarism, and a lack of responsibility, which are deeply embedded in the minds of a generation of cadres, have generated an "abnormal" type of inflation, which makes it necessary to consider each measure very carefully.

The following anti-inflation measures can be used:

3.7. Have the production and commercial enterprises, including those in the grain sector, switch to socialist profit-and-loss accounting.

This policy was mentioned in the resolution of the Sixth Party Congress, but when the new credit and interest policies were implemented, many enterprises continued to use the old mechanism and rely on budget funds and bank loans in accord with the old state subsidies method. Thus, each sector must formulate specific plans to switch to real business activities, such as separating the state's reserve granaries from the grain corporations and putting an end to the situation in which the grain corporations can only take grain out of the granaries on orders, which is actually a form of taking grain out of the reserve granaries of the state.

3.8. Urgently renovate the ranks of leading cadres based on specific standards and capabilities:

The data gathered through price and cash investigations must be followed in order to renovate the ranks of leading cadres. Specifically:

Directors of enterprises that have suffered losses for a long time or whose business income from the sale of goods has declined must be replaced if they have not formulated a plan to correct the situation. Cadres who have engaged in dubious activities concerning income must be dismissed. Because with that money, they could live for a period without having to work or they could use it as business capital to support themselves.

Enterprise directors and agency heads must be elected based on the plans that their organizations have prepared in order to renovate work methods.

Measures must be implemented to have the state sign contracts with the enterprises based on the following norms:

Increasing the capacity of the machinery based on the break-even point.

Increasing profits by lowering production costs and improving product quality.

Paying people enough to live on and improve their lives. However, this must not exceed the increase in labor productivity.

3.9. Gradually raise the foreign currency exchange rate to a level higher than current devaluation of the currency.

Our policy of keeping the foreign currency exchange rate at a low level, the purpose of which is to protect the value

of our currency on international markets, is a major violation of the law of currency circulation. This has harmed our import-export activities for many decades. This has caused the price of industrial goods to fall below their value and created a psychology of cheap goods among consumers. Because of this, we face a dilemma. If we raise the exchange rate, production costs will increase, too. (Actually, they will return to the proper value and real labor productivity will be low.) The only way to get out of this dilemma is to gradually increase the exchange rate and raise the price of industrial goods based on their actual value in order to gradually eliminate the psychology of purchasing state goods very cheaply, which, as a number of enterprise directors have explained, is an unacceptable market.

3.10. Immediately establish an economic information fund within the banking system so that the banks can participate in regulating prices based on the requirements of the currency circulation law.

Prices are controlled by two economic laws: the price law (which has now become a production price law) and the currency circulation law.

The banking system, together with the State Price Commission, must be used to regulate prices and keep prices from moving above the supply index.

The banks must become the nerve center of the economy. They must have the capability to analyze economic activities in each locality and country and promptly propose measures to adjust production. For example:

Raising and lowering prices.

Changing the loan structure based on the economic sector.

3.11. Control prices based on the supply index, including labor prices on the free market and wages in the state-operated economic sector.

On the free markets (and in inflation during the resistance against France), commodity prices and labor prices are controlled automatically based on the law of value and the law of distribution based on labor. This points out the necessity of controlling prices based on the supply index and based on the principle of keeping the price index below the supply index. The state must set prices for a number of essential goods based on a flexible mechanism. That is, it must make changes monthly based on the supply index. Any organization or enterprise that wants to raise prices above the supply index must obtain permission from the State Price Commission. Every quarter, based on the money supply level approved by the Council of Ministers, the banks must predict price restraint capabilities in order to announce, together with the State Price Commission, a predicted price index that is lower than the supply index.

The corporations and enterprises (state-operated, collective, and private) must audit the accounts based on the



standard currency along with the usual currency. The price of fixed assets can be adjusted based on the predicted price index. Depreciation must be based on the adjusted prices. Only by doing things this way will the review of the assets audited based on the standard currency reflect the true profit or loss. This is the only way to avoid having "real losses and false profits" and then, based on these false profits, eating into the capital.

In paying wages based on the index, the enterprises must handle things themselves. The State Price Commission, General Labor Union, Ministry of Labor, State Bank, and Ministry of Finance must take steps to ensure that paying wages based on the index does not make inflation worse based on creating adequate sources of revenues to pay the wages along with reducing the size of the staff to a level that the economy can support.

3.12. Thoroughly renovate the planning mechanism and transform the State Planning Commission into a commission to balance and expand things based on the plans.

Inflation has been caused by imbalances in the economy and society. Thus, to get at the root of inflation, these imbalances must be eliminated. The State Planning Commission must discover these imbalances using a rapid information system. For example, it must monitor price changes and the yearly, quarterly, and monthly cash deficits. It must find out what good and bad changes have occurred. For example, at the beginning of 1988, inflation skyrocketed, with the price of gold quadrupling, but in recent months, prices have held steady. Is that because of the implementation of a policy of high interest rates and tight credit? Because prices have increased at a low rate in recent months, interest rates have moved to a very high level. That is particularly true in the agricultural sector at a time when the price of rice in the Mekong Delta has dropped about 10 percent. If prices continue to increase at a slow pace, that will prove the effectiveness of interest rates. It will become necessary to reduce the rates in order to avoid the situation in which production capital is deposited in the banks and credit cooperatives to earn a higher rate of interest. This is a new imbalance that has appeared just recently. This must be controlled, and a correct policy must be implemented promptly.

The above are very general measures. The anti-inflation committees must assemble excellent specialists from the economic sectors and ministries in order to study each measure in greater depth. Auditing the accounts based on the standard currency, for example, is a very complex matter with respect to providing specific professional guidelines, and we do not have much experience.

Each measure has complex consequences that must be evaluated ahead of time so that things can be handled in an active manner during implementation. For example, in raising the foreign exchange rate, things must be considered very carefully in order to avoid the situation

in which production costs double the retail prices. There must be professional and psychological measures to get the markets to accept this.

Inflation is a disease that can easily recur if certain economic changes take place. For example, an investment of \$1 million by another country will require a corresponding amount of approximately 3 billion dong. There will be great currency pressures if we don't set aside a corresponding volume of commodities ahead of time in order to balance the amount of money spent.

The above problems require that we organize comprehensive discussions similar to those held by the Physicians Association in order to find the optimum measures before we launch into a very complicated and difficult operation.

### Plan III

Starting from the viewpoint that inflation in our country stems from a serious imbalance between needs in cash equivalent (needs that can be settled with cash) and the supply capabilities of our national economy in conditions in which the country cannot quickly increase supply by stepping up production in order to balance supply and demand, this plan advocates implementing synchronized measures with the aim of gradually eliminating state subsidies through prices and state subsidies through capital (including budget and credit funds) and shifting the economic units to profit-and-loss accounting in order to make them independent financially and have them take responsibility for their profits and losses. This must be done at each stage of implementing "price, wage, and currency freezes" in order to limit demand for consumption and even for production with the aim of gradually reducing the imbalance and eventually reaching a balance between supply and demand in order to end inflation.

#### I. On Basic Anti-Inflation Measures

Fighting inflation demands an integrated system of synchronized measures, and there must be measures outside the economic sphere, such as cutting back on national defense and public security expenditures and striving to obtain foreign sources of capital. Here, we will discuss only economic measures.

1.1. The main concept of the measures: The source of the structural economic imbalance is that industrial production (including communications, transportation, and construction) has been expanded based on state subsidies concerning both capital and prices regardless of the consequences. This imbalance has led to inflation. However, the erroneous methods that have been used during the past several years in an attempt to eliminate state subsidies have just made inflation worse and pushed prices even higher.

Thus, to fight inflation in our country, we must concentrate on applying measures simultaneously in order to

gradually eliminate state subsidies, mainly state subsidies through prices and capital, including budget and credit funds. The main concept of the anti-inflation measures can be explained as follows:

Opposing state subsidies concerning capital: There must be a fundamental improvement of banking activities. This is the key point.

Opposing state subsidies concerning prices: There must be a fundamental improvement of the price setting and price management mechanism.

These two key points are related to the measures aimed at increasing revenues and reducing budget expenditures, which are at the center of the anti-inflation measures. Because in reality, state subsidies concerning capital and prices are state subsidies from the budget.

The two key measures mentioned above must be implemented based on switching the economic units to commercial operations so that they become independent. At the same time, they must be forced to take responsibility for their financial affairs (profits and losses). Based on this, eliminating state subsidies concerning prices will enable prices to have an effect on production and expose the actual results of production. That will change the production and consumption structure in an effective manner beneficial to budget revenues and expenditures. We must gradually raise "lead-in" prices, closely coordinate this with opposing capital state subsidies, and enable prices to have an effect on improving the production structure. In turn, the consumption pattern will also change and produce a corresponding change in "lead-out" prices. This is the basic path for solving the industrial-agricultural exchange rate problem and eliminating "lead-out" price state subsidies.

1.2. The basic contents of the measures to limit demand: As mentioned above, inflation is the result of an imbalance between currency circulation and commodity circulation, with currency circulation increasing faster than commodities. That is, needs in currency (needs that can be settled) are increasing faster than the rate of increase in the supply of commodities. This situation can be overcome in two ways: increasing the supply of commodities and/or reducing demand capable of being liquidated.

If supply cannot be increased by borrowing money or asking for foreign aid, the only way to increase supply is by increasing production. Thus, many people feel that the only way to eliminate the currency-commodity imbalance is to expand production.

At first glance, this idea seems very reasonable, because only by stepping up production can the ever-increasing needs of the people be satisfied and the standard of living be improved and so on and so on. But actually, when applied to an inflationary condition, this idea has a basic flaw. Here, there is confusion between satisfying the "ever-increasing needs of the people" and the increasing needs in cash, which are of an inflationary nature. It is

impossible to increase the rate of expansion of production several hundred percent a year in order to satisfy these inflationary needs.

Inflation is now in triple figures. In these conditions, the price of maintaining production at its present level (let alone expanding production) is even higher inflation. To keep production from declining in conditions in which prices continue to increase, [the money] supply must be increased in order to provide capital for production and circulation. Thus, the idea of expanding production and increasing supply through prices in order to end the present supply-demand imbalance and, through this, fight inflation, is just an illusion.

Furthermore, given our backward technical standards and poor production organization, in order to maintain the scale of industrial production (even at 40-50 percent of planned capacity and with highly dispersed production), the state must spend billions of rubles and dollars a year, borrow money from abroad, and spend the money accumulated by other sectors. Industrial budget revenues are actually false revenues (part of the capital that comes from the state is eroded and transformed into industrial enterprise revenues).

Thus, if production continues to be expanded this way, the budget deficit will continue to grow larger and inflation will become more serious and destroy the strength of social production.

An economy can grow in a wholesome way only if production is expanded based on solid results, and the greater the expansion, the better the results, the better the quality, and the more profits there are for the budget. That is solid production, a production that expands based on self-sufficiency in capital and that bears responsibility for its profits and losses.

Because of this, the main path in fighting inflation is to limit demand and balance supply and demand.

The way to control demand is to raise prices gradually (or to allow prices to rise freely) in conjunction with using synchronized measures to prevent money from being put into circulation as prices rise, gradually reduce the rate of [money] supply, and finally put an end to issuing [money] in excess.

Limiting demand in order to fight inflation includes limiting demand for both consumption and production. This requires that certain sacrifices be made if we are to fight inflation. This is something that has not been mentioned in our country's anti-inflation plans and programs.

a. Limiting demand for consumption (including consumption by both the state and the people) requires that we limit non-production investment projects, eliminate waste, and limit increases in the people's nominal income (income in cash). At a time when prices of commodities are increasing, this will affect the real incomes of the people. Thus, the degree of control must

be calculated carefully in order to ensure that the steps taken to reduce inflation do not suddenly lower the standard of living to a point intolerable to the laboring people. What is even more important is that suitable measures must be implemented to redistribute income, reduce the difficulties of those who earn a salary (particularly in the sectors where people are paid a fixed salary, such as the administrative and professional sectors), and overcome the present irrational distribution of income.

b. Limiting demand for production requires limiting increases in credit debts and increasing loan interest rates to a rational level (in line with the inflation index). In conditions in which the prices of materials and raw materials are increasing, many enterprises will experience difficulties. There must be a correct attitude toward production. We are not advocating eliminating state subsidies concerning prices and capital in order to limit production. The key question here is what the economic results are. If production is achieving results, expansion must be promoted. But we should not continue giving state subsidies to those production enterprises that continue to lose money.

Eliminating state subsidies concerning capital and "lead-in" prices is the principal economic measure aimed at increasing the effectiveness of the economic activities, exposing the weak production installations, and, based on that, taking corrective action to concentrate the country's resources on the excellent production installations. This is a very important measure for freeing the strength of social production.

It is essential to oppose state subsidies concerning capital and prices and fight inflation, but reorganizing production must be carried out gradually and will take time. Facing the pressures posed by the measures aimed at opposing state subsidies, the enterprises may encounter difficulties. They may not be able to change in time, which could slow down and even reduce production. This is the price that must be paid to reduce inflation. Furthermore, taking steps against the ineffective production enterprises requires handling a number of complex social consequences, such as the problem of jobs, living conditions, and so on. Thus, eliminating state subsidies must be carried on based on considering things very carefully in accord with the economy's level of tolerance and the state's ability to handle these social consequences.

Our country is fighting inflation in conditions in which the economy is depressed and we must rely on our own strength. Thus, sacrifices will have to be made. If this is not recognized, it will be difficult to implement the synchronized anti-inflation measures. If things are done half-way and in an unsynchronized manner, not only will it be impossible to limit inflation but inflation could even grow worse.

## II. Specific Measures To Fight Inflation

### 2.1. On prices and wages:

Based on restoring price controls with respect to a number of types of important materials and commodities based on a longer list than in ordinary conditions, the state must adjust retail prices and set a price "ceiling" for a number of important products, particularly products that have a direct effect on budget expenditures. Based on this, the state must adjust wages and stipulate tax-free incomes for the other economic sectors. After that, it must "freeze prices and wages" and inspect things constantly. Those who commit violations must be taxed heavily and punished severely.

After retail prices have been "frozen" for a period, "lead-in" prices have been raised, and production has been reorganized, the state can allow the economic units to adjust prices within specific limits. Or the state can actively raise the prices of a number of goods. It can then implement the next "freeze."

### 2.2. On currency:

The rate of putting cash into circulation must be actively controlled so that when the state allows units to adjust prices themselves, the retail prices will be lower than the "lead-in" prices of materials that have already been raised.

The level of credit must be adjusted during the process of raising prices of materials in such a way that the rate of increase is much lower than the rate of increase in "lead-in" prices. If credit interest rates are equal to or greater than the rate of inflation, these limits will be removed.

The state budget must not be used to issue or provide capital to the production and commercial units.

State credit subsidies must be eliminated by gradually raising credit interest rates (the targets must be clearly distinguished in each period) in conjunction with commercializing banking activities. At the same time, the forms used to mobilize capital for production and commerce must be expanded by expanding the cooperative and private credit organizations.

A system of legal documents must be built to form a basis for the commercial activities of the banks.

### 2.3. Wages and income:

As for the administrative and professional sectors, real wages must be stabilized in each time period in accord with the "ceiling" on commercial retail prices.

With respect to the production and commercial sectors, wages must be tied to the production and business results of each production installation, and state subsidies concerning capital and "lead-in" prices must be eliminated in order to prevent profiting from price differences.

The state cannot control the maximum income level. But based on the price ceiling, it must determine rational income levels in the production and business sectors in

each period. It must determine tax exemptions and use accrued taxes when incomes exceed the rational level mentioned above.

As for the state-operated sector, income taxes must be set based on the total wage fund and bonuses that exceed a rational level.

#### 2.4. Enterprises:

Along with giving the enterprises greater independence, the state must force the enterprises to take responsibility for their profits and losses and fulfill their obligation of making contributions to the state. They must be independent concerning both capital and prices.

The state's economic management function must be separated from business functions, and the state budget must be separate from the budgets of the enterprises.

#### 2.5. Materials and commodity circulation:

The middlemen in circulation must be eliminated immediately. The materials and commodities must be sent directly from the places of production to the markets without passing through the hands of middlemen.

The duties of implementing the social policies must gradually be shifted from prices to finances in order to implement the policies with the correct targets in mind and from that gradually shift all retail commodity activities to commercial activities.

Steps must be taken to limit and then eliminate making allocations and payments in supplying and distributing products. The material distribution plans must be re-examined, and a suitable percentage must be reserved in order to apply a bidding and material business mechanism.

With respect to a number of essential consumer goods (above all grain), besides the national reserves, efforts must be concentrated on building commercial reserves. The full-time organizations must be allowed to use these, and they must participate in marketing when necessary in order to adjust the markets under the unified guidance of the state.

The planning mechanism must be renovated based on giving the primary-level economic units greater control over production and business planning. The system of legal norms must gradually be relaxed. A number of types of goods, particularly consumer goods, must be switched to a bidding mechanism and to providing materials for production. The direction must be toward a "sell materials-buy products" mechanism.

As for those goods that the state feels must be distributed directly to consumers, the state has provided legal norms (set sales prices based on the planned address and compensated for losses). The number of such goods must be limited and gradually reduced.

As for those products for which the state has not given legal norms, the enterprises have the right to choose production and distribution plans.

The measures for decentralizing planning must be improved, and the situation in which the markets are separated based on administrative boundaries must be overcome.

2.7. Finances: Besides the measures aimed at increasing revenues and cutting back on expenditures, the following supplementary measures must be implemented:

The amounts that the production and business units must repay to the state must be stipulated, deducting for the depreciation of the fixed assets in which the state invested.

The non-commodity services (travel, hotels, and so on) and professional services (public health and exchanges) must be expanded in order to contribute to earning more revenues for the budget.

2.8. Import-Export Activities and Foreign Currency: With respect to the commodities that are exported based on the agreements that the state has signed with the socialist countries, from centralized sources of foreign currency, the state must continue to give planned norms to the production organizations and export units and continue to compensate them for their losses. But with respect to other types of goods, the state must stipulate amounts that will be paid to compensate for export losses in each period. The export units will have the right to reach an agreement on the purchase prices with the producers.

An internal rate of exchange must be used in the import-export activities determined by the state. This must be periodically adjusted.

A business and foreign currency marketing mechanism must be used for other types of export commodities. The rate of exchange for buying and selling foreign currency will be set by the bank depending on market supply and demand for foreign currency. This exchange rate will be used with money from overseas Vietnamese and tourists.

The import-export tariff system and quota system must be revised in order to implement the policy of protecting domestic production, limiting luxury consumption, and increasing exports.

### III. Stages of Implementation

Stage 1 (lasting from 6 to 12 months):

1. Commercial prices must be used with respect to all finished products, materials, and raw materials sold to markets outside the state-operated sector. The aim is to increase liquid assets for the production and commercial enterprises and increase the amount of cash flowing into the banks.

2. A foreign currency exchange rate equal to the overseas Vietnamese exchange rate must be used in order to attract foreign currency to the banks.

After applying points 1 and 2 for 1 week, a "price, wage, and exchange rate freeze" must be announced, and measures must be implemented to carry out this decision.

3. The production and commercial enterprises that have an amount of cash above the stimulated amounts must be compelled to deposit cash in the banks. The banks are responsible for responding immediately whenever the enterprises need to use money. Enterprises or banks that fail to do things in accord with the loan contracts must be fined.

4. The money supply must be reduced approximately 10-20 percent a year. Only in pressing situations should additional money be issued, but this must not exceed 40 percent a year. Credit can be extended based only on the amount of savings deposits and money deposited in the banks. The local commercial banks must be compelled to transmit approximately 20 percent of the deposits to the central bank (through the local branches) in order to adjust cash nationwide.

5. For commercial activities, the rates of interest for savings deposits and loans must be set at 10 percent a month (120 percent a year) and 15 percent a month (180 percent a year) respectively. The rates are lower for production, that is, 12 percent a month (144 percent a year). Interest rates will be lowered immediately when inflation declines based on the principle: interest rates on deposits must be at least equal to the rate of inflation, and interest rates for loans must be equal to the rate for deposits plus 3-5 percent.

Those production installations that cannot bear the high rates of interest must switch production directions, change the form of ownership, grant leases, have bids submitted, and so on.

6. Measures must be implemented to increase revenues and cut back on expenditures in order to balance the budget. Extending credit must be curtailed in order to eliminate the budget deficit.

7. After 3-6 months, the freeze on wages can be lifted, but the freeze on prices and currency must remain in effect. The enterprises can raise wages based on the production results, but the increase cannot exceed the increase in labor productivity.

After 6 months, if the rate of increase in the money supply exceeds 40 percent a year and there is still a large budget deficit, the measures implemented in stage 1 can be extended another 6 months or until the rate of increase in the money supply drops below 40 percent a year and the budget deficit is reduced to a tolerable level. Only then can we move into stage 2.

Stage 2: The remaining measures must be implemented with the aim of doing away with the policy of compensating

the state enterprises for their losses and giving real independence to the production and commercial enterprises.

1. The price, wage, and exchange rate freeze must be ended.

2. Commercial prices must gradually be used with all raw materials sold to the state enterprises. First of all, commercial prices must be used with cement, iron, steel, and wood in order to reduce capital construction investments. After that, this must be done with coal, kerosene, paper, and finally electricity.

3. After each price adjustment, measures must be implemented to deal with those enterprises that have suffered a loss. Certain losses must continue to be compensated for a number of enterprises, and things will be handled as when raising credit interest rates.

4. After the prices of most of the imported raw materials sold to the state enterprises have been raised, the state can stop stipulating "lead out" prices between the state enterprises (the "lead-out" prices for the free markets were allowed to float in stage 1).

5. The credit and currency measures must continue to be tightened. The rate of inflation must be reduced to below 20 percent a year in order to eventually solve the inflation problem in all respects.

6. At the end of this stage, the budget must be balanced.

7. State collections must switch to collecting taxes and imposing income taxes in order to stimulate investments in expanding production and in-depth investments and to limit excessive consumption.

Stage 2 will conclude when the money supply rate has dropped to below 10 percent and budget receipts and expenditures have been balanced.

#### Plan IV

##### I. The Real Situation and the Causes of Inflation

1. The Actual Situation: Many books and articles have been written on the subject of inflation in our country. In particular, party resolutions have evaluated things as follows:

The resolution of the Sixth Party Congress pointed out that "effective measures must be implemented immediately in order to reduce inflation and the rate of increase in prices." Resolution 11 of the Politburo (Sixth Session) affirmed that "inflation has been a serious problem for a long time. This problem became even more serious in 1988. Market prices skyrocketed, and the amount of money in circulation was increased to compensate for the budget deficit. Credit loans increased at an unprecedented rate, and our currency declined in value very rapidly."<sup>2</sup>

The following figures illustrate today's inflationary situation:

	1980	1985	1986	1987
1. Budget deficit	1	80.9	208.6	687.0
2. Cash deficit	1	4.7	22.7	81.9
3. Amount of money in circulation	1	2.2	9.7	32.5
4. Market price index	1	17.3	101.8	471.2 <sup>3</sup>

Looking at the rate of increase from one year to the next, the budget deficit in 1986 is 2.95 greater than in 1985, and the deficit in 1987 is 3.27 times greater than in 1986. The 1986 market price index is 5.88 times greater than that in 1985, and that in 1987 is 3.86 times greater than that in 1986. By June 1988, the deficit and rate of increase in the money supply were even greater.

The above figures show that our economy and finances are experiencing serious inflation.

## 2. The causes of today's inflation:

Before discussing the causes of inflation, we will first discuss inflation itself. Inflation is an economic relationship that redistributes the national income between the state and the classes of people. It is a distribution tendency aimed at overcoming the unexpected difficulties of the state, such as war, drought, economic crises, and so on.

Because of the nature of inflation, the direct causes of inflation are usually actions of the state regardless of whether such actions are taken consciously or unconsciously. The first manifestation of inflation is an increase in prices, a sudden increase in prices. But why do prices rise? There are many reasons for this, but viewed from the perspective of currency, increases in prices stem from a decline in the purchasing power of the currency, which is referred to as devaluation of the currency. This stems from an excessive increase in the money supply. The amount of money in circulation is greater than the amount of goods. This money is paper money, and it is paper money of financial [institutions], not credit currency. Financial paper money is not backed by gold. These banknotes are just pieces of colored paper printed by the state that the people are compelled to use. The special feature of the paper money put into circulation is that it continues in use and never returns to the source of issue. For that to happen, the state would have to have a quantity of new items to issue.

Basically, most of today's currency is financial currency. Thus, the state must issue more and more to spend. That is inflation. It is a redistribution of the national income so that the state can overcome the difficulties. But because the state manages the economy using a system of state subsidies, the greater the rate of inflation, the greater the redistribution of the income of the state and wage earners.

Why is the state compelled to issue more money to spend and make loans? The reason is the poor mobilization of people's money, the heavy state subsidies, expansion of the state, the losses suffered by production, slow expansion, and the serious loss of balance.

Based on these special characteristics, the causes of inflation can be divided into two main categories:

1. The underlying causes: Due to an increasing serious imbalance between production and demand.

Production has increased, but the increase has been very slow, and the results have been poor. Resolution 11 of the Politburo affirmed that not only has production increased slowly but it has "stalled." Data comparing the increase in the national income with the increase in the number of workers during the past 11 years show that from 1976 to 1987, labor productivity hardly increased at all. For example:

GNP in 1987 as compared with 1976 was 142.9 percent.

The number of people working in the production sector (including people outside working age) was 143 percent.<sup>4</sup>

Looking at the needs of society, demand is increasing very rapidly because of the desire to invest, because of the population increase, because of the national defense needs, and because of the huge expansion in the apparatus of the state, party, and mass organizations and the indirect organizations in production, an expansion that is beyond the capacity of the economy.

The imbalance between production and demand has put a heavy burden on the country's economy. This heavy burden, together with the natural disasters, losses suffered as a result of enemy actions, and speculation and hoarding has made inflation even worse.

2. Direct causes: primarily because of the state's manipulation of the economy.

It's possible to have an unbalanced and poor economy without having inflation. Some neighboring countries have an even greater imbalance than us, but they are not suffering from inflation. This is because it is the imbalance between production and consumption that leads to inflation.

Conversely, a number of economically developed country and countries that are in a period of relative prosperity, such as Hungary and China, are experiencing serious inflation.

Thus, the second cause of inflation has to do with state management. For example, our finances are in dire straits, but we have advocated increased state subsidies.

Production is weak, but consumers still like to enjoy themselves. They like to buy expensive vehicles, have

parties, and engage in distribution contrary to economic laws. In a paper presented at the 19th All-Federation Conference of the Communist Party of the Soviet Union, Professor Abankin quoted a statement made by an outstanding Russian economist at the beginning of this century: "The duty of the state is to have a firm grasp of politics and economics and boldly state that any government that does not understand these scientific laws or that ignores them will certainly fail because of the collapse of the financial system."

In short, there must be both direct and indirect causes for inflation to occur. We must affirm this in order to implement the following anti-inflation measures.

## II. Measures To Fight Inflation Today

Based on the reasons and real situation discussed above, we can implement the following anti-inflation measures:

Because inflation is a complex economic phenomenon that has a profound effect on economic and social processes, we must implement long-term and all-round anti-inflation measures, joining forces at all levels.

We can compare an economy experiencing inflation to an overloaded boat in a storm. To escape the danger, two conditions are required:

1. There must be a strong and resolute person at the helm who is capable of taking quick and prompt action in any situation. The helmsman today is the state, but things must be concentrated at the central echelon. Only in this way will it be possible to steer the ship, which is now unstable.

2. For the ship to move, it must have a source of power, wind, water, a paddle and so on. Thus, we must create a source of power to fight inflation. If people are concerned only about their own interests or narrow material profits or if they allow petty bourgeois feelings to interfere, this will definitely lead to a loss of control, anarchy, and a loss of cooperation. In such a situation, it is very likely that the ship will sink. During the Soviet Union's dangerous moments in the 1920s, Lenin implemented resolute and centralized measures in a thorough and timely manner, and he was successful. He said that "because of the economic turmoil, we cannot see any improvement, but we can only end this confusion by implementing a centralized system and eliminating local interests, interests that have caused people to oppose the centralized system. But a centralized system is the only way out of our present situation."<sup>5</sup>

Not only was centralization required, but Lenin demanded that things be highly centralized, like a conductor who is aware of each instrument and player in the orchestra. He said that "not only must the center give advice, persuade people, and discuss matters (as has been done in the past), but it must actually conduct the orchestra. To this end, it must know who is using what instruments, where they are being used, who is learning how to play instruments and where, and who has played

a wrong note and why (when the orchestra beings to play sour notes). In order to correct the mistakes, it must know whom to replace and how to replace them."<sup>6</sup>

Today, our country needs a helmsman, a leader like an orchestra conductor. In conditions in which goods are still scarce and demand is great, if things remain dispersed, if people continue to act spontaneously and hide beneath beautiful sounding words (dynamism, creativity, and so on), and if people continue to profit from the losses of others, allow the state to go bankrupt, and use foreign currency to engage in trade outside the plans of the centralized state, there will be "false profits and real losses." There will be local profits but nationwide losses.

At present, we must concentrate our strength and assets on the most important tasks. That is strength. Democracy is a motive force, too. It is the tendency of the present period. Today, we cannot slight this but neither should we abuse democracy in order to slight the country's economic and financial rules and techniques.

Based on these general viewpoints, we can implement measures in various stages as follows:

Stage 1, which is called the juncture stage:

The target of this stage is to end the present turmoil and slowness and achieve unity and a high degree of centralization for the currency and pricing measures.

This stage must be completed within 2 years, that is, by 1990. This is a very short period of time, but we are capable of reorganizing things and correcting the deviations concerning the decentralization of the budget, the level of mobilization, the policy regulations, the budget laws, and so on.

The specific contents and measures of this stage are as follows:

- a. Reorganizing the helmsman (specifically the central government):

1. The No 1 helmsman in charge of the ship today is the central government, and the helmsman must have real power. Looking at the real economic strength, the centralized state controls only one-ninth of the existing foreign currency. Even though our foreign debt is not large—approximately 10 billion, of which only one-fourth is in dollars—we are still on the edge of bankruptcy. We have a reputation for not being able to pay our foreign debts but still allowing the provinces and municipalities to use foreign currency to purchase hundreds of boats, Toyota cars, video cassette players, and so on.

The central government is showing a deficit so that the local government can show a surplus of 10-20 times the amount allotted to them from the central budget. For example, in the 1987 budget of Ho Chi Minh City, the surplus was 5.2 times greater than the quota allotted by

the central budget. The figures for Thuan Hai, Dong Nai, Tay Ninh, and Long An were 6.5, 8.9, 10.7, and 17.8 times greater respectively.

In short, the No 1 measure is to create centralized economic and legal power for the central government so that it has the strength to fight inflation.

2. Control and inspection units must be established to go to the localities on behalf of the government to impose taxes on goods in stock and free hundreds of billions of dong worth of materials held in excess reserve for the central budget.

3. A number of units with special powers must be established to fight corruption and waste and stop the establishment of "black funds" outside the budget and banks.

4. Things must be coordinated with the special work units to launch the masses in discovering corruption and violations of the policies.

5. Units must be formed to control smuggling, speculation, and hoarding and to promote market management and commodity circulation.

6. A number of laws must be promulgated. These include: a tax law, a budget law, a law on cash expenditures and receipts, and a law concerning taxes on the sale of buildings, land, and immovable property.

7. The state farms and factories must be reorganized. They must be classified and losses must be insured for certain periods only. They must be joined together and rented out, levels must be lowered, and bidding must be disbanded.

8. During each stage of the reorganization of the state apparatus, the party and mass organizations must aim at streamlining things, cutting the staff by one-third to one-half, and reducing the indirect apparatus to below 10 percent.

9. Reduce state subsidies through prices:

The prices of materials and iron and steel must be raised to the level of international prices in order to end compensating for prices and foreign trade losses, oppose speculation aimed at profiting from price differences, and reduce state subsidies through the budget.

Price differences must be reduced.

10. It must be determined whether the loans and fixed assets given to the production installations are still too low based on the guideline: one-third to one-half of the capital provided by the state, with the installations mobilizing the rest using a variety of forms.

11. Bank interest rates: During an inflationary period, interest rates will be high. Loan interest rates must be kept at their present levels, and it must be ensured that interest rates are higher than the devaluation of the currency.

Whenever an enterprise lacks fixed assets and the state cannot provide enough, it can borrow funds at today's rate of interest. If we reduce rates, that will paralyze credits and continue state subsidies through credits.

12. The percentage of income mobilized must be increased to 28-30 percent. Today it is only 18-20 percent.

Using a number of tax forms, the banks must gradually be put in charge of collecting the taxes, and the tax collection apparatus must be reduced.

13. Between now and 1990, budget decentralization between the central echelon and the provinces, districts, and villages must be re-examined based on reducing the budgets of the localities, particularly those of the southern provinces.

b. Measures to create motive forces in the present period:

1. The strength of centralization and democracy must be exploited. In this, the emphasis must be on centralization. Centralization must be regarded as a strong motive force.

The central government must increase the strength of the laws and administrative strength.

The central government must use various materials, such as gasoline, iron and steel, cement, coal, and grain as economic levers. Taxes and credit interest rates must be used to fight state subsidies.

2. Four types of exchange rates must be recomputed and adjusted in accord with domestic supply and demand, the purchasing power of the Vietnamese dong, and international market prices:

Industrial-agricultural exchange rates: from one-fourth during the period 1981-1985 to the present 4/1-1/1.2 [as published], which is bad for fighting inflation. It is proposed that this be adjusted to 1/2 to 1/2.5.

Foreign exchange rates: The buying power of the dong in comparison with that of the dollar and ruble must be recalculated in a rational manner. This must be handled by special agencies.

Internal account exchange rates: The value of the dong has dropped from 800 dong per ruble and 900 dong per dollar to a present level of 2,800 dong per dollar. A level of 600 dong to the dollar is too low. We must overcome our fear of increasing prices, which leads to maintaining prices through state subsidies and deficits.

Exchange rates for non-trade items and money from overseas Vietnamese: These must be re-examined based on the above guidelines.

3. The central government must have a monopoly over a number of "leading" economic tools in order to stabilize prices, above all grain, gold and silver, and precious stones.



Lenin said that we must find out what the enemy is using against us so that we can use those things against them. The principal levers used against us during the past 10 years have been grain and gold. They have chosen appropriate times to create runs on gold and rice in order to rake in piles of money.

First, the state should control a number of commercial grain corporations, engage in trade, and use business techniques, mainly integrated business techniques, and have not only domestic relationships but international relationships as well.

Second, the state must have strategic reserves of millions of tons of grain using a variety of forms in order to be able to apply pressure when selling and purchasing.

Third, there must be stable prices for grain producers during this 5-year period so that they will invest in intensive cultivation and not waiver as at present.

Fourth, the level of investment must be re-examined. There must be key points, and things must be rational. Each infrastructural condition must be balanced, and south-north transport between the Red River Delta and Mekong Delta and a number of other regions must be regulated. At present, the Mekong Delta accounts for 14 percent of the area but 38 percent of the investments of the entire country. Investments in the Red River account for only 10 percent.

Fifth, gold and silver must be handled like grain:

There must be strong gold and silver corporations throughout the country under the control of the central bank.

People must be allowed to import gold so that the state can make purchases at suitable prices and monopolize this business activity.

Gold must be held in reserve, and there must be an international gold relationship. Based on that, the state can issue credit currency with a gold content in order to make business loans, not to pay for budget expenditures. Although there are now two currencies in circulation at the same time, by 1995 it may no longer be necessary for the country to have two currencies.

Other measures such as stipulating a reserve currency price index do not need to be given any attention. They are just ineffective half measures. Examples are using ruble charge accounts and using 1982 fixed prices. These were born stillborn.

4. The state must gradually create mechanisms to:

Eliminate production monopolies.

Exploit the five-element economic structure.

Gradually allow the enterprises to reduce their dependence on the ministries and state apparatus and allow them to depend directly on the markets, mother corporations, and consumers.

Gradually establish a multi-faceted market system, from production materials markets to labor markets.

A competitive mechanism must gradually be established, and this must be regarded as a force for expanding production and renovating techniques.

Along with the steps discussed above, the production installations must gradually be given greater control over production and business. But this independence must not lead to anarchy or the creation of local guilds.

In summary, the period from now until the end of 1990 is a period of juncture. It is a time for restoring order and discipline and reorganizing the forces in order to end the present turmoil and confusion.

During this period, the state must have real power over three aspects:

Power concerning the economy: It must have control over the materials borrowed and imported, such as the two million tons of gasoline and the millions of tons coal, iron and steel, cement, nitrate fertilizer, and machinery. These materials must not be used for ordinary distribution. They must not be shared using the administrative system. Instead, these materials must be used as levers to enable the state to obtain grain, commodities, gold, and currency.

To do this, the state must have a number of strong commercial corporations with the strength to control their subsidiaries and the local corporations. Dispersing things and running after local profits to the detriment of national interests must be opposed.

The state cannot share power. Decentralization will lead to sharing power with others. Only in this way will it be able to manage the country properly. As Lenin taught: A high degree of centralization is the only way out of the present turmoil. Whoever thinks otherwise is suffering from an illusion.

Stage 2: from 1991 to 1995.

The target of this stage is to begin to stabilize and expand things. First of all, the budget must be basically balanced, the currency must be stabilized, and prices must be stabilized at a corresponding level (with inflation at a level of approximately 5 percent).

The main contents of this stage are:

a. With respect to the helmsman (that is, the state):

1. To continue to solidify and reorganize the state apparatus, reduce the size of the staff, and reduce state subsidies and the compensation for prices and losses.

2. To continue to perfect and supplement a number of economic and financial aspects and formulate laws.

3. To create a commercial environment, such as a competitive mechanism and a marketing and pricing

mechanism, and gradually transfer production and business functions to the following two targets:

The central commercial corporations.

The commercial production installations. The commercial and business functions must not be turned over to the ministries, localities, or sectors.

b. On creating motive forces:

Motive force No 1: To stimulate commodity circulation. From commodity circulation, we must promote commodity production and budgetary competitiveness and stabilize the currency.

Motive force No 2: To implement a division of ownership and use rights with respect to the means of production based on the following guidelines:

The state will hold a monopoly concerning ownership, but a mechanism must be established to ensure that those ownership rights are implemented concerning the economy using many forms, such as transfer fees, taxes, right of use rents, and so on.

Conditions must be created to ensure that the users are actually able to use things over the long term, and they must enjoy inheritance rights so that they will use all their strength and intelligence to exploit the existing means of production.

Motive force No 3 of the commodity producers, specifically the enterprises, corporations, cooperatives, and individual households, is competition and profits. Up to now, there has never been a mechanism to replace these two motive forces. We can't neglect these or fear the spontaneous growth of capitalism. We must remember that competition lies within the framework of the rudder of the dictatorship of the proletariat.

Motive force No 4: Transitional economic forms and steps on the ladder of state capitalism must be created so that we can move up.

Socialization steps must be built through concentrated accumulation and services in the form of "ten-xanh-di-ca," consortiums, trusts, conglomerates, and multinational corporations. That is the strength of centralization, federation, and joint ventures.

Motive force No 5: Democracy must be exploited based on financial independence in order to implement the slogan: the state does not have to support the enterprises, the enterprises can support themselves and the state, and accumulation without guilds.

Motive force No 6: The strength of the people must be exploited in coordination with the strength of the period.

Specifically, the role of the foreign economy must be fully manifested. We must gradually participate in an international division of labor in sectors in which this is possible.

Motive force No 7: The standard of living of the cadres, workers, and civil servants must be improved, their wages must be increased, and they must be given larger bonuses. Normally, to fight inflation, wages must be frozen and expenditures must be reduced. But if wages do not keep pace with the devaluation of the currency, they will have less to eat and that will destroy the motive forces and give rise to many negative phenomena.

In our view, wages must be viewed as the price of labor. We must obey the laws of value and reproduction of the labor strength based on reorganizing the apparatus and pay wages based on work.

Wages must be increased in order to stimulate an increase in labor productivity, and management wages must be increased in order to reduce negativeness.

From now until 1995, we must keep a number of ration stamps and coupons and sell them based on the quantity of a number of types of goods.

Wages must be paid in a synchronized and unified manner. There must not be spontaneous action leading to a violation of the following law: the rate of increase in wages must be lower than the rate of increase in labor productivity.

From now until 1992, wages can be increased in accord with special measures.

Besides the measures discussed above, other measures can be used, such as issuing government bonds, issuing lottery tickets, and taking loans in order to contribute to fighting inflation.

#### Footnotes

1. This is a basic mistake that has been made time and again. Thus, this must be analyzed carefully. People with money want to push the value down and so they have increased the velocity of currency circulation. For example, the following shows the powerful effect of the velocity of currency circulation and was tested in 1986:

	1985	1986
Total value of commodities in circulation (H)	40 billion	42 billion (+5%)
Velocity of the currency	4 times	7 times (actually higher)
Amount of currency needed Planned for Kc circulation = H/V	10 billion	6 billion
Amount of currency actually in circulation	15 billion	60 billion (actually 4.4 times)
Commodity price index: Kt/Kc greater than 100	150%	1000%

2. Sixth Party Congress Documents, Su That Publishing House, Hanoi, 1987, p 75)

3. Report by Le Van Hung, deputy head of the Department of Balance, Ministry of Finance.

4. Data of the Ooc Lop Group, March 1988

5. V.I. Lenin: Collected Works, Progress Press, Moscow, 1978, pp 37, 526

6. V.I. Lenin: Collected Works, Progress Press, Moscow, 1979, pp 7, 25

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