

**The State, Property Rights
And the Question of Prosperity in Communist Vietnam**

Truong Van Thuan
Vietnamese Professionals of America, Inc.

Conference on Vietnam in 2001:
Prospects for Economic and Social Progress

Sponsored by
Paul H. Nitze School of Advanced International Studies,
L'Association des Techniciens Vietnamiens d'Outre-Mer, and
The Vietnamese Professionals of America

The Kenney Auditorium, Washington, D.C.
November 16-17, 2000

Introduction

Vietnam has become one of the poorest countries of the world. Vietnam is also lagging behind its neighbors or counterparts. Vietnam and China's incomes per capita were at the same level in 1975. China's income per capita is currently almost three times larger than that of Vietnam. Based on the most optimistic results that Doi Moi¹ – Vietnam's much publicized reform program - was able to achieve, it will take Vietnam 25 years to catch up with Thailand. Doi Moi has, however, long passed and gone. What are inherited in its wake are a very repressive economy, widespread deep-seated corruption, an unpredictable and risky business climate. Because of these conditions, the international business community has been drastically scaling back its investments in Vietnam.

In spite of an abundant natural resource endowment and a population that is known for its hard work, resilience and ingenuity, Vietnam has been performing poorly economically. What explains that poor performance? This question raises a number of issues that this paper tries to address.

It is not possible to understand communist Vietnam without exposing its ideological and normative foundations. The Vietnamese communist system has of course evolved significantly since its inception - from central planning to, as of late, a multi-sector economy with a socialist orientation. Through that transformation, a number of principles have, however, remained immutable:

- Economic life is under the control of the communist party;
- Ownership of most means of production belongs to the state; and,
- Private property rights are banned from the official ideology.

Institutions more than any other factor define the dynamics of human behavior. Once, a framework for behavior prevails, phenomena outside its boundaries matter very little. In the scheme of things, only general trends can be of significance. This paper will focus on the immutable principles of the communist system and will argue that they constitute the principal causes of the intractable position in which Vietnam is trapped under.

Inherent to the question of private property rights is the issue of personal incentives that are associated with economic activities. These incentives may have distinct impact upon the type of individuals that are under consideration:

- On the one hand, there is the commonly accepted "maximizing man" who will optimize the gain that he will get from his actions. An action may appear to be wasteful to others but for the author of the action in question, based on existing incentives, he must believe that no higher gain can be obtained by acting differently.

¹ The Sixth Congress of the Communist Party of Vietnam in 1986 formally inaugurated a policy of Renovation (Doi Moi)

In such a maximization problem, the individual objective function may or may not be socially productive.

- On the other hand, the "communist man" is devoid of all private concerns since he puts the needs and interests of the working class above all other considerations. With respect to personal behavior, the communist party aims to instill the higher ideals. The reward for advancing these social ideals is personal advancement in the communist hierarchy. According to the communist doctrine, egoistic incentives can only be detrimental to the ideals of social justice and generation of social wealth. Incentives that reward narrow personal interests - financial profit being the worst embodiment - are egoistic and represent the source of inequity in society and the cause of economic depression, etc. Following this logic, the negation of private property rights is instituted as a way to preserve social equity. Thus, there are personal incentives in the socialist system as in any other system of organization. But in this case, personal rewards are essentially divorced from narrow personal considerations and reflect the higher standards established by the Communist Party of Vietnam (CPV).

Should the behavior of the communist man prevail in most situations, all the social ideals set forth by the communist ideology would be attained. Unfortunately, the current conditions in Vietnam clearly indicate that the communist man fails to generate the expected social wealth and justice. It is therefore important to understand the reasons of that failure by assessing the conditions under which human capital is leveraged in the production, investment and exchange activities, which essentially determine economic performance and progress.

The communist case for state-owned production

During its time, the Soviet model - because of the accomplishments it yielded - projected an influence that could be felt worldwide. In the non-Soviet bloc, many countries implemented wide ranging programs that "nationalized" major sectors of the economy. Most countries focused on the so-called strategic sectors. Banks, transportation companies, utilities, etc., were under the ownership of the state. However, they did not go as far as the communist systems did. The communist state came to own not just a number of strategic sectors. It owned just about everything else.

With the concentration of the means of production, it is argued that market prices, as long as they remained effective measures of scarcity, would constitute reliable indicators in the allocation of resources. Under these assumptions, the need for efficiency in production boils down to a large optimization problem, which is essentially technical in nature. Marxism was supposed to provide an answer to the shortcomings of the capitalist system. For these reasons, profit - a capitalist concept - and their associated personal incentives are anathema to communist regimes. Following this logic, the resulting financial return of economic activities becomes the property of the state and flows directly into the state coffers. The state, it was maintained, is much fairer when it comes to achieving social goals since it only takes into consideration the broader needs of the population. National

interests can also be protected. It is thought that the separation of the ownership from the control of the means of production would allow higher social goals to be pursued since these goals are not bound by individual concerns. Managers of state-owned-enterprises (SOEs) maximize profits according to government directives. According to the advocates of this approach, social goals as well as efficiency in the generation of wealth can be better achieved. So the argument goes.

The preceding framework also assumes that information will be available and factors of production are discrete and uniform, etc. With perfect information, control as a mechanism to direct all aspects of production would work since every possible stage along the process would have an appropriate set of measures to deal with the situation at hands. Under such simplistic assumptions, the problem of organizing production becomes trivial. In fact, none of the preceding assumptions is applicable in real life because *"imperfections" are in fact countless. In real life, the lack of information and uncertainties inherently characterize every day's operation.*

Because of doctrinal constraints, the *communists have never entertained the following much broader set of questions:*

- How does one know what is "right or fair" since information is always partial or incomplete, excepted in trivial cases?
- What is to be done when information is not complete and is always costly?
- When the state allocation process fails or is not sufficient, what guidelines are available when SOEs' managers want to cooperate to combine non-uniform inputs in order to gain efficiency?
- How can the communist cadre be induced to make the right decision besides those that emanate from the CPV?
- Etc.

Control rights that are anti-social

Because the means of production are state-owned, they are also state-directed. Even when central planning was said to be abandoned, what still remains in Vietnam can be termed as a "centrally managed economy"² (a term coined by economist Janos Kornai). What is meant is the direct bureaucratic control of and intervention by the higher supervising organization as often as needed in economic affairs to ensure compliance with party's objectives. The higher supervising organization represents the force of command and has the administrative power to implement the CPV objectives. The critically needed credit comes from the state, production directives come from the state, and directives on cross-enterprise transfers come from the state. The interference of CPV cells in all major economic matters defines corporate governance.

² Janos Kornai: "The Socialist System: the Political Economy of Communism", page 117

The directives always come from above and interference is a constant in the system of organization. Survival and success in this environment rest on consensus acquired within one's operational circles. Although political rectitude dictate that the interests of the working class should be of primary importance, *the structure of governance is such that nobody is either able or willing to bear the full responsibility for his decisions*. Rewards or penalties are intended to instill discipline. They are not directly linked with efficient performance in the execution of the tasks at hands. Under such conditions, a rational mechanism of defense is to under-report capacity and performance so one is less exposed to the vicissitudes and vagaries of higher power. Shirking becomes the operating mode and comes in many forms:

- In the days of central planning, hoarding input resources was as a mechanism used to meet production targets.
- Minimizing one's costs of production consists of producing goods that comply with directives but not with customer specifications.
- Maximizing personal "gain" can take a totally different complexion. Since there is no objective or independent measure of success, economic actors organize their operational framework in ways that render outcomes less unpredictable. Collusion among parties that operate directly with each other becomes an unavoidable by-product. The magnitude of such collusive activities can best be illustrated by what Kornai described as the "soft budget constraint"³, a phenomenon which was found in the economies of the former Soviet bloc. Operating under the very unique soft budget constraint, SOEs with losses were as likely to get financial credit as the ones that were profitable. According to an IMF report, the current situation of SOEs in Vietnam reflects the same traits⁴. Over time, this state of affairs reached a point where the weight of an SOE was no longer measured by its contribution to the production objectives but its "political" weight. Ultimately, these "alliances" serve more the interests of their leaders and members than those of the communist party to which they belong.
- Etc.

In Vietnam, other far-reaching and harmful collusive policies can be found in the creation of import-substituting activities⁵, the export of products where marketing boards are levying a substantial toll - the case of rice is, for example, quite notable⁶, etc... The social

³ Janos Kornai: "The Socialist System: the Political Economy of Communism", page 140

⁴ "Vietnam: Selected Issues": July 1999, IMF, page 42

⁵ IFPRI 1998 report, page 16: "On average over the period 1990-96, urea prices in Vietnam have been 41 percent higher than US Gulf and East Europe prices, 72 percent higher than Indonesia ... Production above \$160 per ton is not profitable given current and projected world prices. In such a case, the projected cost of production of Phu My at over \$200 per ton indicates a lack of economic rationale for the project.."

⁶ IFPRI 1997 report, page 36: "The restrictions on internal trade are reflected in rice price differential which exceed transportation costs... In 1995, the average wholesale price of rice was US\$64/ton higher in the north than in the south... Only 42 percent of the gap between prices in the north and the south are explained by the cost of transportation and marketing. The remaining 58 percent is the result of various constraints, notably the restrictions on the inter-regional movement of rice ...Regulations make trade from south to

consequences are that either the output of these SOEs is not worth much or SOEs are money-losing operations.

Investment or the political allocation of capital

The SOE also represents a source of and a target for investment. The control rights over investment decisions are established in Government Ministries and SOEs. These rights are divided among the leaders or managers, who are also representatives of many constituencies. Managers and politicians have, like every one else, the natural need to get ahead. The holders of these control rights act according to their interests, as often as it is needed. Since none of these decision-makers has any right over the cash flows that are generated for productive investment, control rights over investment become, as a consequence, the currency used to secure political support.

Politicians gain power when they are effective in promoting the interests of groups that are organized but represent very narrow constituencies⁷. Groups that are not organized, such as the rural population - which constitutes 80 percent of the population in Vietnam - yield little power and consequently they stay on the margins of the society. For that reason, it is important to notice that politicians in Vietnam do not represent the public interests.

It is argued that profiting from state-owned goods for private purposes would not be feasible. The view is that rights are regarded as absolute: rights either exist or they don't and that there is no intermediate state. Unfortunately, while this last assumption can be a convenience for purpose of argumentation it is not valid in reality.

Control rights are private property rights for a very few

Barzel observed that what really matters for an individual is his ability to "use" a given commodity. Under these considerations, it can be seen that the extent to which an individual can enjoy the attributes of a good actually defines his rights over that good. In fact, "anyone who expects to benefit from an asset, be it a legal owner or a thief, is (at least) a partial owner". To include this real but informal dimension, Barzel defines property rights to include both legal (formal) property rights and economic (informal) property rights⁸.

north so difficult that they are similar to the procedures needed to trade with another country... The major constraints lie in the rice marketing system."

⁷ IFPRI 1998 report, page 18: "In view of the high cost of production of Phu My, ... there has been a strong lobby for the construction of the factory... In fact, the lobby also includes construction companies and local authorities that see the prospects of large profits and rents from the construction of mega-projects of this type..." In a broader perspective, one has to consider the 2 millions members of the CPV in relation to the population of Vietnam, which is more than 75 millions souls.

⁸ Yoram Barzel: "Economic Analysis of Property Rights", page 89. This paper uses the conceptual framework developed by Barzel to analyze property rights

In the case of an import/export license, price controls, land, etc., one can observe that the guardians of the state-owned goods, i.e., CPV members, have exclusive prerogatives over the benefits that these goods can provide:

- They can derive income from them in the form of capture at transaction time;
- They can exclude others from using them; and
- They can also grant similar advantages to others.

It is emphasized that each one of the preceding prerogatives represents in fact an attribute of private ownership. The first one, which results in monetary gains, is the result of corruption. The second and third prerogatives are attributes of private discretionary power (and potential sources of corruption).

It is therefore argued that the attempt to eradicate private property rights in communist systems has never been able to prevent “informal” forms of private rights - i. e., economic rights - to exist. In other words, legal rights are what the communist system legislates, and economic rights represent the actual forms that these rights take in the environment affected by the legislation. Rights are therefore neither absolute nor wholesome. Rather, rights are partial, fragmented and discrete. With these distinctions in mind, it should be clear that the *control rights that CPV members have over state-owned goods represent in fact their own and exclusive private rights over these goods.*

The uncompromising position of the communist doctrine on private property rights has only served to create an enormous informal sector where rent-seeking activities prevail at the expense of productive activities.

Contention over rights

Much of the difficulty in dealing with control rights flows from the fact it is nearly impossible or never practical to fully identify their scope. When control rights are not specified over certain attributes of an asset, different parties have different degrees of discretion over that asset. The rights that are not specified are called "residual" control rights. Whatever is not defined remains the property of the owner of the good.

As it can easily be understood, group discipline is paramount in the logic of the group. Legitimacy is enforced and maintained when inclusion combined with fairness are consistent in the conduct of the group's affair. When the group practices exclusion or discrimination because of political priorities, fairness is much harder to legitimize over time. As a result, group discipline will no longer be accepted and contention over "rights" will take place. Consider the following situation.

Allocation, as the institutionalized practice, creates an environment in which any advantage gained by some necessarily diminishes the position of others. In the case of control rights (control and/or financial credit rights) that are allocated to different entities (central, local government, etc.), each party of the process pushes the "envelope"

to capture additional advantages over unspecified provisions. This is exacerbated by the regime's decentralization of power. From whatever angle one may look, this condition is a fundamental source of contention and divisiveness in the society and is detrimental to everyone's welfare.

This contention over rights was illustrated in Vietnam News (Feb 18, 2000), where the Director of Vietnam's Legal Institute stated that "his office had found 3,339 legal documents issued by various government agencies last year that contravened relevant regulations". Business ventures often find themselves deadlocked between contradictory regulations from these various government entities. The opportunities for corrupt practices are multiplied many-fold⁹. This naturally creates uncertainty and confusion in the business climate. The distortions introduced in the system become systemic in nature.

Because private rights are not recognized in communist Vietnam, none of the control rights are transferable. This transient characteristic of rights instills a potent incentive to seize whatever opportunity presents itself. Any reason for restraint is missing since state-owned goods belong to no one: what one does not take, others will. The time horizon becomes short, and socially productive exercise of these rights can hardly be expected. As it is clearly emphasized by Stiglitz¹⁰, the heart of ownership resides in residual control but, in this case, it is for all the wrong reasons.

The costs of transacting

Inherent to any commodity, there are related costs. It costs to either produce or exchange a good or service. It also costs to maintain the value of a good and service. Costs, in other words, define the feasibility of rights. Understanding transaction costs become critical because the ownership of costs defines the rights over the commodity. In a transaction, goods are traded based on associated costs. Economic exchange is costly because it requires all parties of the exchange to:

- Get information about the structure of the costs and qualities of the various components of the exchanged good, information about the background of the involved parties;
- Undertake negotiation activities to identify the terms of the sale;
- Draft the agreement or contract;
- Ensure contract compliance;
- Rely on the arbitration process when disagreements arises, etc.

Consider the following two types of costs.

⁹ IFPRI 1998 report, page 5: "the never-ending administrative hurdles and rent-seeking ordeals that make business activities so extenuating in Vietnam."

¹⁰ Joseph Stiglitz: "Whither Socialism?", page 165

Costs of transaction. In a sale transaction, a loss or a profit can be made. In a sale transaction of a private good, an individual expends real resources on a commodity to enhance its value and incurs additional costs to transfer the ownership of that commodity to a willing purchaser. In the case of goods that belong to the state, the situation is radically different. For state-owned goods, the resources needed to either acquire them or transfer their use to another party are neither absorbed and nor imputed to any particular individual. No government official is personally liable for costs or losses incurred in transactions involving state-owned goods. *Simply put, those who make decisions create costs that are borne by others and the society at large*¹¹. *State ownership of the means of production is the worst form of ownership for there is no mechanism to ensure accountability.*

Cost of protection. Agreements reached in a sale define that transaction. The enforcement of the terms of the agreement is the measure of the sanctity of the contract in the society.

- For a government contract, the terms can substantially be advantageous to the parties involved (including the government) since the government, as party to the contract, can provide financial collateral that cannot be found in the private arena.
- For a private business, the discretionary control of the central and local governments at critical points of a sale process makes “protection” necessary because of ill-defined property rights. The greater the number of controls, the higher is the need for protection. If such protection becomes effective, the “privileges” or personal rights over goods are enhanced. In turn, the protection authority can erect further rules, regulations and legal institutions to preserve the profitable arrangement.

Legality may be present, as it is often pointed out, but transaction costs represent the real measure, i.e., the effectiveness of the "rule of law". In the presence of ill-defined rights, the difficulties encountered would naturally increase the costs of transacting. But there is another perverse aspect to transaction costs. As North Douglas has emphasized it¹², there is more to the cost of transacting than simply the activities that are associated with economic activities. When transaction costs are significant, the institutions matter because they "determine the distribution of benefits... It is in the interest of participants to organize the system so that it will benefit them." In Vietnam, there is ample evidence of such type of "capture" activities¹³. When an economic actor has no reason to consider his productive output, his incentives are those of a parasitic element, or worse, of a "roving bandit"¹⁴ (as defined by Olson). The thinking horizon is essentially focused on the immediate term. In this case, his behavior is bound to become predatory.

¹¹ IFPRI 1998 report, page 23: "... The rice export quota, the sugar import quota, and the fertilizer import quota represents costs to society of the order of hundreds of millions of dollars..."

¹² Douglas C. North: "Transaction Costs, Institutions, and Economic Performance", page 17

¹³ IFPRI 1998 report, page 17: "...Numerous organizations had incentives to apply for quota licenses because of subsidized credit. The access to credit was the real motivation and fertilizer imports were undertaken to finance activities other than fertilizer... Moreover, an access to quotas implies access to rent, there is an active market for quotas ... Quotas have been sold to third parties."

¹⁴ Mancur Olson: "Power and Prosperity", page 11

State allocation and mobilization of resources vs. economic exchange

Government allocation and mobilization of resources can be effective when the needs of the society revolve around a few and clearly defined priorities. The undeniable success of communist economies in time of conflict and war speaks very loudly in that regard. Under these exceptional circumstances, there exists a common purpose and shared values among the various constituencies in society. When these extraordinary conditions cease to be applicable, different and fundamental parameters replace the old ones. Among the new parameters, let us cite at least two important ones:

- Individuals (not the state) become maximizing economic agents; and
- Competing needs and priorities.

Faced with these different parameters, government allocation and mobilization of resources are ill suited because information will always be incomplete or missing. In practical terms, the allocation of resources is based on compromises made between competing needs, and will most likely cause discontent among the parties that are involved. There are other harmful consequences:

- The rules of success consist in gaining the grace and higher favors of the power that be. This is the dilemma of absolute power. Allegiance is sought and can be gained. But allegiance also means regression over time because socially productive activities become of secondary importance.
- The competition for influence constitutes a fundamental source of distrust and antagonism among the various constituencies in the country ¹⁵.

A different paradigm is therefore needed. Instead of the top-down allocation and mobilization of resources, consider the mechanism of economic exchange.

- In contrast to the allocation process, the mechanism of exchange is based on mutual advantage and consensus. It allows interested parties to make a trade that would make them better off. In the absence of fraud, everybody gains from the exchange process.
- It is highly flexible and efficient because goods and services are usually not produced in isolation and because owners of assets find it profitable to join with other owners and share their resources in production. Managers cooperate under conditions for which unpredictability of conditions and factors also affect output.

¹⁵ Mancur Olson: " Power and Prosperity ", page 197. Therefore, with respect to those who have rights over others, the focus is no longer to take part in productive activities but to capture the wealth created by others. The distributional coalitions are "...overwhelmingly oriented to struggles over the distribution of income and wealth rather than the production of additional output". This is the essence of a "distributional-oriented" structure as Olson defined it.

The wealth in rich economies is predicated on economic exchanges. From that standpoint, economic exchange is the foundation of growth. The mechanism of economic exchange is, however, hardly supported in communist systems because of two major reasons:

- Exchange presupposes private ownership of the commodity. Private ownership is altogether either missing or ill defined in communist Vietnam.
- The communist economic paradigm relies on government mobilization¹⁶ and allocation of resources - and not on economic exchange - as a way to stimulate economic growth because these mechanisms rely on the state. Economic exchange rests instead on private initiatives.

Private property rights and wealth generation

Aligning incentives with the task at hands possesses an importance that cannot be over-emphasized. The individual has the direct incentive to improve efficiency and production. He has valid reasons to acquire knowledge and to further invest if the benefits of the investment can be appropriated. In rich economies, the productivity and the wealth generated are primarily driven by the personal incentives system. In communist systems, as in Vietnam, the misalignment of incentives with the task at hands is the primary cause of official corruption.

Economic growth will occur if it is worthwhile to undertake socially productive activities. As potential for gains exceeds costs, efforts will be made to protect such arrangements. Societies are most likely to prosper when there are clear incentives to reap the gains from social cooperation through specialization and trade. Enforcement of ownership rights by the state increases the value of privately owned assets and constitutes one of the cornerstones of economic exchange.

Cooperative production involves various contractual structures. When transaction costs are positive, each contract structure is associated with different allocation of resources, different distribution of wealth. In a competitive market, contractual forms that give rise to positive profits survive, and other forms of organization go under. In a world of uncertainty, and positive transaction costs, it is likely that most people replace their modes of behavior with marginal conditions of economics. From that standpoint, individuals will acquire, and relinquish ownership based on costs. *In fundamental ways, private ownership represents a measure of economic efficiency in the use of resources. The belief that private ownership is an instrument of power is unfortunately misguided.* Over time, those who are efficient in the use of resources are those who will become owners. Those who use private ownership over a commodity as a source of power will eventually lose it.

¹⁶ IFPRI 1998 report, page 6: the much-publicized achievement in the production of rice is such an example of resource mobilization, i.e., the right-of-use of the land is granted for a very specific purpose. For instance, the conversion of rice land to other activities is strictly prohibited.

Private property rights and social equity

In communist Vietnam, wealth that is accumulated belongs to the state. That is the easy part. The redistribution of wealth to the general population represents however a totally different challenge. Criteria used to define these equality mechanisms have never been conceived or worked out in any communist regime. Therefore the problem of equality, or more explicitly, *the question of a fair or equal redistribution of wealth has never been resolved. Instead, as it has been discussed, there only exist discretionary mechanisms that cater to current political expediencies and compromises.*

In such circumstances, a sound approach would be one that allows the leadership in Vietnam to discover what an equitable societal model may look like. Choosing an appropriate social arrangement would not be possible without knowing the associated social costs¹⁷. According to Coase, it is a question of weighing all known options and comparing their impact on the social outcome. This is clearly intractable in a communist system *since profit cannot personally be owned, in the same thrust associated costs of any kind will also be disallowed.* In fact, a natural mechanism of self-protection - or alternatively, another form of shirking - would be to pass on as much as possible the cost component of one's undertaking to someone else's account. This approach only works when the actual cost structure remains hidden. The failure to take into account costs imposed on others constitutes one of the most harmful undercurrents of the communist system. This is unfortunate because *profit and costs define the livelihood of each individual. They constitute the real measures of social equity when they represent the dual function of each other. For these indicators to become effective, the institution of private property rights has to be established.*

It has been argued that, in communist Vietnam, without the institution of private property rights, the costs incurred by society are indeed very high. All rich countries are countries that promote and protect property rights. All poor countries have ill-defined property rights. Private property rights constitute the fundamental divide between rich countries and poor countries. In that regard, the evidence across the world is quite overwhelming. Therefore, it is no exaggeration to say that the institution of private property rights¹⁸ constitutes the foundation of economic growth and social progress.

¹⁷ R. H. Coase, "The Firm, the Market and the Law", page 95.

¹⁸ It has been argued that China is one glaring example where economic growth has been remarkable without the institution of property rights. This case doesn't change the argument presented in this paper. As stated, economic growth in communist countries is primarily due to a massive mobilization of labor and capital resources. The success of the Soviet Union in the 1950s and 1960s constituted such an example. Prof. Krugman (Foreign Affairs, November 1994) said that if you invest in more machines and employ more workers, you would produce more. Thus there is no miracle. Growth will slow down when there are no more workers to employ, unless you have better technology and you are able to raise efficiency. Raising efficiency is what it is all about and there is no evidence that communist economies know how.

Conclusion - the question of prosperity in Vietnam

In the presence of incomplete information, the allocation of resources by government decrees and government-set priorities in economic mobilization create systemic distortions that will make a bad situation worse. Without an adequate system of incentives and the institution of private property rights, the Vietnamese economy is essentially dysfunctional. Regarding the prospects for broad-based economic growth and social progress in Vietnam, there are at least two lines of thoughts that can be identified:

According to the communist doctrine, the elimination of property rights is intended to prevent the concentration of power into the hands of a very few and to establish an equitable society. The communist experiment actually engenders the very anti-social system that their doctrine intends to eradicate. When property rights are abolished, the prevailing system essentially leads to abuse, exploitation, and social inequity. In this regard, it has been said that the role of private property rights is misunderstood by the communist doctrine. It is argued that positive changes will come about with a proper understanding of the new realities. This also assumes that there exists an enlightened Vietnamese leadership, which puts the welfare of its people first. In many respects, this represents the thinking of many within the international donor community, which has been helping to steer Vietnam on the path to prosperity.

Others, as in Eggertsson's book¹⁹, suggest that - in the case of the former Soviet Union - the communist leadership properly understood the "socially productive" qualities of private property rights but chose not to institutionalize these rights. If one accepts this assessment, the propensity of the state to create institutions that are inconsistent with economic prosperity can only be explained by the need of the leadership to retain power. The rule of power imposes a tight control on information that can be obtained by the population at large and the erection of a cost structure that will render private "productive" activities quite expensive. In the same thrust, there exists an overriding concern over the distribution of wealth, which should mostly benefit the ruling class. If this scenario applies to Vietnam, poverty is the price paid by its people. This is very costly, indeed. In this case, the question of prosperity for the people of Vietnam can only be addressed when there is a different generation of leaders that will make the achievement of prosperity their highest priority.

References

- "The Socialist System: The Political Economy of Communism": Janos Kornai, 1992, Princeton University Press
- "Vietnam: Selected Issues": July 1999, IMF
- "Rice Markets, Agricultural Growth, and Policy Options in Vietnam": Francesco Goletti, and Nicholas Minot, IFPRI, April 1997

¹⁹ Thrainn Eggertsson, "Economic Behavior and Institutions", page 337

- "Trade Distortions and Incentives in Agricultural Trade": Francesco Goletti, IFPRI, May 30, 1998.
- "Economic Analysis of Property Rights": Yoram Barzel, Second Edition, 1997, Cambridge University Press
- "Power and Prosperity": Mancur Olson, 2000, Basic Books.
- "Whither Socialism?": Joseph Stiglitz, 1994, The MIT Press.
- "Transaction Costs, Institutions, and Economic Performance": Douglass C. North, Occasional Papers Number 30, 1992, International Center for Economic Growth.
- "Economic Behavior and Institutions": Thrainn Eggertsson, 1997, Cambridge University Press