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U.S. Economic Assistance in Vietnam: A Proposed Reorientation (U)

C. J. Zwick, C. A. Cooper, H. Heymann, Jr., and R. H. Moorsteen

July 1964

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A REPORT PREPARED FOR THE

AGENCY FOR INTERNATIONAL DEVELOPMENT

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PREFACE

THIS RAND REPORT contains the results of a study of U.S. economic assistance in Vietnam, undertaken by The RAND Corporation at the request of the Administrator of the Agency for International Development. The current assistance program was developed in a period when U.S. policy in Vietnam was markedly different from what it is today. It therefore appeared desirable to review this program to ensure that it is contributing as effectively as possible to present U.S. goals. A RAND team, consisting of the four authors of this report, went to Vietnam for the period between May 10 and June 19, 1964.

While in Vietnam the team was given generous support by Joseph Brent, Director of the United States Operations Mission, and his staff. In particular, Solomon Silver and Alek Rozental provided support to the team and made available the services of the members of the Economic & Financial Planning Division. As a result, Edward Auchter and Erland Hegenbotham were temporarily attached to the team and made valuable contributions to the report. Vernon Ruttan, a consultant to USOM, provided help on the Rural Affairs section and was particularly helpful in crystallizing the team's conclusions on land reform.

During the last part of its stay in Vietnam, the team was joined by Curtis Farrar of AID/Washington who made very helpful suggestions and offered constructive criticisms of the ideas that had evolved earlier. He also prepared a memorandum on youth activities which is included as Appendix B of this report.

In addition to its work in Saigon the team made a number of trips into the countryside; these trips provided an opportunity to view at first hand the Pacification Program and the operation of the USOM

Rural Affairs effort. Discussions with Rural Affairs provincial representatives, military advisers, and Vietnamese administrators at the province, district, and village levels gave an insight into the rural problems of Vietnam which could not have been gained in Saigon.

Vice Premier Nguyen Xuan Oanh sponsored the team within the Government of Vietnam; this provided a unique opportunity to obtain, from the GVN point of view, a picture of the Vietnamese economy, its current problems and the impact of U.S. aid policies. The excellent cooperation from the economic ministries of the GVN was invaluable in assisting the work of the team.

The authors wish to acknowledge the contributions of several of their RAND colleagues, particularly Charles Wolf, Jr., who provided valuable advice and insights at all stages of this study; Robert Levine, Richard Nelson, and Guy Pauker, who read and commented on the manuscript; and Richard Cooper, with whom they had stimulating discussions on a number of points.

SUMMARY

THE OBJECTIVE OF U.S. AID in Vietnam is to support the war effort. To win the war, a number of interrelated and mutually reinforcing programs are needed, and they must be carried out by an effective GVN. Success will be difficult at best and will probably remain uncertain for an extended period. Given a protracted struggle whose outcome is of great importance to the United States, this country must use every resource to ensure that appropriate economic, political, and military programs are undertaken in Vietnam. This Report focuses on a set of civil programs designed to interact with other programs, primarily military, in direct support of the counterinsurgency effort. They are by themselves not sufficient to guarantee success, but they contribute to it.

Fundamental to the program proposed here is a major conclusion: that the GVN is now weak and lacking in popular support. The government does not have confidence in itself; it is unsure of the policies it should follow; and it is unsure that it has the authority to execute them even if it were certain which policies to support. Without a stable and effective GVN, U.S. support of the war effort will be largely irrelevant. Thus the first priority today is to help establish an effective government. In view of this major conclusion, we recommend that a program be undertaken to expand urban employment and improve urban welfare in order to generate additional support for the GVN and to reduce the danger of Viet Cong activity in the urban base. This is a basic reorientation of recent U.S.-GVN economic policy in Vietnam.

We also recommend that rural economic programs be tailored more closely to a counterinsurgency strategy. This means more direct emphasis on the peasants' attitudes and behavior, rather than on their material circumstances; more concern with strengthening GVN political leadership rather than with merely accomplishing the technical deployment of material; and more attention to programs that provide benefits directly to those who cooperate with the GVN, rather than programs that benefit friend and enemy alike.

For both the rural and urban programs we recommend a greatly expanded propaganda and information effort to be undertaken as an integral part of the economic and welfare programs. The current information program is one of the weakest of U.S.-GVN activities. This neglect deprives the war effort of much of the potential payoff of economic and social programs.

An Expanded Urban Program

We propose that the GVN should initiate as soon as possible a program designed to increase employment and welfare and stimulate industrial activity in urban areas in order to gain and retain the support of the urban population, to diminish the vulnerability of cities and towns to VC inroads, and to bolster the self-confidence and effectiveness of the GVN. Such a program would reduce the probability that the present government will be faced with an expansion of urban terrorism and a "two-front" insurgency in which it would have to fight for existence in its urban base.

What is urgently needed is an expansionary economic policy designed to improve levels and conditions of employment, income, and welfare for important segments of the urban population; and aimed at dramatically improving the public image of and confidence in the regime. The program we recommend includes a wide variety of income- and confidence-generating measures that will stimulate domestic output and employment, and will have specific desirable social and political effects. These measures

are interrelated and mutually reinforcing. All are designed to make a direct contribution to winning the war. They are:

(1) Measures aimed at urban social improvement -- a major low-cost public housing program, expanded public education, construction of urban facilities, and community development activities aimed at urban youth.

(2) Direct income-increasing measures -- raising government and military salaries to create incentives for important segments of the population and increase their political support for the GVN.

(3) Measures to promote investment in productive enterprise, particularly in the private sector, to raise domestic output, to open up new career opportunities, and to build confidence in the future of Vietnam.

(4) Measures to strengthen the interurban economy and urban-rural links -- the development of secure coastal transportation, the expansion of banking and credit services, and the more efficient marketing of rural products in Province and District towns.

(5) Measures to demonstrate U.S. confidence in the GVN and firm commitment to Vietnam, so as to allay public fears about the continuity of U.S. support.

A More Focused Rural Program

In developing the rural program, benefits must be distributed more selectively. It is a mistake to undertake general economic development programs throughout the countryside in the belief that this will induce active peasant support for the GVN. Instead, material benefits should be so distributed as to create a marked difference in the quality of life between the areas controlled by the GVN and those contested with the VC. The peasant is more likely to take an active part on the GVN side in defense of such a tangible stake for his family and community than out of abstract loyalty to a distant, little-understood central government. Specifically, therefore, we believe it inappropriate to

raise the price of rice through market channels, because this would take effect nationally, blurring differences between GVN and contested areas and increasing the income base from which VC taxes are collected in the contested areas. Instead, we favor improving productivity and income in GVN controlled areas only, by subsidized provision of inputs such as fertilizers and credit. For the GVN areas funds should be provided for rural public works, such as roads, canals, schools, and market places. Wages should be paid and corvée eliminated, to benefit the poorest rural group (those who work for hire) and to sharpen the contrast with VC areas in which corvée is imposed and paid employment opportunities are lacking.

Service in the GVN paramilitary can be made more attractive (and recruitment by the VC more difficult) if greater benefits are provided for dependents. This would enhance the GVN image as a government concerned for the welfare of its soldiers.

Programs should be designed to support GVN rural leadership and to cement social cohesion within the rural communities. Local organizations should be sponsored. The role of the Village Council should be enlarged and strengthened, for example, by giving it responsibility for the public works and low-interest NACO loans within the village, and by reserving taxes on agricultural land exclusively for village use. Conflicts within the village should be reduced or compromised, and not exacerbated. Thus confiscatory land reform should be avoided in favor of subsidized sales from landlord to tenant. Meanwhile, tenants' rights should be protected by legislation and by strengthening institutions such as the Tenant Farmers Union.

USOM's ability to design and carry out its rural program should be strengthened by establishing a staff for analysis and research; by increasing the flow of information from the countryside through systematic surveys as well as better contact with the field staff; by enlarging the field staff, especially the number of Vietnamese employees; and by reorienting both the program and the composition of the staff toward better propaganda exploitation.

Economic and Administrative Feasibility

The expansionary economic program we recommend reflects a requirement to expand U.S. aid to the degree necessary for the programs essential to the war effort. There is now a unique opportunity to encourage an expansionary economic policy in Vietnam. The risks of inflation and balance of payments crises often inhibit underdeveloped countries from taking this path; but in Vietnam today, U.S. aid serves to cover these risks. It is impossible to estimate accurately how rapidly the Vietnamese economy will respond to an expansionary policy, but there is every reason to expect the response to be significant. Labor is widely available, unused financial resources are plentiful, and U.S. aid permits the importation of the materials and equipment necessary for expanding domestic production. Moreover, even if the response is more sluggish than might be expected, the chief cost would be to raise the aid bill. Given the relationship between economic expansion and the war effort, this risk seems well worth taking.

New GVN programs are often considered undesirable because they will stretch even thinner the "thin veneer" of administrative talent and capability in Vietnam. But the main obstacle is probably not a shortage of people who can do the job; there is more administrative ability than is currently being used. The obstacle lies principally in the organization and motivation of those with administrative ability, particularly in the middle and lower levels of administration. More demanding leadership and sharper incentives will call forth better performance. For the rural programs the "administrative problem" is to find ways and means of increasing the authority and improving the performance of province, district, and village authorities. It is the lack of decentralized authority and financial control that is impairing rural administration, not an over-all shortage of administrative ability.

Finally, it is important to place administrative difficulties in the proper context. In Vietnam today something must be done to

bolster a government that lacks the popular support and self-confidence necessary for it to carry out an effective counterinsurgency program. There is no choice -- the United States must press the GVN to carry out a program that will solidify public support and strengthen the base from which the government operates. If this leads to administrative difficulties, the United States must stand ready to help out in any way it can. There is scope for significantly expanded joint U.S.-GVN staff work as well as for providing additional expert assistance directly to the GVN. That the task is difficult does not make it any less urgent.

The program we recommend is part of a counterinsurgency strategy. By strengthening the urban and rural base and the moral stature of the GVN, such a program would also lead to improved GVN performance in the contested areas. Moreover, it would impair VC morale by making it apparent that past successes will be much more difficult to repeat.

Finally, this strategy makes maximum use of our most abundant resource -- the U.S. ability to provide economic assistance on a massive scale. The availability of economic aid is a U.S. weapon that is not available to the other side. Dollars are cheaper than the additional manpower and casualties which military escalation would involve -- whether this escalation took the form of more energetic military action in the local arena or extension of the war to the north. No economic and social program can win the war by itself, but the program proposed here would directly contribute to this end.

CONTENTS

PREFACE iii

SUMMARY v
An Expanded Urban Program vi
A More Focused Rural Program vii
Economic and Administrative Feasibility ix

Sections

I. INTRODUCTION 1

The Problem 1
The Effectiveness of the Government of Vietnam . . . 2
The Security Situation 4
The Program 6
The Report's Organization 7

II. A POLICY FOR URBAN AREAS 9

The Problem 9
Vulnerability of the Urban Base 9
Arguments for Passive Policy 11
Austerity 12
Peasant "Resentment" of Urban Prosperity. . 12
Inflation 12
Limited Administrative Capabilities . . . 13
The Program 13
Urban Social Improvement 14
Direct Income-increasing Measures 19
Promotion of Investment in the Private Sector. . 21
Impediments to Investment in Vietnam . . . 23
Improving the Investment Climate 25
Necessary GVN Actions 26
Necessary U.S. Actions 31
The Interurban Economic System and Urban-Rural Links 34
Demonstration of U.S. Confidence and Commitment 37

III. A POLICY FOR THE COUNTRYSIDE 39

Objectives 39
General Policies 41
An Approach We Oppose 41
Recommended Criteria for Policy Making . . . 44
Specific Recommendations 51
Increasing the Effectiveness of USOM . . . 51
Improving the Rural Program 51
Rural Affairs and Informational Work . . 54
Expanding the Rural Affairs Field Staff . 55
Contents of the Rural Program 57
Topics Suggested for Further Study by Rural Affairs 65

IV. BROAD ECONOMIC CONSEQUENCES: PROGRAM FEASIBILITY . 68

A New Degree of Freedom 68
The Potential for Increased Domestic Output . . . 70
Transfer of Resources 72
The Commercial Import Program (CIP) 73
Public Law 480, Project Assistance, and the Military Assistance Program (MAP) . . 77
Inflation 79
Long-run Adjustment and Development of the Vietnamese Economy. 80

V. QUESTIONS OF POLITICAL AND ADMINISTRATIVE FEASIBILITY 83

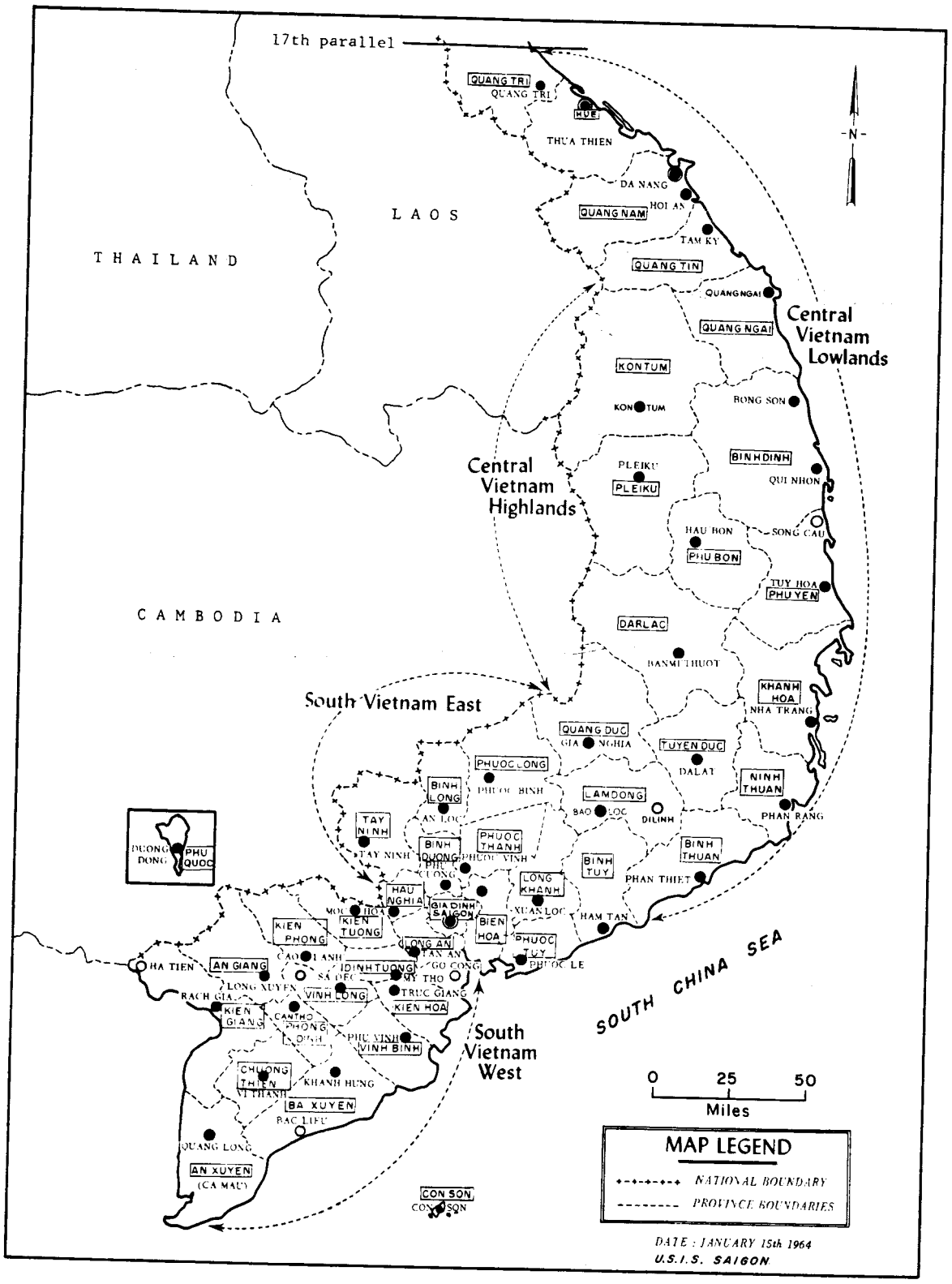
GVN Incentives and Capabilities 83
Mutual Interest and GVN Concurrence 83
A Durable U.S. Commitment 84
Increased U.S. Leverage 86
Joint U.S.-GVN Staff Work 87
GVN Administrative Ability 89
U.S. Costs and Necessary Actions 90
A Rough Cost Estimate 90
More Effective U.S. Guidance 92

Appendix A: LAND PROBLEMS 93

The Proposed GVN Land Reform 93
Suggestions for Land Policy 95
Matching Words and Deeds 96
The Interests of Landlords 96
Interim Measures 96
Ensuring Fair Play 97

Appendix B: POTENTIAL FOR YOUTH ACTIVITIES IN VIETNAM . . 98

Peace Corps Type Activities 98
National Voluntary Service 99
Agricultural Students 99
Popular Cultural Association 99
Rural Youth 99
Problems in Youth Program 100
Suggested Lines of Action 101



Republic of Vietnam

I. INTRODUCTION

The Problem

UNLIKE MOST AID SITUATIONS, in Vietnam the urgent objective of U.S. economic assistance is to help win a war. This unique situation calls for a fresh approach in designing programs, and care in selecting the yardsticks by which we measure success. In brief, the problem is different. U.S. economic assistance to Vietnam can make a major contribution to the war effort by helping to consolidate the political position of the Government of Vietnam and strengthening the counter-insurgency effort. In designing and evaluating particular programs these must be the primary objectives.

In recent months a firm U.S. commitment to the war in Vietnam has been made explicit through both public statements of policy and intensified U.S. actions. At the same time the United States has recognized that success is difficult and the outcome still uncertain. The importance of the outcome requires that the United States use every resource at its command to support effective joint U.S.-GVN military, economic, and political programs. In particular, the United States must make maximum use of its ability to provide the necessary amounts of economic aid. An aid effort must be designed that hedges against risks by permitting costs to rise, rather than by reducing the likelihood that desirable programs will be attempted and carried out. To jeopardize or even forgo important programs would be false economy. The loss of additional American lives and the expansion of the war if the current effort fails are certainly less attractive alternatives. This approach, dictated by United States self-interest, is consistent

with the self-interest of the GVN and can elicit from that government the necessary cooperation and effort.

The Effectiveness of the Government of Vietnam

The present Government of Vietnam is weak and lacking in popular support. To a large extent it is weak because it lacks popular support. Skepticism of the central government is a long-standing tradition of the country. But the present GVN is doubly afflicted because of the way it came to power. It was established by a coup in which some of the men most esteemed by the nation and army were arrested on charges which, if true, would have aroused only mild public support for the coup, and which to most citizens appeared groundless after the release of the accused.

The mechanical success of the coup, coupled with the lack of popular support for the present regime, has stimulated the imaginations and ambitions of other powerful men. In several ways the atmosphere of instability thus generated undermines the ability of the government to act. (1) Ministers and generals are preoccupied with their personal futures and often make policy decisions on the basis of career implications, rather than national goals. (2) Many good people cannot be used in governmental work. Some refuse to participate because they feel the regime lacks legitimacy, others because it lacks permanence of tenure. Some would be willing to work but cannot be included because of "stains" on their political pasts -- they were associated with Diem, and the new government does not have the public authority to exonerate them; or they were associated with Minh, and the new regime fears to see them in positions of influence. (3) The public, ordinary fonctionnaires, and soldiers are tentative in their response to governmental pronouncements and policies. They wonder if the direction of today will not be reversed tomorrow.

The Viet Cong, on the other hand, are encouraged by GVN instability and exploit it. As captured documents show, the November coup was

foreseen by the VC some months in advance. Concrete contingency plans were drafted and circulated, detailing the military and political measures to be taken when the coup occurred. Though they did not accurately forecast the quickness and character of the coup, the VC still profited from the occasion. Having walked through the exercise once, they will probably do better if given another chance. The forces the VC can commit to exploit a short-term assault on a target of opportunity greatly exceed those routinely in action, and the possible consequences of a second try should, therefore, not be discounted. Meanwhile, the atmosphere of instability in Saigon strengthens VC faith in ultimate victory and gives them the endurance to sustain guerrilla warfare. Even if no coup occurs, the perception of GVN instability is a powerful weapon in the VC arsenal.

The Viet Cong is a skilled, battle-tested enemy, with powerful resources of intellect and men. To meet this challenge, the GVN must operate at peak capacity, not hampered by internal conflict and doubts. The direct support the United States can deliver for the war effort will be largely irrelevant if the GVN cannot effectively deploy it against the enemy. Thus a major conclusion of the team is that the first priority for U.S. action in Vietnam is an effort to reduce the instability of the GVN and improve its effectiveness.

The Prime Minister may strengthen his personal position through manipulation of army commands and police activity. Some actions of this sort are, of course, necessary and inevitable, but as a basic approach it is wrong. It strengthens the regime at the expense of its ability to fight the war. Furthermore, judgment on larger issues is fogged by the very nature of a regime that relies too heavily on authoritarian methods; it was in this way that Diem ultimately foundered.

A better way is to seek popular support. A government that does this is forced to respond to the needs of its people. Thus oriented, it will be far stronger in fighting revolutionary war. The Prime Minister has tried to adopt this approach, but his appeals for popularity have been in the form of public appearances, fireside chats,

and a firm attitude toward fighting the war. These appeals may be of some use, but more effective means are available.

Public opinion in Vietnam will be difficult to move through oratory by a young, untried leader, lacking legitimate accession to power. Better prosecution of the war may build respect, but this is a difficult, long-term effort, with many risks of set-back along the way. And, it is not enough. No one doubted Diem's desire to defeat the communists, but he could not build support for his regime on that plank alone. Just as some Americans observe a struggle between police and hoodlums and do not intervene, the Vietnamese prefer a non-communist victory, but do not identify themselves closely with either side.

We feel, therefore, that one of the most important uses for GVN ability and U.S. aid is to attempt a tangible, meaningful response to popular needs. The government's raison d'être, then, will not rest on prosecution of the war alone, but on its desire and ability to build the public welfare. The principal target for this activity is the urban population, especially the people of Saigon. That city is the seat of the government, its base area in fighting the war, the home of its principal members and of the intelligentsia of the nation. Programs carried out in the city affect the people on whom the government is most dependent. They also affect the group that feels most closely associated with the government and that most nearly shares Western concepts of the proper relationship between government and citizen. Unlike the peasant, who is separated from the central government by a gap that may not be bridged for years, the urban citizen has great demands to make on the government and is the most likely to respond to the government's constructive actions. An inescapable, if unanticipated, conclusion is that the city, like the countryside, must be a major arena for action.

The Security Situation

The war -- its character and status -- significantly affects the program of economic assistance we are proposing in this Report. It is

therefore important to sketch briefly our understanding of the security situation.

One is struck by how difficult it is to define the current security situation in Vietnam. There is no clear line that demarks GVN and VC control. Large parts of the country's area and population are at contest -- that is, neither side can exercise exclusive control. In many areas, both the GVN and the VC carry out certain government functions such as defining property rights, collecting taxes, and organizing the population. In one way or another the VC is active in all the urban centers. Saigon itself is not immune to VC terrorism and tax collection. On the other hand, the VC cannot claim exclusive control of any geographic area or segment of the population. The Ca Mau Peninsula at the tip of the Delta is generally conceded to be under VC control. Nevertheless the GVN, operating from towns under its control, organizes military operations in this area and for short periods extends control over significant portions of the Peninsula. In short, the situation is fluid, and at any given time the assessment of who is winning is at best uncertain.

The current GVN pacification program envisions a "clear-and-hold" operation radiating from areas under GVN control. First, the military clear an area of enemy forces. Then a pacification team moves into the cleared area, and under the continuous protection of the military attempts to root out the "VC infrastructure," set up its own intelligence network, create an effective local administration loyal to the GVN, and provide material benefits to the population.

Clearly this process of pacification is a long-term operation and will only be possible if the GVN can provide a level of security which, when combined with economic and political programs, has sufficient incentives for the population to give active support to the GVN. In the absence of such incentives, individuals will try to withdraw from the conflict so as to minimize their personal risk.

The record so far in implementing the pacification program leaves much to be desired. Adequate security has not always been available.

Implementation techniques are not fully understood. An adequate information program has not been developed to ensure the effectiveness of what has been done. Nevertheless the program has been put on a production-schedule basis, and success is now measured in terms of meeting the schedule. Because GVN prestige depends heavily on this program, it is important to understand the risks inherent in the program as it is now being conducted. The implementation of the pacification program must be improved. At the same time we must recognize that set-backs are inevitable. Part of the problem therefore is to ensure the resilience necessary to cope with a period of trial and error.

The Program

We recommend three basic changes in current U.S-GVN policy in Vietnam:

(1) A major program must be undertaken to expand urban employment and improve urban welfare.

(2) More selectivity must be used in distributing rural benefits in order to concentrate more clearly on influencing the peasants' attitudes and behavior, rather than on their material circumstances; on strengthening GVN political leadership, rather than accomplishing the technical deployment of materiel; and on providing benefits to those who cooperate while denying them to the enemy.

(3) A radically expanded propaganda and informational effort must be undertaken as an integral part of the economic and welfare programs. Present neglect in this area wastes much of the payoff of these programs.

Because of the urgency of the need it is essential to implement these programs immediately. The United States does not have extensive experience on which to draw in designing the required programs, and it is not easy to define those that contribute unambiguously to the primary U.S. objectives in Vietnam. Among other things, we must expect that the VC will respond in unpredictable ways. The approach must therefore be pragmatic in nature: flexibility in program definition and execution

must be maintained; effective programs should be expanded and refined; those that turn out to be more or less unproductive should be discontinued. In brief, the high priority situation that confronts the United States in Vietnam offers no alternative but to proceed. The inherent uncertainties of the situation offer no alternative but to proceed on a flexible basis.

This Report focuses on several major changes in current U.S.-GVN economic policy. Additional thought must be devoted to the specifics of implementation, for desirable programs can be negated by inappropriate execution. We offer a number of program suggestions -- some quite concrete. Hopefully they provide adequate direction and dimension for the major changes in focus that we recommend. They are intended as a point of departure for further elaboration and as an indication of feasibility. We cannot stress too strongly that the design of the over-all program must be flexible so that it will provide and make use of feedback thus achieving improvements in execution through time.

The capability of successfully prosecuting a military operation over a long period of time is fundamental to winning the war in Vietnam. Continued effective GVN control of the towns and cities is necessary if this capability is to be maintained. Urban areas are the basic "oil spots" from which the GVN operates. If these areas remain secure, the VC cannot win. If these areas become insecure, the GVN will not be able to conduct effective military or social programs elsewhere.

The program we recommend is part of a counterinsurgency strategy. It is designed to bolster the urban and rural base of the GVN, to increase its moral stature throughout the country, and to provide an opportunity to demonstrate and improve GVN authority and effectiveness. Such a program would directly contribute to GVN performance in the contested areas. It would impair VC morale by demonstrating that their confidence in GVN weakness and ultimate victory is misplaced. It would enlist greater popular support for the GVN and reduce the effectiveness of VC propaganda in the rural areas. This would diminish the need to conduct uncertain and highly dangerous military operations or

operations that cause suffering among the civilian population but severely damage GVN moral status in the countryside.

Finally, this strategy makes maximum use of our most abundant resource -- the U.S. ability to provide economic assistance on a massive scale. The availability of economic aid is a weapon that is not available to the other side. Dollars are cheaper to us than the additional manpower and casualties that military escalation would involve -- whether this escalation took the form of more energetic military action in the local arena or extension of the war to the north. No economic and social program will win the war by itself. But the program we propose will contribute directly to this end.

The Report's Organization

The Report is organized in five sections. Following this Introduction is a section devoted to urban policies; in this we consider the importance of the urban economy to the successful prosecution of the war and design a program that we believe significantly improves the urban contribution to the war effort. Section III considers the rural sector of the economy. In this we argue for a significant refocusing of the rural affairs program in order to concentrate more directly on peasant attitudes and behavior rather than material circumstances. Section IV considers the economic feasibility of the program suggested in Sections II and III. Section V examines the feasibility of the recommended programs both from the point of view of GVN cooperation and administrative capability and in terms of U.S. actions and costs. The appendixes discuss land reform and the role of youth organizations.

II. A POLICY FOR URBAN AREAS

The Problem

A LOOK AT THE ECONOMIC PROBLEMS and political dangers that confront the GVN in the urban areas of Vietnam today suggests that it is essential to undertake a program that is designed to increase urban employment and welfare, and to stimulate industrial activity. Such a program is necessary to gain and retain support of the urban population, to diminish the political and military vulnerability of cities and towns to VC inroads, and to bolster the self-confidence and performance of the GVN. In our judgment, such a program would substantially reduce the likelihood that the present regime will be faced with a serious loss of confidence, an expansion of urban terrorism, and a "two-front" insurgency in which it would have to fight for existence in its urban base.

Vulnerability of the Urban Base

The source of the present problem lies in large measure in the absence of effective government policies in support of urban economic activity, and in the timidity and inaction that characterize the present GVN. Concern for improving urban welfare and morale has not ranked high on the list of GVN or U.S. priorities in Vietnam. The results, though statistically largely unrecorded, give cause for concern: a high level of urban unemployment, estimated at between 25 and 30 per cent, and perhaps as high as 40 per cent, if allowance is made for partial unemployment; a lack of career opportunities for the

educated youth; and a lack of action on the community improvement and public welfare front to reduce the receptivity of urban slum dwellers to VC propaganda and recruitment. Moreover, a likely worsening of these conditions is indicated by the stagnant state of the economy: declining rates of industrial investment, both public and private, over the past several years, and a particularly noticeable decline after the November coup; a sharp decline in construction activity and an unnecessarily low rate of expansion of output and formation of new enterprise, despite the growth of private savings and the existence of profitable investment opportunities; and finally, economic stagnation and neglect of special development possibilities in Province and District towns that could and should contribute more effectively to the processing, marketing, and distribution of rural products, and thereby incidentally also to higher incomes in the countryside.

All of this adds up to a picture of political vulnerability of large and important segments of the urban population. At one end of the spectrum stand the unemployed, the low-income workers, and the educated youth who see no hope or opportunities for themselves or their children, and who thus constitute fertile ground for VC blandishments. At the other end of the spectrum stand the elites -- the military, the intellectuals, the fonctionnaires and even the businessmen and financiers -- who are increasingly vocal and unanimous in their criticism of what they regard as an inactive and inept government. The result is public apathy toward the present regime and a lack of concern over its survival.

And indeed, the current posture of the GVN can only be characterized as timid and ineffectual. It is unsure as to what policies to follow and unsure that it has the authority to execute them, even if it were certain what to support. It looks to the United States for guidance and assistance, but as regards economic action on the urban front, U.S. advice has been consistently and insistently negative, urging that the GVN's effort be aimed single-mindedly at the countryside. And yet, in contrast with rural programs, those

that might be aimed at the urban population are relatively easy to design and execute, and their impact would be quickly felt. Success in such efforts would provide two important payoffs: increased self-assurance within the GVN and additional support for it within the urban population. The current regime requires more of both if it is to survive and be effective.

What is urgently needed is an expansionary economic policy that is centered on the cities and towns; designed to improve levels and conditions of employment, income, and welfare for important segments of the urban population; aimed at creating an atmosphere of purposefulness and progress and thus dramatically improving the public image of, and confidence in, the regime.

The languishing urban economic activity cannot, of course, be entirely blamed on GVN indifference and U.S. discouragement. Under conditions of protracted insurgency, investor confidence in Vietnam was bound to suffer and industrial growth to be impaired. And in the face of an inundation of the city by new immigrants -- refugees from the north, peasants fleeing the insecurity of the countryside, and rural youths attracted by the magnet of urban excitement -- standards of urban welfare would have been difficult to maintain, even if a major effort had been made. But the fact is that, under the Diem regime, which favored the urban elite, such an effort was not made and, if anything, was discouraged.

Arguments for Passive Policy

The passive policy toward urban areas that was adopted and still continues has been justified on several grounds. It has been argued that in a wartime situation austerity, not affluence, is desirable; that income and welfare disparities between urban and rural areas are a major grievance on which insurgency feeds; that any further expansion of the GVN budget will lead to inflation; and that, because of limited administrative capabilities, expanded urban

programs can be executed only at the expense of more critical rural and military programs. We do not believe that these arguments are valid.

Austerity. It is not easy to see how urban austerity contributes to winning the war. The issue is not what is "proper" under wartime conditions, but what will effectively contribute to urban morale and support of the war effort. Improved living standards and more adequate job opportunities are essential if urban morale is not to be impaired and if the endurance necessary for continued support of the GVN during a long war is to be achieved. On the other hand, if economic expansion results principally in large windfall gains to a few and the ostentatious display of their wealth, the political effects may be negative. The real issue is to design an urban program that will create opportunities and improve welfare for the population at large, and in particular for those whose support matters most.

Peasant "Resentment" of Urban Prosperity. There is no evidence that the mere existence of higher living standards in urban areas is a source of systematic rural-urban antagonism. Peasant attitudes are a function of local circumstances and grievances, such as injustices suffered at the hands of local officials, predatory treatment inflicted by the military, prices too low for farm products or too high for industrial products. It is these issues, not urban-rural disparities or comparison with conditions in the cities, that are emphasized and exploited by VC propaganda. Peasants are unlikely to resent improved living conditions among the urban poor, many of whom have recently come from the countryside and retain close ties to families and friends there. Moreover, increased urban prosperity is itself conducive to rising rural welfare.

Inflation. A persistent preoccupation of U.S. and GVN officials has been the fear that an expansionary economic program would increase the GVN budgetary deficit and, therefore, either aggravate their balance of payments problem, or lead to serious inflation, or both. This concern is unwarranted under present conditions. A program that stimulates employment, and puts more spending power into the hands of

the lower income groups, will lead to increased domestic production. To the extent that rising incomes lead to inflationary pressures, a U.S. willingness to provide the goods necessary to satisfy the increased demand for imports will go a long way toward rendering the threat harmless. This issue is discussed more fully in Section IV of this Report.

Limited Administrative Capabilities. The question of limited administrative capabilities relates not only to the urban program but to the entire package of recommendations we present. Essentially, we believe that the administrative problem of Vietnam is not primarily one of too few able administrators, but one of organization, authority, and morale. The question is discussed in its broader implications in Section V of this Report, dealing with GVN incentives and capabilities. It should be added here, however, that in any case there is no choice: an effective urban program and an effective rural program are both essential to the success of the current pacification and war efforts.

The Program

The objectives of our urban program, stated in their broadest terms, are to enhance the effectiveness and attractiveness of the GVN and to discourage the VC by demonstrating that the urban economy, under GVN leadership, is here to stay. We believe that a basic means toward achieving these objectives is to adopt an expansionary economic policy.

An expansionary economic policy is made possible by the fact that the economy of Vietnam today contains a significant margin of unutilized resources -- underemployed labor as well as idle financial capital which could employ that labor -- and that these resources could be brought into play through appropriate expansionary policies and through efforts to improve the climate for domestic enterprise. The program we recommend includes a wide variety of income- and confidence-generating measures that will stimulate domestic output,

increase employment, and have specific desirable social and political effects. Most of these measures serve more than one purpose; they are interrelated and mutually reinforcing. All are designed to make a direct contribution to winning the war. For convenience in discussion, the measures are grouped into five categories:

- o Measures aimed at urban social improvement, to bolster public confidence in the regime, provide employment, and ease the burdens of urban life for the low-income population.
- o Direct income-increasing measures, to create incentives for particular segments of the population, protect their real earnings, and increase their political support for the GVN.
- o Measures to promote investment in productive enterprise, particularly in the private sector, to raise domestic output, open up new career opportunities and build confidence in the future of Vietnam.
- o Measures to strengthen the interurban economy and urban-rural links, so as to protect and develop the position of towns and cities as centers of GVN strength and control.
- o Measures to demonstrate U.S. confidence and commitment to Vietnam, to strengthen the GVN's own self-assurance and allay popular fears about the continuity of U.S. support.

Details of the program are described below.

Urban Social Improvement

The difficult conditions of life that face the low-income population in the urban areas of Vietnam and, particularly acutely, in the city of Saigon, are in large measure the consequence of a heavy rural-to-urban migration that has proceeded continually for the past 25 years. In Saigon alone, the population has tripled since the eve of World War II, and stands today at 1.4 million. A particularly heavy influx occurred in 1954-1955, after the Geneva partition, when almost 200,000 refugees from the North were resettled in the city. Under these circumstances, the problem of providing shelter, employment, and social services for this growing population has now

become so large, and the threat to the security of the GVN in its urban base so serious, that only a massive, energetic effort will have much effect. At the same time, if such an effort is launched on a sufficiently large scale, and if it succeeds in improving urban conditions perceptibly or merely arousing the expectations of such improvement, we must be prepared for a possible increase, and perhaps even a sharp one, in the influx of migrants from the countryside, attracted by the actuality or the prospect of a better urban life.

If such an increase should occur, it would make the job of coping with the urban slum and insecurity problems more difficult. But such a development would not necessarily be, on balance, politically disadvantageous. A migration out of the countryside into the cities, occurring in response to GVN social welfare action, would be a vote of confidence in the GVN and a political blow to the VC. Moreover, the GVN could respond to the increased migration by intensifying and enlarging its urban improvement program apace. An increased migration is unlikely to occur until the program is well under way and has had some visible effects; once it is properly under way, it will be possible to extend its scope. Still, the possibility that large-scale, rural-urban migration may be stimulated poses problems to which further thought should be given. For example, in designing public information policy for the program, special care might be taken to avoid overselling and arousing unrealistic expectations.

But the possibility that some problems might be created by the success of the program does not argue against undertaking it. On the contrary, it is well to bear in mind that a sudden intensification of rural-urban migration may occur from other causes, such as a deterioration of security in the countryside. The GVN must be prepared to cope with such a problem in any event. For these reasons we believe that the following measures should be pushed vigorously.

A major long-term, low-cost public housing effort aimed at the lowest-income workers and providing at a minimum 10,000 dwelling units per year. Given present housing conditions, especially in Saigon, it is difficult to imagine a program that would have greater social benefits or public appeal than one that offered hope of eventual escape from the squalor of life in the slums. Housing programs have been under discussion, off and on, both in the GVN and in USOM, for the past several years, without more than token action being taken. In the current year, the GVN Ministry of Public Works has a one-time budget allocation of some 600 million VN piasters* out of past accumulated lottery receipts to be spent on the beginnings of a major housing program. Of this, 150 million VN piasters has been reserved for housing in Province towns, the balance for Saigon. The total budget, it is hoped, would make possible the construction of some 6,000 housing units within a year. But the program has not so far been given U.S. encouragement, is getting under way very slowly, and is not set up on a long-term basis. A long-term program is, however, now under development and being discussed within the GVN; considerable thought and planning have already gone into its formulation. To bring this kind of program into being will require high quality USOM planning assistance and firm assurances of U.S. financial support.

The GVN long-term housing program now under discussion is based on the following considerations:

(1) It should be aimed at the category of population listed as "worker-stratum" in the National Institute of Statistics 1962 housing survey. This category comprises 736,000 persons living in 107,000 dwelling units of very low levels of comfort and sanitation, and constituting more than half of the population of Saigon.

(2) It should seek first and foremost to prevent a further deterioration of housing standards by providing enough roof-cover

*Because of the multiple exchange rates for the VN piaster, actual effective exchange rates will differ depending on particular combinations of goods and services being compared. For convenience, and as a reasonable short-cut, we think in terms of an effective conversion factor of 100 VN piasters to the dollar.

to take care of the annual increment in the population which, for Saigon, is estimated at a 2.6 per cent natural population growth, plus a conservative 1.9 per cent projected annual rate of migration from the countryside into the city, for a total Saigon population growth of 4.5 per cent. On this basis, an annual increase of 40,000 persons in the worker category is anticipated, requiring some 6,700 new housing units merely to maintain the status quo, that is, the present level of urban crowding.

(3) An effort must be made to reduce the problem, not just to stay in pace with it. This means upgrading the worst of the present housing, and an eight-year program is advanced for replacing the 26,000 paillotes (bamboo huts) that represent the poorest category of substandard housing. Thus another 3,300 housing units annually over an eight-year period would be required toward this end, for a total program of 10,000 new units each year. At six persons per unit, such a program would provide new housing for 60,000 persons each year.

(4) Rentals charged for the dwelling units should not exceed 400 VN piasters per month, or 10 per cent of the average worker-family income (Saigon workers now expend an average of 7 per cent of their income for rent); thus annual rental income on each of these units would be 4,800 VN piasters. To permit a rate of return of 12 per cent on invested capital (to attract private savings), the dwelling unit must not exceed 40,000 VN piasters in cost. For a minimum 50 square meter dwelling, however, at present and prospective levels of construction technology in Vietnam, the actual construction cost is more likely to be 50,000 VN piasters, thus necessitating a 10,000 VN piaster subsidy -- possibly to be provided through AID-financed imports of U.S. construction materials and equipment.

(5) Acquisition of land appropriate for housing development would pose problems, since areas where land values are low enough and that lie close enough to the city center are not plentiful in Saigon; but two areas immediately adjoining the city (the Thu-Thiem

peninsula and the Thi-Nghe area) are promising. They are not squatter-occupied (a perennial problem), and offer enough usable ground to accommodate a ten-year housing program at the rate of 10,000 units per year.

(6) The program must be comprehensive, in that it must provide for the acquisition and development of the land, including drainage, streets, water supply, power, and sewerage, as well as for the construction of communal facilities, including schools, infirmaries, market places, and recreation grounds. All these are provided for in the GVN plan.

The GVN program sketched out above seems to have considerable promise. Its costs are probably underestimated (800 million VN piasters per year plus a 1.5 million dollar annual U.S. subsidy), and the method of financing will require more careful elaboration. Its quantitative goals may still be too modest, given the size of the problem. But in principle, it is difficult to conceive of a public works project that would have a greater payoff in terms of social benefit and popular appeal, as well as in terms of stimulating domestic production and employment. The domestic building-materials and construction industries would respond quickly to the increased demand, and many thousands of relatively low-skilled workers would obtain employment. Moreover, with some ingenuity and initial U.S. aid, the program could, in time, become self-financing. The experience gained in the Saigon area should, of course, also be applied to Province and District towns as quickly as possible.

Construction of much-needed urban public facilities. While the housing program just described makes its own provisions for schools, infirmaries and other communal structures in the new residential areas to be developed, there is a great need in the existing overcrowded areas of Saigon and other towns for more adequate educational, medical, and recreational facilities. In the educational field, it appears, the needs are especially pressing. Even quite modest-income families must spend relatively large sums on private education for their children, in the face of the insufficiency

of the public education plant. A serious effort to construct minimally adequate primary and secondary schools in Saigon today could, all by itself, grow into a very large public works program with high economic, social, and political returns. Dispensaries, maternity clinics, and other modest health services are also in very heavy demand and an expanded construction program in this area would have desirable consequences. Public parks, sport fields, picnic grounds, and other simple recreational facilities are similarly lacking in Vietnamese cities. Given the squalor of urban slums, attractive open spaces where people can congregate are essential to urban morale. Moreover, such projects can be undertaken quickly, can employ much unskilled labor, and are low in cost.

Programs of community development aimed at urban youth. In the city, just as in the countryside, VC propaganda and recruitment are most likely to focus on youth, students, and young adults, with their quick resentments, underutilized energies, and shallow roots. This is a group in which disaffection would be especially dangerous. We should like, if possible, to mobilize the talents and enlist the energies of these young people toward constructive action that will give them a stake in their community and lessen their feeling of being "at odds." One way is to create or support social organizations that offer recreational and vocational programs designed to give them a sense of participation and involvement. Sport clubs, religious-charitable groups, the military and paramilitary, even business or trade associations may be appropriate for these activities. The main stress should be on self-improvement and self-help projects, and specialized U.S. counsel and assistance would help to get these programs under way.

Direct Income-increasing Measures

The adoption of an expansionary economic policy demands and permits a variety of direct income-generating measures to be taken that are, at one and the same time, desirable socially and invigorating economically. The urban social improvement measures just

described have this dual character. Much more could no doubt be done in the way of programs of public works focused primarily on population groups most susceptible to VC propaganda, providing employment for the unskilled, and improved living conditions for the lowest income groups. All these measures are directly income-increasing and are intended to be concrete expressions of an effective government, having genuine concern for the social welfare of the population.

But just as, in the welfare program described above, it seems desirable to single out important and vulnerable segments of the population for special social action, so in the economic sphere it is necessary to take special measures aimed at particular groups to protect their real earnings, create incentives, and increase their political support for the GVN. Direct increases in incomes may be especially important in the case of relatively fixed income groups that do not share sufficiently in the benefits of economic expansion and that would, in fact, be hurt by the price increases that may be associated with it. In this connection, two income-increasing measures may be particularly appropriate:

(1) Increased government salaries. The fonctionnaire in Vietnamese society is widely disparaged and criticized as being bureaucratic, timid, lazy, ineffectual, and sometimes corrupt. Whether or not these accusations are true, such a state of affairs would hardly be surprising, considering that the GVN civil servant, hamstrung by outdated colonial administrative procedures, has had to eke out a precarious living within a desperately unstable political setting and under conditions of intense job insecurity. His salary has remained unchanged for the past nine years, during which time consumer prices rose by about one-third; his morale is low and his major motivation is fear of losing the precious free housing that goes with his job. The point, however, is that, whatever his shortcomings, he cannot be done away with and the GVN cannot function without him. The real issue now is to provide the fonctionnaire with positive incentives and tangible rewards that will render him

more effective, vigorous, and honest. Undoubtedly this means, in the long run, a thoroughgoing overhaul of the civil service system. But for the immediate present, a modest but useful step would be a substantial increase in salaries, including provision for merit increases, to provide a stimulus to greater competence and performance.

(2) Further increases in military and paramilitary pay, allowances and benefits. Such increases are desirable as a means of improving discipline, prestige, and motivation particularly of paramilitary forces, and of discouraging VC recruitments; they are equally desirable as a quick and administratively simple way of increasing living standards for those (and their families) most directly committed to the GVN side. The benefits from these increases will probably redound more heavily to the countryside than to the city, hence they are discussed more fully in Section III of this Report. But they do illustrate and underline the essential complementarity of our urban and rural recommendations.

Promotion of Investment in the Private Sector

One of the most vital requirements of the expansionary economic policy we urge for the economy of Vietnam is an energetic effort to promote investment in productive enterprise, in the public as well as in the private sector. Investment in plant and equipment, from whatever source, could be a powerful factor in raising urban incomes, increasing employment, and creating over-all confidence in the urban economy. We have already indicated a number of areas for increased investment in the public sector, particularly in the form of urban public works. Because of the indications that there is substantial slack in the economy, and because of the importance of mobilizing the nation's resources and energies to the fullest, equal attention must be paid to the possibilities for investment in the private sector.

In Vietnam, as in most former colonial countries, private investment is not necessarily or universally popular. For a variety

of uncertain ideological and historical reasons, vigorous promotion of private investment may encounter some political hostility. We believe, nevertheless, that the importance of stimulating economic activity in every reasonable way is such as to make this course of action politically desirable. In view of this, we discuss here in some detail whether more private investment can in fact be promoted in Vietnam today, and what measures might be taken to bring it about.

At least four ingredients are required in any economy to bring about private investment on a significant scale: (1) the availability of investable funds, (2) the presence of profitable investment opportunities, (3) the willingness of entrepreneurs to assume risks, and (4) the existence of a climate favorable to private investment.

As regards the first of these requirements, the evidence is inconclusive. Certainly, substantial idle funds are held in private hands. The growth in private savings testifies to that. Of the sharp increase in the money supply during 1963 by some 2.8 billion piasters, 70 per cent consisted of currency in circulation, a large part of which is reported to have gone into hoards. An unprecedented increase in savings deposits (by 1.2 billion piasters) occurred during the year, in spite of the low prevailing interest rate of 1.5 per cent on deposits held less than two months. When the interest rate was raised to 3 per cent early in 1964, an almost embarrassingly large additional inflow of savings deposits of about 1 billion piasters was reported to have occurred within just a few months. But all this means is that there are large idle balances and a high propensity to save and to hoard. But it does not mean that these savings can be easily attracted or the cash mobilized into longer-term investment. In fact, significant impediments to this exist in Vietnam today.

On the second requirement, the existence of profitable investment opportunities, there do seem to be indications that substantial unrealized profit opportunities exist. Many of the new industrial investment projects launched within the past five years, and particularly those in the textile field, have experienced rates of return of the order of 20-40 per cent, and capital recovery in two or three years

has not been unusual. Whether such rates of return would also apply to new investment undertaken today is impossible to determine, but a review of the numerous feasibility studies and "findings" prepared by the USOM Industrial Development Division, Ebasco Services, and the GVN's own Center for Industrial Development suggests that there is no dearth of seemingly attractive investment possibilities waiting to be exploited. In sounding out the Saigon business and financial community, we have found that they share this view.

The fact that there are unexploited opportunities for investment despite the existence of idle savings suggests that there are other important factors inhibiting the development of private entrepreneurship in Vietnam. We believe that much of the fault rests with the unpropitious over-all investment climate that still prevails, despite some GVN efforts in the past several years to overcome this handicap. But the traditional hesitancy of the business community is also to blame.

Impediments to Investment in Vietnam. It is only proper to acknowledge that the Vietnamese capitalist shares with his counterpart in other underdeveloped countries a tendency to confine his money-making efforts to commercial enterprise, real estate ventures, commodity speculation, and foreign trade. By custom and tradition, these have been the preferred investment activities; indeed, in the conditions prevailing in Vietnam -- military insecurity, instability of government, controlled currency, unskilled labor force, limited markets, lack of experience with modern techniques -- it is hardly surprising that Vietnamese investors have shunned the socially more desirable fields of industrial investment, involving higher risks, requiring more advanced levels of technical and managerial skill, and demanding capital over longer periods. The commercial banking system, similarly, prefers a quick turnover and easy liquidity. It has been reluctant to assume the risks of longer-term investment, although, on an informal basis, it does provide short-term loans that can be renewed indefinitely. In short, the banking community and the business community have both tended to work with the same

short time-horizon, and this represents a traditional obstacle to private industrial investment that is only gradually being overcome. The point is, however, that it is being overcome, and that appropriate GVN policies could significantly accelerate the process.

A second impediment to investment, more peculiar to Vietnam, is the special problem of military insecurity. There is no doubt that, in some measure, the rural insurrection and the consequent vulnerability of the transportation and communication nets create uncertainties and pose special risks for the investor that are not present elsewhere. Moreover, in some cases special security provisions must be made (plant protection, supply convoys, and the like) that raise costs. On the other hand, looking at the general conduct of industrial activity in Vietnam today, we do not get the impression that this activity is in fact directly hampered by the war. Industrial installations appear to operate without interruption and instances of Viet Cong molestation are trivial. The problem of military insecurity appears to be much more a psychological than an actual hurdle. And it is strongly reinforced by the over-all uncertainty in the business community concerning the long-term viability of the nation. Again, by concretely expressing their confidence in the future of the economy, by adopting a policy of general economic expansion, and by instituting some special measures to reassure and protect the investor, the United States and the GVN jointly could do much to surmount this obstacle.

As regards foreign investment in particular, the flow of venture capital into the economy of Vietnam is probably more seriously impeded by the existence of increasingly attractive investment opportunities in other Southeast Asian countries. The fact is that, from a foreign investment point of view, Vietnam finds itself today in competition with a number of countries -- the Philippines, Taiwan, Hong Kong, Thailand, and even Malaysia -- that have gone all-out to woo the foreign investor. These countries pose less of an apparent security risk. In order to be able to compete effectively with these countries for the scarce investment dollar, Vietnam would have to offer an exceptionally inviting investment climate. To date, unfortunately, the GVN's efforts in this direction have been inadequate.

Improving the Investment Climate. On the face of it, it may seem unjust to criticize the GVN for harboring inhospitable attitudes toward the private entrepreneur. Indeed, the government has taken certain measures in recent years that improve the feasibility of private investment -- simplification of import procedures and of the multiple exchange rate structure, creation of some medium-term loan-granting institutions, promulgation of a liberalized investment law, establishment of a special industrial zone for the location of new plants -- all these testify to some recognition that legal and institutional provisions were necessary to create an environment that the private investor would find tolerable. The present regime, moreover, has declared its willingness and intention to go further in this direction.

But side by side with this limited encouragement of private capital, the regime also exhibits, through many of its actions and concerns, an attitude of suspicion and mistrust toward the entrepreneur and his motives, and a hostility toward high profits. In addition, it has difficulty in resisting the familiar urge to want to steer, manage, and control all facets of the economy from the center, even though neither statistics nor administrative cadres are available toward that end. It has inherited from the Diem regime the tendency for large enterprises to be owned by the state. The list of industrial enterprises that are mainly or entirely in the public sector is a long one. Finally, and most unfortunately, there is a virulent hostility of long standing against the vigorous entrepreneurial activity of the local Chinese community, which led the government in 1956 to decree the legal exclusion of these "aliens" (though long settled in Vietnam and now Vietnamese citizens) from any further investment in most branches of commerce and transportation.

All this adds up to an image of a highly ambivalent GVN attitude toward private investment: at its best, it is tolerant; at its worst, harassing. The fact is, however, that the foreign investor will not be attracted to Vietnam, nor the domestic investor induced to disgorge his savings, on the basis of toleration or harassment. On the

contrary, in the circumstances of Vietnam today, the entire potential investor community must be actively courted and enticed and a deliberate effort made to create the kind of climate in which old suspicions are erased and new confidence is built.

What, specifically, can the GVN and the United States do to bring about this change of climate?

Necessary GVN Actions. (1) Recognize the indispensable role of profits. Nothing is more fundamental to the creation of an improved climate for private investment than for the GVN to persuade itself that profits accruing to the investor are not sinful gains, but the necessary reward for risk-taking. The greater the risk, the higher must be the reward -- and risks in Vietnam today are not small. If the GVN can bring itself to accept this fact of life and can signal to the business community its willingness to adopt a permissive and, indeed, an invitational attitude toward profits, an important step toward creating investor confidence will have been taken. In fairness to the GVN, it should be pointed out that its past anti-profit bias was in some measure an expression of its social conscience. To have permitted large private profits to be earned by the wealthy few while nothing was being done to improve the social welfare of the mass of the people would have been viewed as immoral and could have been politically dangerous. In the present context, however, the program we are trying to urge would encourage private profit-making and simultaneously set in motion major measures to improve social welfare. In such a context, these conscientious objections lose much of their force.

(2) Reduce administrative barriers. Hand in hand with a more permissive attitude toward profits, the GVN must adopt some badly needed reforms to eliminate the cumbersome administrative barriers to investment and private economic activity that now exist. A would-be entrepreneur in Vietnam must apply for at least six licenses merely to put up a plant, additional licenses to import raw materials, equipment or technicians, and a licence to make foreign payments. He must make elaborate applications and file interminable reports

in order to become and remain eligible for benefits under the investment law. His economic calculus is too rigidly and completely determined for him by a government which not only fixes the allowable mark-ups, but also imposes profit ceilings. And for each step of the way the entrepreneur must obtain multiple approvals from a variety of government agencies and committees ill-equipped to make intelligent and efficient decisions. Not only does this system impose an impossible administrative burden upon the government, but it is also demoralizing in that it invites illegality and venality. If the GVN could bring itself to make radical simplifications in its complicated administrative procedures, to eliminate some of the more burdensome restrictions, to streamline the import licensing process, particularly for the small producer, and to reduce the element of arbitrariness in its public control, it would go a long way toward removing the doubts and frustrations that now discourage the growth of the private sector.

(3) Revise the present investment law. The Investment Decree Law No. 2/63 of 14 February 1963 contains many excellent and liberal provisions covering tax privileges, exemption from customs duties, accumulation and use of reserve funds, repatriation of capital, and the like, for all new domestic and foreign investments. Its fatal flaw, however, is that the detailed implementation of these provisions and the continued eligibility of an enterprise to its benefits is left to the arbitrary decision of an "Investment Commission" composed of some ten ministers or ministerial representatives. This has introduced an element of uncertainty and political maneuver into the application of the law that has essentially vitiated its usefulness. The function of the Investment Commission should be confined strictly to the approval or disapproval of the original investment application. Once the application is approved, the investment advantages provided by the decree law should apply automatically for a given period of years, say, until the end of the second year of full-scale production of a new enterprise, when a review of its status would be undertaken. Such a provision would remove the large element of uncertainty that

now prevails, and that has discredited the present law in the eyes of the business community. The Vice Premier for Economic and Financial Affairs has indicated a keen interest in eliminating the present weaknesses of the law and has requested U.S. assistance in drafting appropriate revisions.

(4) Establish a war-damage insurance scheme. Given the uncertain and unpredictable nature of the security threat in Vietnam, there is a real need for an insurance scheme that would protect the private domestic investor against day-to-day and extraordinary security risks that he may have to face in carrying out his economic activity. Such a scheme would extend to the domestic investor the same kind of guarantee against losses from war damage that is now available to American investors in Vietnam under the U.S.-GVN Investment Guarantee Agreement in force since 1957. Under this agreement, American firms or individuals may cover their investments in Vietnam, whether in the form of cash, materials, equipment, structure, patents or services, against losses from war damage for a premium rate of 0.5 per cent per annum for a maximum term of 20 years, by entering into a guarantee contract with the Export-Import Bank of Washington, acting as agent for the Administrator of AID. To extend such a guarantee to the Vietnamese domestic private investor, a similar arrangement might be set up. Whether this be in the form of a private or mixed private and public insurance company backed up by a government guarantee, or whether it be in the form of a direct government guarantee fund, the scheme should be voluntary, should charge a premium for its coverage, and should be flexible enough to protect investors against a variety of hazards, including both the every-day risks of loss from insurgency and the special risks to which they may have to be exposed from time to time. In order to create the kind of investor confidence desired, in any event, the fund or insurance scheme would have to be further guaranteed or underwritten by some kind of U.S. contingency commitment.

(5) Reform and strengthen the Industrial Development Center (IDC). The Industrial Development Center was established by the GVN as a service organization in 1957 for the purpose of providing informational

and promotional assistance to present and prospective domestic and foreign investors in Vietnam. Since that time, however, it has acquired a bewildering array of additional responsibilities that have placed a heavy burden on its leading personnel and have made it impossible for IDC to carry out any of its functions effectively. In addition to its original and, in our view, its most vital function of helping the industrial investor and promoting small-scale industry, it is engaged, half-heartedly, in development banking (granting medium-term equipment loans to large- and small-scale industries) and in import financing; has made equity investments in a number of mixed corporations; has been charged with supervision of the management of 15 enterprises confiscated by the government; has developed and set up a major industrial park near Saigon; and acts as Secretariat and Rapporteur for the GVN's Investment Commission. In this latter role, particularly, it has complicated functions that require it to act, in relation to a potential investment project, as a combination counsel for the petitioner, court clerk, and parole officer. Moreover, far from seeking to curtail its activities, it is now engaged in enlarging its police functions by setting up a Business Control Service to audit the books of its borrowers and the performance of enterprises "approved" for investment benefits.

Given such a proliferation of activities, it is hardly surprising that the IDC's vital function as an industrial investment promoter has languished. The surveying and elaboration of potential industrial projects, undertaken on a modest basis last year, came to a virtual halt in 1964. Preparation and publication of badly needed educational and promotional literature are proceeding very slowly. The entire Project Advisory Service of IDC is hampered by shortage of qualified personnel and diffusion of effort. And yet it is in this area of industrial surveys, market surveys, and investigation of investment opportunities that IDC, with the help of U.S. technical assistance, could make its most effective contribution.

But if IDC is to fulfill this function, it must divest itself of at least some of the more demanding secondary functions it now performs.

One way of doing this would be to set up entirely new organizations to take over some of these functions, as was done with IDC's activities in establishing industrial parks, when a specialized organization, SONADEZI, was created for that function earlier this year. Or some of IDC's responsibilities could be turned over to other agencies. Its management role in relation to the 15 confiscated enterprises, for example, could be taken over by the National Bank or by the Secretary of State for Finance; and its sundry equipment-financing activities could be just as effectively carried on by a private development bank, a role for which SOFIDIV was originally formed and which it could now still be made to fill (see below). In short, IDC should concentrate its full attention on its primary promotional task of encouraging and facilitating the industrial development of Vietnam, a task to which U.S. technical assistance could lend significant support.

(6) Revitalize SOFIDIV as a development bank. The Société Financière pour le Développement de l'Industrie au Viêt-Nam (SOFIDIV) was set up by a consortium of private banks in 1961 and was slated to become, with the help of U.S. and GVN financial assistance, a full-fledged private development bank devoted to stimulating the private sector of the economy. However, shortly after its formation, the military situation in Vietnam deteriorated, and the U.S. financial resources that had been promised for SOFIDIV were diverted to other uses. The GVN also had a change of heart, and the funds it had intended to transfer to SOFIDIV were instead left in the hands of the IDC to be used for financing import loans for industrial equipment. This left SOFIDIV grossly underfinanced, its resources being limited to its own capital of 200 million piasters, plus a fund of 100 million piasters provided it by the GVN, but usable only for equity participation, not for lending. Among Vietnamese entrepreneurs, however, joint ventures with banks, particularly where government capital is involved, are far from popular; SOFIDIV's government piaster fund, therefore, is not in great demand.

For all practical purposes, then, SOFIDIV is now defunct. To revitalize it, what is needed above all is a recognition by the GVN

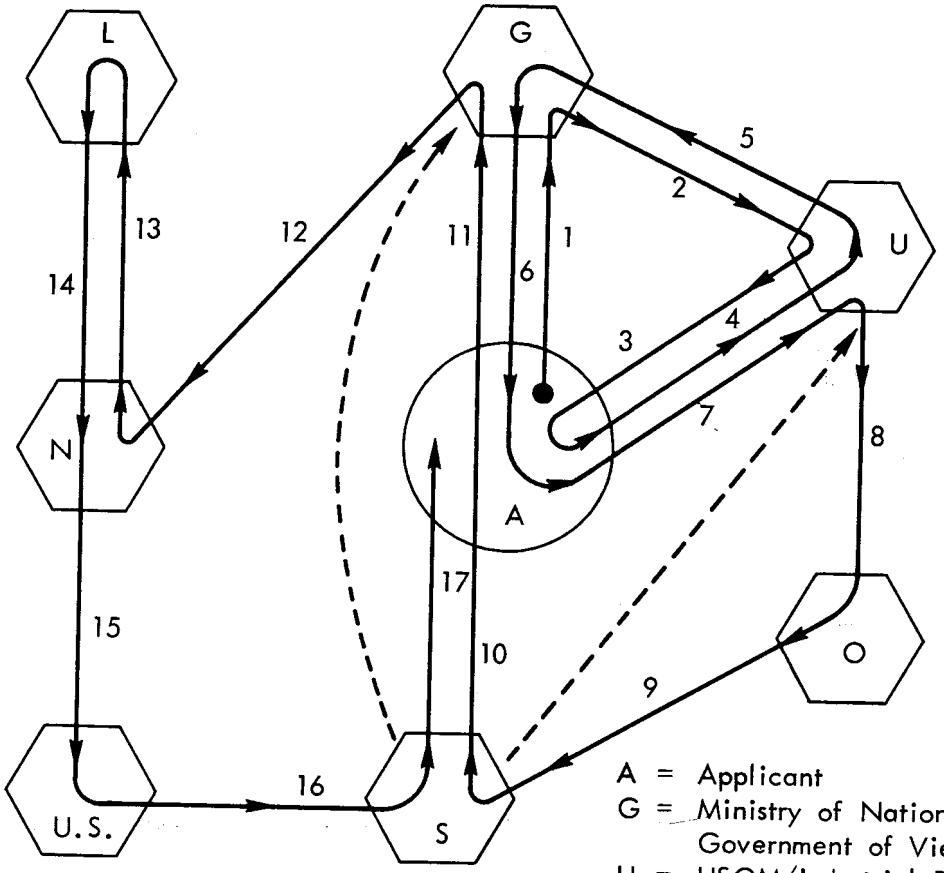
that this institution can be a valuable catalyst for investment in the private sector. It cannot serve as an administrative device for handling the government's own investments, but it has an important private development banking role to play, and this role can serve the GVN's own interest. The meager lending activities of IDC need to be supplemented, and perhaps largely supplanted by a specialized organization that is explicitly development-banking oriented. But to fulfill this role, SOFIDIV's lending capacity must be substantially shored up. To this end, the GVN should provide the long-term low-interest loan of 200 million piasters which SOFIDIV has long requested and which would enable it to launch its program of medium-term lending to industrial investors. For such loans, SOFIDIV believes there is a lively and immediate demand. What additional loan capital SOFIDIV may eventually require and whether there is a real need for a USAID dollar loan to SOFIDIV (which has been much discussed), is difficult to decide at this time. The main issue at the moment is to get SOFIDIV into operation as the development lender it wants to become. It should be given an opportunity to show what it can accomplish.

Necessary U.S. Actions. Basically, the role of the United States in bolstering the GVN's effort to improve the investment climate in Vietnam is to lend encouragement, advice, and assistance to this effort. But perhaps the most important influence on the climate for private investment in Vietnam that the United States could exert would stem from the adoption of the urban economic program as a whole, along the lines recommended here. An important immediate aim of our urban program is to strengthen the GVN's own self-confidence and to allay its fears about the continuity of U.S. support. By demonstrating concretely that the United States has confidence in the future viability and success of the economy of Vietnam, this program could not help but give a powerful boost to private investor confidence as well. We believe that the potential investor community would respond well to such a psychological lift.

In addition, there are, of course, many ways in which the United States can lend direct assistance and advice. Some of these were

alluded to above. The GVN badly needs, and seeks, help in revising its investment law, in strengthening its development lending and promotional institutions, and in setting up a war risk insurance scheme. It also has ideas of its own for establishing new financial institutions and instrumentalities (a securities market, a savings and loan association) that have not been well thought through. On all these, AID can easily supply expert advice, but in view of the complementary nature of the various reforms and institutional changes that are contemplated, there is a good case here for sending a small, select team to look at the entire investment area comprehensively, rather than sending individual advisors on specialized parts of the problem.

There is also a need for greatly strengthening and improving the functions of the USOM Industrial Development Division (IDD) whose procedures appear to us to be mechanistic and cumbersome, but whose role in the investment process of Vietnam is a powerful one. For an indication of the labyrinthine steps that a would-be investor must now follow if his investment requires the importation of U.S.-financed equipment, see Fig. 1. The process is no doubt inherently complex, but one might hope that, to the extent possible, IDD would seek to ease rather than reinforce the GVN's bureaucratic procedures. Moreover, IDD's efforts should be aimed more at "working itself out of a job" than at expanding its activities; that is, it should try to divest itself as much as possible of functions that the GVN itself should properly perform. For example, IDD presently makes most of the technical and financial "feasibility" studies on investment proposals that are submitted to the GVN. The Ministry of National Economy and its Industrial Development Center are the proper agencies to undertake this function and their capabilities to do so should be energetically upgraded. Thus IDD should throw its full weight into the task of improving the industrial survey and analysis skills of these GVN agencies and enlarging its now minute management training activities. This will call for a major training and technical assistance effort, and a substantial program toward that end should be developed.



A = Applicant
G = Ministry of National Economy/ Government of Vietnam
U = USOM/Industrial Development Div.
O = Office of Small Business/Washington
L = Applicant's Local Bank
N = GVN/National Bank
U.S. = U.S. Bank
S = Supplier

1. A applies to G
2. G sends applications to U for review
3. U contacts A for info
4. A supplies necessary info to U
5. U send applications back to G, with comments
6. G advises A of O's requirements
7. A contacts U for assistance on specifications
8. U sends specifications to O
9. O distributes specifications to S
10. S sends offers to A, and copy of offers to G and U for info
11. A contacts G about choice
12. G advises N of approval
13. N informs L about purchase authorization
14. L informs N about letter of credit
15. N informs U. S.
16. U. S. contacts S
17. S ships equipment to A

Fig. 1—Aid-financed import of industrial equipment to Vietnam

Finally, there are some measures that might be taken to encourage U.S. private investment in Vietnam. For example, the United States has had, since 1961, a Treaty of Amity and Economic Relations with Vietnam which provides some reciprocal tax, customs, and foreign exchange concessions to the two countries. These benefits could be significantly enlarged by entering into a Tax Treaty, along the lines of the recently drafted compact between the United States and Thailand. But beyond this, there is certainly a strong case for looking more comprehensively at the entire question of how greater U.S. and international private participation in the economy of Vietnam could be brought about. Perhaps this is the kind of problem that could be presented for consideration to the AID Administrator's new Advisory Committee on Private Enterprise in Foreign Aid. Because of its broadly representative character, an exploratory visit by this Committee to Vietnam might in itself have some positive psychological effects in Saigon, extending beyond the business community.

The Interurban Economic System and Urban-Rural Links

An important aim of urban economic policy should be to protect and develop the position of towns and cities as centers of GVN strength and control. There are possibilities for this that have not so far been adequately exploited.

It must be recognized that what is now the economy of South Vietnam still bears the marks of having once been primarily an agricultural area, complementary to an emerging industrial sector in the North. The urban areas of South Vietnam were principally market centers for the surrounding agricultural area, and their economic activity was closely related to that role. Nevertheless, in spite of this agricultural market role of cities and towns, there has been little growth of industries that process local raw materials and agricultural products.

The transformation of these market centers into industrial towns has languished for at least two reasons: Saigon, being the only real port of entry for most foreign trade, and benefiting from the influx of an experienced urban population from the North, has tended to monopolize the industrial role for itself; and the lack of security in the countryside has impaired the overland communications and transportation net and has discouraged dependence on sources of supply outside of Saigon. Hence both the development of efficient inter-urban economic links and the creation of an effective economic nexus between town and countryside have been held back. We believe that the GVN can and should adopt a number of measures to strengthen these links.

(1) Develop secure coastal transportation. A considerable number of the most important towns in Vietnam lie along the seacoast or have direct access to the ocean, including Da Nang, Nha Trang, Phan Tiet, Saigon, Rach Gia, and Ha Tien. In many of these, productive activity is hampered by the insecurity of overland transport. Large portions of the railway net have been abandoned and service on the Saigon-Hue line is maintained with difficulty in the face of constant bombing and harassment; canal traffic also is often taxed or controlled by the VC. There would seem to be a strong case for exploiting the superior security position of the coastal towns by providing them with an ability to use ocean routes for transport, as an alternative to the more vulnerable inland rail and canal routes. One illustrative example is the new multimillion dollar Ha Tien cement plant which must now ship its clinkers across the Delta to Saigon in convoyed canal barges under costly military escort. If a three-kilometer channel were dredged out into the Gulf of Siam, the shipments could travel in unescorted coastal barges along secure ocean routes.

(2) Develop banking and credit institutions in Province and District towns. The commercial and development needs of urban communities outside of Saigon are, today, almost totally unserved by any modern banking or credit facilities. Of the thirteen commercial banks operating in Vietnam, ten are branches of foreign

banks with offices only in Saigon and interested almost exclusively in foreign trade transactions. Of the three Vietnamese banks, only one (Credit Commercial) is not overwhelmingly Saigon-oriented. But only five towns outside of Saigon today enjoy any commercial branch bank service. If there is any hope of expanding local small-scale industry and handicraft production, local access to credit on favorable terms must be drastically improved. A revitalized SOFIDIV should undertake, as its first order of business, a thorough examination of how the resources of its member banks could be more effectively brought to bear in Province and District towns. Alternatively, it may be possible to expand the activities of the National Agricultural Credit Office (NACO) to serve some of the needs of small producers in these towns. In any event, the National Bank of Vietnam should review the incentives and instruments of persuasion it has in its arsenal to induce the financial system as a whole to serve more adequately the credit needs of the provincial urban economy.

(3) Improve processing and marketing of rural products. In the past few years, considerable attention has been given, both by the GVN and by USOM/IDD, to the establishment in Province towns of processing plants and the development of cottage industry based on the raw materials of agriculture, forestry, and fishery. Modernization and motorization of the fishing fleet and establishment of fishery co-operatives, for example, have already expanded output substantially. Similarly, the development of silkworm and bee culture is an important step in the right direction. But these efforts are proceeding too slowly and with very limited resources. Much more can be done to improve the ability of towns to serve the countryside and to increase both rural and urban incomes by expanding the range of small-scale processing industries to be developed and by setting up better marketing and distribution facilities in these Province towns. Artisan sawmills for the logging industry; small pulp and paper mills for fiberboard production; edible oil processing to serve the peanut and citronella-growing regions; vegetable, fruit, and shrimp packing and freezing plants in cities such as Dalat and along the seacoast; all these are simple industrial activities that can be relatively quickly

established if private investment resources are channeled toward them. They would not only provide jobs and income for the rural population, but also create additional opportunities for the interchange of goods and services between town and countryside.

Demonstration of U.S. Confidence and Commitment

An important immediate aim of U.S. urban economic policy in Vietnam must be to strengthen the GVN's own self-confidence and to allay public fears about the continuity of U.S. support. In order to encourage the GVN to act vigorously and to solidify their public support, we must remove present doubts about the enduring nature of the U.S. commitment. In their view, these doubts are well-founded, and they will not be easy to resolve. But some action in this direction can be taken quickly by the United States, in the form of a series of concrete projects of unmistakable significance. The effectiveness of these projects will depend in large measure on their skillful exploitation from a public information and propaganda point of view. Much of their political value would be lost if they were announced and undertaken without some political flair and a sense of drama. The specific projects suggested below are intended to be illustrative rather than definitive. They are thought of as gestures and their ultimate size or scope is not a matter of great consequence. What counts is that a sufficiently impressive set of programs be announced and promptly begun. These projects might include:

(1) Construction of an appropriate U.S. Embassy Building in Saigon. The present converted facility is grossly inadequate to the size and nature of the U.S. mission today, and the mission is growing. The point, however, is not the need for a permanent facility, but the need to symbolize the permanence of the U.S. presence in Vietnam. The significance of a U.S. decision to build an adequate representational structure would not be lost upon the government, the population, or the VC. Moreover, it would provide attractive opportunities for continuous informational exploitation, keeping the project in the public eye from the moment of its announcement to the final ceremonial ribbon cutting.

(2) Dispatch of a long-range planning mission. To broaden the content and underline the permanence of the U.S. commitment, it may be desirable to stress the U.S. concern with putting the economy of Vietnam back together after peace is reestablished. To this end, the United States might organize, on a technical assistance basis, a long-range planning mission to assist the GVN in focusing on a 10- to 15-year development plan that would examine the distortions being imposed on the economy by the war effort and concern itself seriously with the distant problem of the ultimate reduction of U.S. aid and the building of a self-sufficient, viable economy. As part of this effort, the mission could take on the useful task of assisting the GVN in reorganizing and consolidating the now uncoordinated and diffuse statistical services that have undertaken a plethora of surveys, censuses, and studies, mostly at cross purposes. This would be in itself a substantial contribution to future GVN economic management and planning, and therefore to Vietnam's economic development. But the purpose of undertaking the mission would not be economic development as such, but to give expression to U.S. concern for and confidence in the future success of Vietnam.

III. A POLICY FOR THE COUNTRYSIDE

Objectives

WHAT DO WE WANT from the peasant?

As a civilian, we want him to cooperate actively in the pacification program -- to provide intelligence about VC operations and agents, to exert social pressure on fellow villagers with VC connections, to accept administrative responsibilities in executing GVN programs -- and we want him to resist, where he can, the instructions and tax levies of the VC.

As a soldier, we want him to join the GVN ranks with good will, to fight with good spirit. We hope he will resist VC recruitment, and we hope to cut away the motivations that might render him devoted to the VC cause.

Our rural program must be designed to stimulate the desired responses in the individual peasant. But individuals, even with the best of intentions, will be ineffective unless they act together, unless they reinforce each other by shared values and community of interest. They need organization and they need both moral and administrative leadership. Our program, therefore, must lay equal stress on building social cohesion and GVN administrative capabilities in the rural areas. We must focus on the body politic as much as on the individual peasant.

And in carrying out the program, we must guard against providing material resources to the VC.

These may be desirable objectives, but can they be realized through the means considered here: economic, political, and social

programs? The limitations are serious. Economic and political motivations are essential for enlisting the support of the population, but in themselves they can seldom move unprotected individuals to risk death or bodily injury. Thus security is an essential ingredient for obtaining the desired behavior from unarmed civilians. We can hope to enlist their active cooperation if they are protected, but not if they are subject to VC retaliation. Only where military operations reduce risks for civilians to tolerable levels will non-violent stimulus be effective. A similar duality holds true if the morale of the contending forces is to be influenced. Morale is strengthened both by military success and by the justice of the cause. To improve GVN morale, and sap that of the VC, the GVN must build a society worth defending and present an image of governmental rectitude that robs the rebellion of its moral force. At the same time, the GVN must show itself militarily able.

Clearly, the military and social-economic programs are interdependent. Our program for the rural areas is intended to complement a particular military approach, known as "clear-and-hold." We proceed on the assumption, therefore, that clear-and-hold is in fact a viable strategy: that, at the least, a significant portion of the countryside will remain permanently and securely under GVN administration; or, if the secure area is at present trivial, that significant and reliable expansion will be made. Under the clear-and-hold concept, an especially important role is played by social and economic policies in the secure areas:

(1) They are intended to produce a particularly desirable way of life. In this way, the secure areas demonstrate to the rest of the countryside and to the soldiers of the contending sides the quality of life GVN administration can provide.

(2) The immediate material stake of the peasant, his family, and the community in the superior conditions of the secure area will motivate him to take an active part in its defense. He will become a source of intelligence on VC activities both within and beyond his village; he will call home his sons from the VC, and he will fight in the hamlet

militia. While a feeling of security is essential to enlisting his participation, the response, when evoked, in turn promotes the military cause and makes security easier to extend and maintain.

Clear-and-hold is the strategy formally adopted by the GVN, with U.S. concurrence. It is, we agree, an imaginative and highly constructive approach to counterinsurgency. It is also, however, a very demanding one. For in contrast to a relatively mechanical approach -- "population control," "quadrillage," and so on -- it attempts to influence social behavior in a much more complex way, enlisting the active, voluntary participation of the peasant in the counterinsurgency effort. Under Vietnamese conditions, where both contending sides are indigenous, the approach undoubtedly has a feasibility not present elsewhere. Given the geographic extent and organizational and military strength of the Viet Cong, success may well be possible only through such active peasant support. But the difficulties of motivating a peasant society to this degree of involvement should not be understated.

General Policies

Present policy toward the rural areas is characterized by a diversity of concept and approach. So far as we have been able to discover, no authoritative doctrine or document gives the kind of guidance necessary to develop a unified, mutually supporting set of programs. As a result, the views of individuals within USOM differ with respect to fundamental principles. As the over-all rural program is developed on the basis of suggestions from many sources, its parts reflect this diversity of view. They are not always consistent with each other. Some seem to us misguided.

An Approach We Oppose

It would be difficult, and no doubt is unnecessary, to identify the different views. One issue, however, is central to the rural program and requires discussion here: the distribution of the program between the contested and the GVN administered areas. At one end of the spectrum

is the opinion that the program and its benefits should be made available, so far as possible, to the whole of the countryside, contested areas as well as secure. This view was given as part of USOM strategy in FY 1964* and found concrete expression in the attempt begun earlier this year to distribute fertilizer under subsidy throughout the countryside. The rationale, in its simplest form, is that rising incomes and tangible evidence of GVN concern for all rural citizens will alleviate social grievances and generate "a sense of loyalty between the little peoples of the country and the Central Government in Saigon."** In fact, of course, GVN programs are hard to carry out in contested areas, and in practice discrimination in favor of the secure is inevitable. Nevertheless, if the principle of non-discrimination is accepted, ingenuity and effort will bring it to life. We have several criticisms of this approach as it applies to the contested areas.

A program that produces a significant rise in income in contested areas will also become a major source of material support for the VC, by increasing its tax base. The VC needs tax revenues to carry on the war, but they are limited in the rates they can impose by peasant resentment of excessive burdens. At present, tax levies are perhaps the most important irritant in relations between the VC and the peasants. If peasant incomes rise, however, the tax levy can also rise without increased resentment. Captured documents describe the efforts made by the VC to increase production in their areas in order to reduce this source of grievance and raise the tax base. It hardly seems appropriate for us to join them in this effort.

If living conditions are similar in the GVN and contested areas, the peasant will have no strong preference between them. He may be aware that the GVN has produced an improvement in his standard of living, but it is equally likely that he will have no clear notion of the origin of this improvement. In either case, he is unlikely to be moved to an active role on the GVN side by a reciprocating sense of

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*Agency for International Development, Country Assistance Program, Vietnam, Part I, Washington, D.C., August 1963, p. 27 (Secret).

**Ibid., p. 2.

loyalty. There are centuries of experience underlying his skepticism of central authority, and we can hardly expect a sudden reversal now, in response to a brief display of good government. In contested areas, the risk of VC reprisal will surely not be offset by devotion to the government. Furthermore, blurring the distinction between life in GVN and contested areas will undermine his incentive to act even when pacification has greatly reduced that risk. He will be stimulated toward non-involvement, rather than commitment.

Raising income in itself may have little direct impact on the insurrection. Although there is, no doubt, an important economic component to the social malaise exploited by the VC, it is a complex one. There is no simple inverse relation between income levels and VC strength. Some of the richest provinces, such as Long An, are most responsive to VC penetration and recruitment. Social injustices -- exploitation by avaricious landlords and moneylenders, or mistreatment by government officials -- are undoubtedly more important, and these can occur at every level of income. Although large increases in income may not act directly on such grievances, they might alleviate tensions; but modest improvements of the kind that might be accomplished now need not have this over-all salving effect.

Wholesale programs in contested areas leave too many options to the VC. As matters now stand, they are interpreted to the local populace by VC rather than GVN propaganda. In many cases, the VC can take direct action to frustrate or distort their outcome. A new bridge may be destroyed; the GVN teacher in a new school may be intimidated into remaining mute or even into disseminating VC propaganda; a program of pest eradication may be explained to the peasants as an exercise in biological warfare. Positive results may be obtained by certain programs in contested areas, but they must be carefully selected, which also no doubt means they should be modest in scale.

Recommended Criteria for Policy Making

Below are some general guidelines for designing a program to accomplish our stated objectives. They describe a basic approach to the problem. It should be possible to elaborate and improve them. Indeed, a major finding of our mission is the pressing need for a better understanding of Vietnamese rural life as a basis for policymaking.

Meanwhile, we think of policy choices as limited by at least a few very basic peasant values: his allegiance is to his family, in lesser degree perhaps also to his immediate community. Under special circumstances, he may have a strong positive commitment to a larger community or more distant leader, as in the case of religious sects and ethnic minorities. Aside from this, his attitude toward strangers is mildly xenophobic, literally with respect to foreigners, figuratively with respect to fellow countrymen from beyond his locality, including soldiers and representatives of the central government. For practical purposes, basic changes in this fundamental outlook cannot be expected. Events might have the effect of strengthening (or neutralizing) the peasant's ties to his neighbors, but not, for example, of raising them to the importance of his allegiance to his family. Similarly, he may be moved to benevolent neutrality (or strong hostility) toward foreigners or the central government, but it is generally unlikely that he will feel a powerful positive bond in this direction.

The task of policy, then, working within these limitations, is to structure circumstances to produce a causal sequence, that the peasant understands, between the values he holds and the behavior desired from him -- active support of the counterinsurgency. If he is attached to his parents, it must be made possible for him to benefit them, or at least minimize the loss to them, when he is participating in the counterinsurgency, and so on. The following recommendations stem from this approach. They are general policies. Suggestions of concrete measures through which these policies might be put into action are presented later in this section.

(1) Material benefits should be concentrated in the areas securely under GVN administration, moving outward with the pacification teams.

It is important that the connection between GVN administration and the availability of benefits be made clear. This must be done in part through explanation and propaganda, but the impact will be slight unless there is also correspondence in time and place.

By limiting the benefits to GVN areas, the peasant is given a personal stake in accepting and defending GVN jurisdiction over his locality. He is not expected to act out of loyalty to the government, but in defense of a better way of life. If the GVN administrators are driven out, the benefits will be sacrificed. As this is true not only for the individual, but for all members of the community, a basis is laid for consensus, for the mobilization of social attitudes. Joint action in defense of the community interest is facilitated, as is the kind of moral conviction within the individual necessary to so many parts of the pacification effort: giving information on neighbors with VC sympathies or connections; bringing pressure on VC guerrillas through family members within the community; providing intelligence on VC operations; participating in the hamlet militia or Self-defense Corps; acting for the GVN in the village or hamlet administration.

To be worth defending, the quality of life must be markedly superior. This is a reason for providing a large flow of benefits in GVN areas, but for restraining their availability in contested areas. It is not so much the absolute level in GVN areas, but the difference in level that counts. Pacification demands involvement by the peasant. Although he desires the security it is intended to provide, his natural preference is to avoid personal participation. For him, pacification entails risks and costs as well as benefits. To enlist him actively, the game must be worth the candle.

When is an area secure enough to receive benefits? This question recalls the more fundamental one raised earlier -- the viability of clear and hold. The strategy relies on the feasibility of distinguishing between secure and contested areas and of transforming contested areas into secure ones. For present purposes, it is sufficient to relate the social-economic program operationally to the larger strategy of clear and hold. Benefits should be made available to communities

as the formal pacification process begins and also to those communities considered so secure that no formal pacification procedure will be undertaken. For all others, including those considered essentially responsive to GVN administration but slated to undergo formal pacification to eliminate residual VC influence or threats, benefits in the large should be delayed until the pacification teams arrive, unless there are compelling reasons to the contrary. This is intended to increase the receptivity of the community to pacification and to underline the relationship between benefits and pacification. More important, it is intended to combat the natural tendency of the community, its leaders and members, to compromise between submission to the GVN and the VC. We are seeking to overcome non-involvement through passive compliance to the authority of both contending sides. The benefits should flow to those who undertake active cooperation with the GVN to the distress of the VC, but not to those who hedge their bets by acceding to both.

(2) The program must have as its primary objective the influencing of attitudes and responses, not the altering of material circumstances. The material aspects of the program have a payoff only insofar as they stimulate the desired response from the rural community. They should not be misunderstood as goals in themselves. Thus, both in design and execution of the material program, primary attention must be focused on what the final response is expected to be and how it is to be evoked, rather than on the essentially mechanical task of efficiently distributing benefits. To illustrate with an absurdity, the quickest way to raise rural living standards would be through handing out money in the market square. But this suspicion-arousing activity would hardly generate active support for the GVN cause. The program is intended to influence a complex society, and it must be designed to take account of the characteristics of that society, to relate the stimulus to the response, focusing on the output not the input.

To ensure that the programs are conducive to the desired response, then, more must be known about Vietnam's rural society in general and about the attitudes of specific groups of peasants in specific localities.

Although a better use of available information can no doubt be made, there is a need for further research and, in particular, for frequent and widespread gathering of highly specific information about peasant attitudes and responses through face-to-face interviewing of the kind undertaken in the Long An survey. The aim is to learn how the peasant feels and what may move him to action.

For the peasant to respond to the stimulus of the program, he must sense how it relates to his goals in life and to his personal courses of action. Unless he feels these connections, he will not respond and the program will be wasted. Half of the job, therefore, is making sure peasants understand the implications of their own behavior. The material program should be firmly integrated with a vigorous program of explanation and propaganda. It should be designed to provide an effective vehicle for propaganda exploitation, and explanations of its meaning should be given repeatedly before, during, and after execution.

In appraising the success of the program, it is important to focus attention on its outputs, rather than its inputs. Its success is proportionate to its influence on attitudes and behavior, not to the amount of pigs or fertilizer distributed. The quantitative measurement of success will inevitably be elusive. We might measure the inflow of intelligence, rates of enlistment in the paramilitary, numbers of Chieu Hoi returnees or, negatively, the number of households paying VC taxes. But these factors are more importantly affected by events other than our program, such as enemy behavior and the progress of the military campaign. In the end, we will probably have to rely heavily on judgment and qualitative information. Here again, the findings of the rural interviewing program should be valuable.

(3) The benefits must flow through the leadership channels we are seeking to strengthen: the Province Chief, District Chief, and Village Council. To act effectively, individuals must act together. And to act together, they need leadership. If there were excellent leaders in every administrative post, the battle would be largely won. In fact, of course, the leaders actually available are varying mixtures

of strengths and weaknesses. Where choice is possible, obviously, the best leadership material should be used. The realities are such, however, that the problem remains one of accomplishing difficult goals with leaders who are often imperfect in important respects.

Imperfect or not, these men are required to undertake a complex task, combining political, military, and intelligence work. To succeed, they need all the instruments of office including, among others, stature and patronage. If the peasants are to respond to their leadership, their authority must be bolstered, and care must be taken that Americans do not undercut it, in spite of natural impatience when performance is slow or faulty. Direct American participation should operate to support and reinforce the local administrators, but not to replace or compete with them, because in so doing, Americans will appear as critics of the GVN, undermining rather than strengthening its ability to lead.

Approached with the proper mixture of tact and resolution, the local administrator should view the Americans in his area as acting to increase his effectiveness in his daily work and as allies in evoking response to his needs from higher echelons. From this starting point, the Americans should also be able to give guidance where necessary. Weak administrators should be helped to improve, and the hopelessly inadequate must be replaced. But Americans cannot provide alternative leadership to the Vietnamese countryside, any more than a Vietnamese village elder could act as City Manager in Long Beach. Social response and the leadership necessary to attain it are abstract and difficult to perceive, but they are indispensable and should not be sacrificed to facilitate the material program.

(4) The program must be designed to strengthen the social fabric of the village and hamlet. These communities are on the firing line. Those that have most successfully resisted the Viet Cong are those with the greatest social cohesion and community of interest. The VC tactic is to undermine their unity, to exacerbate conflicts of interest and class. Ours must be to build unity and compromise differences.

In approaching the village, the objective should not be so much the establishment of GVN "control" per se, as the finding of those organizational forms and leaders that are natural to the community and through which a productive working relationship, an alliance, can be established between the GVN and the community. GVN authority and guidance must be accepted. However, the most effective local leadership will be provided not by those viewed as GVN puppets, but by men with stature and respect in the eyes of their fellow villagers, men who are believed to put the community's interest foremost. In this respect, the Village Council and its agents, the Hamlet Chiefs, can play a vital role. Within acceptable limits their authority, autonomy, and financial strength should be increased.

A substantial proportion of those best able to provide village leadership will inevitably come from those relatively well off, including landlords. These are often men of energy and ability, whose wealth is both a result and a source of the authority that is also needed for leadership. They have a vital role to play, but appropriate measures must be taken, too, to ensure that tenants and other poorer members of the community are not exploited thereby. Standards of equitable dealing more or less acceptable to the community as a whole should be promoted by governmental propaganda and decree. Specific institutions, such as the Union of Tenant Farmers or the Commission for Complaints and Redress, should be fostered to take action where necessary on behalf of the poor. Most villagers feel some stake in traditional property rights and transactions. It should be possible to promote a considerable consensus as to what constitutes fair dealing among villagers, as a basis for compromising conflicts of interest rather than according a radical advantage to any element.

The social fabric is strengthened as the community provides outlets for its members' energies and ambitions. Opportunities should be sought to foster local organizations, for example, for women or young people, and for purposes such as recreation, self-improvement, or money-making.

(5) Any positive program in the contested areas should be modest in scale and carefully designed to minimize resources supplied to the Viet Cong. A primary objective in the contested areas should be the elimination of actions by GVN administrators or military that unnecessarily antagonize the populace, such as thefts by soldiers. Although it will be difficult to win active adherents to the GVN cause in these areas, it may be easy to produce determined enemies, thus enhancing VC recruiting potential or the devotion of VC troops. However, some use of violence by the GVN is unavoidable, and some grievances against the government will be generated. A major activity, therefore, should be explanation and propaganda, justifying GVN actions and inculpating the VC. Where appropriate, material compensation should be paid for losses sustained through GVN actions.

An essentially symbolic program of material benefits for the people of the contested areas should also be undertaken. These should offer relatively little in resources to the VC and should be of a kind to which the GVN can most indelibly attach a signature, undertaken only where and when a concurrent informational exploitation is possible. An example might be a bridge, connecting otherwise isolated parts of a hamlet, bearing a plaque explaining its origin and purpose. At the time of inauguration, it should be explained that the GVN provided the bridge to make life easier for hamlet residents; that a larger, more comprehensive public program would be brought with pacification. If destroyed by the VC, the value of the bridge, in terms of GVN objectives, might actually be increased.

A purely informational effort should also be mounted, describing the advantageous programs carried on in conjunction with pacification. This explains that the programs are intended for all the people of Vietnam and will be made available as rapidly as the GVN can overcome VC resistance to the entry of the GVN instrumentalities through which the programs are accomplished. Presumably, information about the content of the programs in the pacified areas will spread most effectively by word of mouth. This is an advantage, but it also requires that the organized information effort be sober and factual.

(6) Some measures of economic warfare should be taken, aimed at denying resources to the VC and at sharpening the contrast in living conditions between GVN and contested areas. Since the beginning of this year, VC tax rates have risen and tax collection methods have stiffened. This suggests a VC resource problem which may materially exacerbate relations with the peasants. Reducing the tax base from which collections must be drawn will intensify the conflict of interest between VC and peasant. A judicious use of market and administrative levers should make it possible to reduce the amount or lessen the value of the physical resources subject to VC levies. Any programs undertaken in this area would have to be carefully designed to avoid the appearance of a GVN assault on the welfare of its citizens and must be supported by an effective informational effort.

Specific Recommendations

The policies described above imply a substantial expansion in the size of the rural program and the introduction of a major new area of activity: gathering of information about peasant attitudes and dissemination of propaganda and explanations. Those charged with executing the program should have responsibility for devising concrete measures of implementation. Below we suggest some concrete measures as a possible point of departure and as an indication of feasibility.

Increasing the Effectiveness of USOM

Improving the Rural Program. (1) Responsibility for designing the program should lie entirely within Rural Affairs, to ensure its practicability and unity of concept. In execution, the program is addressed in each locality to a single, organic community. It needs to be designed as an ensemble, all parts of which are complementary to a common objective -- support of the war effort. There is a need for unity both in understanding the rural sector and in tailoring programs suitable for execution in it. Vietnamese rural life is complex and distinctive. In coming to an understanding of it and in finding

suitable ways to operate on it, therefore, expertise is necessary and specialization is possible. It is not intended that the rural program be developed in isolation from or in conflict with the rest of the USOM program in Vietnam, but in fact the problems in the rural sector are more or less separable and are more than large enough and complicated enough to engage the full efforts of a specialized group.

Critical scrutiny and redesign of the program should be a continuing process. It is vital to take account of experience acquired and of changing local circumstances as affected, for example, by changes in enemy tactics. Although broad lines to be followed may be laid out in advance, the uncertainties are very large. Thus Rural Affairs must have an authority with respect to current program content sufficient to ensure the necessary flexibility.

(2) In developing the program, the Associate Director should have a staff for research and analysis. The present predominance of operational responsibilities leaves Rural Affairs with too little time for thought and almost no effective means for accumulating, organizing, and transmitting the information needed in program development. A special staff should be formed to make good this lack. The staff should have access to the expert advice available in the technical divisions of USOM. Its function will be essentially to integrate these special skills into a program directed at the countryside as a whole. This means, however, that it must be prepared to deal on its own with problems of economics, rural sociology, and mass communications. The size and qualifications of the staff should be chosen accordingly. The work of the staff should contribute to the formulation of current programs, but also over the long run to the development of a more reliable and complete understanding than we now have of Vietnam's rural society. In pursuing the latter objective, the cooperation of independent scholars might be encouraged.

(3) Feedback from the field should be more systematically utilized. Rural Affairs' provincial representatives are in continuing contact with the countryside, as are the USIS field staff, the Embassy provincial reporters, personnel of the technical divisions, and the

military sector advisers. These are thoughtful, motivated people with a shared objective. A better exploitation of their knowledge and experience could be made, to the benefit of all. A Rural Program Council should be established with attendance drawn from this community. Participation in particular sessions might vary, according to the topic under discussion. The Council should meet periodically, on a continuing basis, for the purposes of appraising the success of current programs in terms of winning the war; criticizing and suggesting revisions in current programs; suggesting new programs; receiving guidance from the senior staff on policy toward the rural areas.

It is emphasized that the purpose of the Council is analytic, not operational. It is not intended to replace meetings now held by Rural Affairs to solve operational problems. These two kinds of sessions should be held entirely separately, or consideration of the concrete and pressing will usurp the time and cloud the atmosphere needed for thought and analysis.

(4) Rural survey work should be undertaken on a continuing basis. Two kinds of needed information about the rural areas can be gathered by surveying. Statistical data of a conventional sort, for example, the demographic or economic characteristics of the rural population, can be gathered through formal sampling, using pretested questionnaires and relatively simple interviewing techniques. Like the USOM rural economics survey now under way, this kind of investigation can be made by non-specialized personnel, such as school teachers, under USOM direction.

Second, the more important attitudinal surveys, similar to the study of Long An conducted last winter by USIS, should be undertaken. Here the effort is to elicit responses on matters of greater sensitivity, with greater direct relevance to the war effort: attitudes toward the VC or the GVN, needs and aspirations of the peasants and their communities. Although the Long An survey was subject to the deficiencies inherent in a pioneering venture, results of great usefulness were obtained. Such findings are more in the nature of intelligence data

than scientific statistical distributions, and they must be interpreted with appropriate care. But they go to the core of the counterinsurgency problem.

The key to success lies in the skill of the survey team in approaching peasants and eliciting information. Where these skills have been acquired, a number of sensitive subjects may be broached. The range of information sought, therefore, should be broad. The objectives of the survey work would include: peasant attitudes and needs, to be used in designing the rural programs; peasant responses to the programs as executed (a measurement of effectiveness); complaints and grievances (an informal inspectorate function); and intelligence on VC activities and agents.

For work of this kind specialized personnel must be hired and trained. Developing a large capability will require time and effort. Within a relatively brief period, however, a small but useful program could be initiated. As a first objective, one interviewer might be supplied to each of the provinces of greatest need, to act as additional eyes and ears for the Rural Affairs representative and through him for the Provincial Committee. In addition, one or more small teams might be formed to do comprehensive surveying within specified target areas. Further expansion of the effort would be based on these initial experiences.

Rural Affairs and Informational Work. Rural Affairs should be staffed and oriented toward providing major support for informational work. One phase of the war in which the VC currently enjoy a superiority that is literally overwhelming is in rural propaganda. The program of the Vietnam Information Service (VIS) is feeble and routine, almost totally lacking in integration with the concurrent military and welfare programs. By contrast, the VC lay great stress on this aspect of the war. Their operations are designed primarily to produce psychological impact. Their use of propaganda to ensure the realization of this impact and to counter the impact of GVN operations is imaginative and aggressive. In particular, they work, as the VIS does not, through face-to-face oral propaganda at the hamlet and even household level, by far the most effective means of contacting peasants.

An effort to improve in this respect has recently been mounted on the GVN side through Psychological Operations Committees at the province level. The membership includes the Province Chief, VIS agent, U.S. sector adviser, USOM province representative and, where possible, USIS field representative. This is a good beginning, but nothing will be accomplished unless the necessary initiative, resources, and concepts are also forthcoming. In time, VIS may be sufficiently strengthened to provide the needed motive power, but we do not believe it is in any position to do so now. This is an area, therefore, where major American assistance should be supplied.

Although rural propaganda is not a usual AID responsibility, Rural Affairs could undertake this role, acting in support of the Psychological Operations Committee. An alternative arrangement would be for USIS to undertake the function by expanding its field staff. The advantages of having Rural Affairs do it are that integration at the operating level of the informational and material programs is essential; and having responsibility for propaganda exploitation will force Rural Affairs to give this aspect of the war the weight it requires when they design the material program.

Expanding the Rural Affairs Field Staff. (1) The number of Americans representing Rural Affairs in the provinces should be increased. The present workload strains the capability of the American field staff. With the expansion of the program we are recommending, a major contribution could be made by a larger staff. However, the rate and geographical distribution of the increase must be carefully controlled to ensure that the qualifications and orientation of the new recruits are suitable and that the desired relationship of the field staff to the local GVN administrators is maintained. The Associate Director of Rural Affairs and his regional representatives should be allowed a sufficient exercise of discretion in the introduction (or removal) of staff members.

The work of the Rural Affairs field staff is constructive and challenging. Recruits of the highest qualification should be forthcoming if knowledge of the work and need is properly disseminated.

We understand that previous difficulties in recruiting have been overcome. It may nonetheless be in order to review and improve the approach to recruiting. Quality is more important than quantity, and a larger flow of potential recruits would permit a greater exercise of selectivity both at initial and later stages of employment. Many of the needed qualifications are possessed by young FSOs and CIA personnel. Furthermore, the experience gained in Rural Affairs would be of great value to such people later in their careers. Thus increased loans from other agencies might be considered. The ban on Peace Corps assistance in recruiting might be reconsidered. Although it is doubtless undesirable to involve the Peace Corps operationally or symbolically in Vietnam, some discreet assistance might be provided by the Peace Corps, for example, through access to Peace Corps alumni or technical advice on how to approach the public. Some aspects of the rural program, especially those dealing with women and young people, might profit if there were more women on the Rural Affairs field staff, and consideration should be given to finding qualified women recruits.

It is essential that the field staff understand and accept the objectives and approach of the rural program. New recruits should receive orientation in the United States and again in Saigon. Those not adapted to the work should not be sent to the field.

(2) So far as possible, the increased workload of the field staff should be handled by increasing the number of Vietnamese employees. At present the American field worker usually has one Vietnamese assistant. Initially, the assistant acts as interpreter and messenger boy. As he learns the work, however, the American can delegate more complex tasks to him. At this point we feel a determined effort should be made to find a second assistant for the interpreter-messenger role. As he in turn can operate more independently, a third assistant might be hired. With a ratio of, say, two or three Vietnamese to each American, a large increase in the working capacity of the field staff could accompany a relatively modest increase in the number of Americans.

There are several advantages to hiring Vietnamese: unnecessary American intervention in Vietnam's internal affairs, a possible target

for VC propaganda exploitation is reduced. The number of channels of communication between the Americans and the Vietnamese community is increased. For example, propaganda and attitudinal survey work must be done ultimately by Vietnamese. Vietnam will have a permanently available body of young people, experienced and knowledgeable in rural affairs, who have absorbed useful techniques and values through participation in the Rural Affairs program. The experience in rural affairs, communicated back to friends and colleagues in Saigon, should generate support for the GVN effort within the student community there. More Vietnamese means fewer Americans; this should make it easier to maintain high quality in recruiting. It would also reduce the likelihood of American casualties in Vietnam, and hence of adverse U.S. public reaction to the war.

The qualities essential to Vietnamese assistants are intelligence, motivation, and tact. Given these, and adequate guidance from the American staff, present USOM experience suggests that urban students can understand and contribute importantly to the rural program. The salary level and constructive character of the work should make it possible to find suitable recruits in Saigon and elsewhere. The special requirements of the work suggest that responsibility and authority for recruiting should be given to Rural Affairs, rather than AID's attempting to operate through established recruiting channels.

(3) Specialists in informational work must be hired or trained. The attitudinal survey work and the propaganda exploitation of the rural program require support from a staff oriented toward and skilled in informational work.

Contents of the Rural Program

The Rural Affairs program now contains a large number of activities that should be continued or modified only to the extent of concentrating them within pacified areas. The following recommendations, therefore, are not intended as an alternative over-all program, but rather as an indication of areas where expansion or change should be useful and an illustration of how concrete programs might embody the general policies explained earlier.

(1) A much expanded program of benefits for dependents of members of the paramilitary should be established. Members of the SDC will get 1000 piasters a month under the new pay scale, which is not sufficient to support a family. SDC pay ceases for men off duty because of wounds suffered in battle, and facilities for treating the wounded are inadequate or totally lacking. The facilities of ARVN* are not open to the paramilitary. Survivor benefits are too small. Thus paramilitary service, especially valorous service, runs into direct conflict with the young peasant's obligation to provide present and future support for his parents, wife, and children. This can be alleviated by increasing dependent benefits.

The best form for these benefits requires further study. The following ideas are suggested for consideration: a family allotment for married men, varying with family size, to be replaced by an allotment for parents in the case of unmarried men. In the latter instance, the intention is to provide parents with an incentive to urge sons toward the GVN rather than the VC. Allotments should vary with rank or in some other way be tied to the quality of soldierly performance. Money payments are administratively most convenient, but benefits in kind might be considered where there are psychological or other advantages. For example, children, brothers, and sisters of soldiers might be given preferential access to educational opportunities.

Larger survivor benefits should be established. Hospitals with housing for dependents should be provided for wounded paramilitary members.

A similar, if more modest, program of pay and benefits should be established for the hamlet militia. At present the hamlet militia receives a modest per diem during training, no pay at all during service.

Paramilitary pay and benefits should be considered not only from the standpoint of increasing military effectiveness, but also as perhaps the quickest and administratively most simple method of increasing

*Armée de la République du Viêt-Nam.

living standards among those actively engaged on the GVN side. It is, thus, a political tool for demonstrating the asymmetry between adherence to the GVN and VC causes, and for enhancing the GVN image as a government concerned with the welfare of its soldiers. Most of the increased payments to the SDC and all to the hamlet militia will be made in pacified areas, increasing the level of economic activity there. This should be a major program, and the amount of the benefits should not be based on traditional concepts of paramilitary pay scales. Usually, ARVN and the Civil Guard (together now FARVN*) pay and benefit rates serve as a ceiling for the paramilitary. If FARVN rates prove restrictive, they too should be raised, rather than forgoing a program of desirable magnitude for the paramilitary.

(2) Funds should be provided through the GVN budget at the province, district, and village levels for paid public works. At present a number of valuable but technically simple public works are carried on at province, district, and village levels -- roads, bridges, canals, school houses, market places, clinics, and so on. More are needed and could be undertaken if resources were forthcoming. In many cases, especially at the village level, the labor is unpaid. The equity and degree of voluntariness in mobilizing unpaid labor vary among localities. Although there is widespread underemployment of labor in rural areas, obligatory unpaid labor was a major source of peasant grievance against the Diem regime, and it is safe to assume that there is some resentment today as well. (Corvée obligations are often badly timed relative to the farm work calendar and inequitably distributed among individuals.) The VC are still large users of obligatory unpaid labor.

Funds should be provided in pacified areas to permit an expansion of the present level of public works and to permit unpaid labor to be replaced entirely by paid, genuinely voluntary labor. This would provide a favorable contrast with VC practices; eliminate a source of grievance against the GVN; provide a source of income for the sector of the peasantry now most in need -- those who work for hire; provide

*Force Armée de la République du Viêt-Nam.

needed facilities to improve welfare and productivity in the rural areas; generate secondary employment in local material-producing industries; and reinforce the role of the leadership at each of the indicated administrative levels. Ample funds should be made provisionally available for this purpose, with the actual rate of expansion to be determined pragmatically based on the ability of local government to conceive and administer practicable projects.

(3) A much increased flow of low-interest loans to individuals out of NACO funds should be generated by lending and collecting through the Village Council. At present, the availability of such loans is limited by the administrative inability of NACO to place the funds and by the complexity of NACO procedures. In addition, NACO's collection record is so bad that borrowers feel little obligation to repay. Slack collections have been justified on the grounds that they subsidize the poorer borrowers, but we feel that the practice is unnecessary and loaded with bad side effects. Borrowers who do not repay are clearly poor credit risks. Are they to be given further "loans"? This ill-concealed dole is more likely to breed suspicion than loyalty. Those who do repay feel ill-used in comparison with those who do not. This is bad in itself. Furthermore, it puts pressure on collectors to tolerate default, which opens the way to corruption of NACO agents.

We recommend instead that NACO funds go to the Village Council, which will have the responsibility to make loans for productive purposes to individuals and will be held financially responsible for collection. Where the borrower defaults, repayment will be made to NACO out of village funds. The Council will then have the authority to require repayment from the borrower in the form of labor on paid public works. To encourage conventional repayment, wage rates for this kind of labor might be set lower than usual.

(4) The tax on agricultural land should be collected and disbursed exclusively by the Village Council. At present, this tax is collected in part for the benefit of the village, in part for the province and national budgets. The Province Chief thus has an obligation to collect the provincial and national shares in contested as well as pacified areas.

When he does this, it must be through armed collecting forays. These expeditions can force taxpayers into usurious debt contracts, when payment of back taxes is suddenly demanded. They generate animosity toward the GVN and FARVN when the soldiers commit theft or use violence against the villagers, and they are inherently subject to abuse by Province Chiefs pressed for funds, because of the absence of formalities or other controls. The revenue makes a trivial contribution to the GVN budget.

We recommend that this tax be collected and disbursed for purely local purposes exclusively by the Village Council, relying on normal police procedures. Revenues lost at the provincial level should be replaced through the GVN budget. This will strengthen the authority and financial strength of the Village Council, while eliminating a difficult and counterproductive activity for the Province Chief. It will provide a favorable contrast with the VC, which practices armed tax collection and pre-empts the bulk of the tax for uses outside the village of origin.

(5) Raising the price of rice through regular market channels should not be pursued at present, because it would take effect nationally. Measures intended to produce this result have been advocated on the grounds that they would raise rural incomes and increase the production of rice for export. Although this result would be desirable in normal times, it is inappropriate now. It would blur the difference between pacified and unpacified areas and increase the volume of resources available to the VC through tax collection. Both of these effects run counter to the primary goal of winning the war, and can hardly be justified on the grounds of reducing the U.S. aid bill, the only present effect of increasing exports. In addition, increased rice prices would be burdensome to the urban and Central Vietnamese rural poor, who buy but do not produce rice.

Instead, the possibility of establishing differential rice prices, higher in GVN and lower in contested areas, should be explored. For example, marketing in pacified villages might be facilitated by subsidizing transport from the village to the District town or by contracting with designated rice buyers to offer stable, published prices to the grower. Conversely, a substantial or even prohibitive tax could be levied on rice

millers not licensed by a GVN Village Council. This would raise milling costs or eliminate milling in contested villages, and hence on the average would increase the cost of marketing in contested areas, reducing the price to the grower. Similarly, taxes could be levied on transport in contested areas. The taxes should not be collected directly from peasants, to avoid the necessity of applying force, but rather from collectors and millers with known assets and fixed routes or places of business.

Effective action to focus the improvement in farm productivity and income within pacified areas can be taken by making purchased inputs, such as fertilizer, pesticides, and improved seeds, available at subsidized prices through GVN Village Councils. These inputs might be taxed when sold through commercial channels, to raise the prices at which they are available in contested areas.

These actions would increase incomes in pacified areas, sharpen the contrast between GVN and contested areas, and deny resources to the VC. They would not, however, produce a distorted relation between inputs and outputs in the pacified areas. With peace, it would be possible to raise both rice and input prices to world market levels. It is essential that measures directed at restricting production in contested areas be designed and executed with due regard for their informational implications, a demanding but not impossible requirement.

(6) Land reform should not be undertaken now, because the problems of devising and implementing a desirable program have not been adequately studied. Although we gave more attention to land policy than to any other aspect of rural life, our investigation convinced us primarily of the complexity of the problem. The uncertainties surrounding the present roles of tenants and landlords, especially in the pacified areas, are large enough to indicate that hasty efforts to solve the land problem can be dangerous, quite possibly more dangerous than inaction. On the other hand, it does not seem necessary to choose between these unpalatable alternatives. A carefully considered course of action is called for.

These cautionary words are inspired by information we received from the GVN concerning a new policy on land, possibly slated for early public announcement. The underlying GVN documents display a thoughtful concern with many aspects of the problem, but fail to deal with others entirely, or do so in a way that may produce negative results. In Appendix A we discuss the dangers that may be inherent in the proposed GVN policy, together with some suggestions for a less adventurous approach. In the meanwhile, we recommend that the GVN be approached on the advisability of delaying action. This is a matter of importance, in which the United States has an interest and to which a valuable U.S. contribution might be made. Joint consultation would be to the benefit of both parties.

(7) A broad program of support for rural social organizations should be undertaken. VC recruiting focuses on rural youth. One reason, no doubt, is that the young make the best soldiers. Another is that adolescents and young adults have the shallowest roots in the community, are most ready to find fault and risk radical change. No panacea will reverse these tendencies, but constructive action might reduce them. In particular, village youth organizations might offer recreational or vocational outlets that would increase the value of present patterns of life, and integrate the young more firmly into their community.

Appropriate adult sponsorship is important to avoid misdirection. Funds and guidance might be provided through the Village Council. Youth centers might be built as paid public works. NACO might offer loans to groups of young people for productive purposes, such as pig raising. Locally stationed military or paramilitary units might sponsor village athletic activities.

As elsewhere, the women in Vietnam are extremely influential in molding attitudes and opinions. Women's organizations have traditionally existed in the Vietnamese village, and a basis no doubt exists for developing groups with a constructive role to play. The purpose of such organizations is not only to improve the quality of life for its members, but also to permit the GVN or an agency

associated with it to act as sponsor of an appreciated activity. This program might be appropriate for certain contested areas.*

(8) A larger and better focused program of benefits for relocatees should be designed. Substantial numbers of peasant families are still forcibly relocated, in an attempt to facilitate military operations and deny resources to the VC. For those moved, the experience is often unpleasant and costly. In some cases, resentments result in additional recruits or supporters for the VC. Often, the relocatees return to their previous homes, thus frustrating the original purpose of the evacuation.

At present, some food together with financial assistance toward building a new house is supplied the relocatee, but he has to bear the main burden of the move both in money and labor. Furthermore, the newly constructed hamlets are often inferior to the old in such things as fruit and shade trees or access to the fields. We recommend that compensation to the individual household be made much more generous, and that means be sought to render the new locations more attractive. For example, if the relocatee were able to improve on the quality of his house as a result of the move, and if the new hamlet had communal facilities lacking in the old, resentment might be avoided and the relocation might prove permanent.

(9) The Tenant Farmers' Union (TFU) should be strengthened. This organization, a part of the principal Vietnamese labor union, the CTVC, has as its objective the protection of tenant farmer rights. As noted elsewhere, local administrators are often landlords. In order to prevent the kinds of administrative abuse on which the VC prey, it is essential to build balancing institutions that represent the poor. The TFU, with roots in a responsible labor organization, seems to offer a good base on which to build. The TFU might expand its scope of interest to include problems of rural hired laborers. If

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*Much of the preceding discussion is based on a memorandum prepared for us by Curtis Farrar of AID/Washington. This memorandum is reproduced as Appendix B of this Report.

this is not feasible, the cooperation of the CTVC might be enlisted in establishing a separate organization for rural hired labor.

It is important that the administrative machinery of the state be responsive to bona fide complaints filed by organizations such as the TFU. If the regular local administration is not, special organs may be needed. For example, branches or representatives of the Commission for Complaints and Redress might be established at the province or district level.

(10) Improved means of transport should be made available to the Province Committees. A good Province Chief should make frequent personal visits to the areas under his administration. When bottlenecks develop, he should be able to move materials on short notice. These functions are often difficult to perform at present because of insecurity along the roads. Areas adjacent to the Province town are well served, but those separated by areas of VC activity can be reached only occasionally, after security preparations have been made. Even then the personal security of the Province Chief is at risk, which may inhibit his performance; and a successful attack on him could produce major psychological gains for the VC.

We recommend a much more generous provision of improved transport, such as helicopters and motor boats. Helicopters might be centrally hangared and maintained. But the vehicles should be in principle and in practice at the disposal of the Provincial Committee, to ensure their availability when needed.

Topics Suggested for Further Study by Rural Affairs

Several worthwhile studies are now in progress at USOM, such as the rural economic survey and the study of provincial pacification planning techniques. Others will suggest themselves without stimulus from us. We consider four areas worthy of early attention.

(1) Role and juridical standing of the Village Council and Hamlet Chief. Several of our recommendations imply expansion of the functions and authority of the Village Council. Study is needed to

determine whether a new juridical definition of this body is required, whether the present size and salary are sufficient, and how functions and authority should be distributed between the Village Council and the Hamlet Chiefs to obtain the desired responses from the community.

(2) Cottage industry. A large proportion of rural households engage in cottage industry as a primary or secondary source of livelihood, yet so far as we were able to discover, there is no substantial program aimed at improving credit, supplies, marketing facilities, or skills for these occupations.

(3) Economic warfare measures. It is inevitable under the circumstances that the GVN should find itself tolerating or actively cooperating with economic activities that benefit the VC. Nevertheless, these should be reviewed to ensure that the form and extent, so far as possible, are beneficial on balance to the GVN. For example, the rubber plantations now are a principal source of foreign exchange earnings for the GVN, but are also a principal source of tax revenues for the VC. Who benefits the more? Can the mode of operation be modified to reduce the VC share? Should the operation be forgone entirely? Charcoal produced in the Ca Mau peninsula is shipped to Saigon at VC pleasure. Currently, only producers under VC administration are permitted to cut wood and make shipments. Should purchases in Saigon be limited to charcoal originating in GVN administered areas? Fishermen in the villages along the Gulf of Siam export fish by making offshore transfers to Singapore ships. Only the VC tax this trade or benefit from the foreign exchange earned. Would it be possible to relocate the fishermen in GVN controlled ports, such as Rach Gia, by offering them improved housing, subsidizing the export of fish, and patrolling the Gulf of Siam to prevent offshore transations?

(4) Viet Cong economic policy. The VC have a rural program, like ours oriented toward winning the war. Much scattered evidence about their economic policies is available through captured documents, prisoner interrogations, and reports from residents of contested

areas, but so far as we were able to discover, no systematic analysis of these data has been made. A careful study of the VC programs should be made to provide a basis for combating them and for the light that would be shed on how the VC understand and seek to manipulate rural society. Unfortunately, their understanding often seems to exceed ours. Anything that can be learned from them should be studied and used.

IV. BROAD ECONOMIC CONSEQUENCES: PROGRAM FEASIBILITY

A New Degree of Freedom

THE EXPANSIONARY ECONOMIC POLICY we are recommending is a response to a basic change in U.S. policy during the last six months. In July of 1963, when the most recent Country Assistance Program (CAP) was written, it was still assumed that military victory was close, and that the aid problem was one of phasing out direct military support programs and reestablishing a more traditional aid program. Accordingly, the amount of U.S. aid was to be held under very close control. Since that time, the President and other high officials have made it clear that U.S. aid can be increased to whatever amount is necessary, and continued for as long as necessary, to win the war. This decision was given substance in Congressional support of the Administration's request for a $125 million supplemental appropriation for U.S. aid to Vietnam for FY 1965. The result of this change in policy is that there is now a new and unprecedented degree of freedom available in planning Vietnamese economic policy. Our recommendations are designed to give effect to this new direction.

Prior to the adoption of this new policy there was a legitimate U.S. concern with the danger of inflation resulting from an over-expansion of the GVN budget together with an inadequate system of internal taxation. Although it was recognized that a higher level of U.S. aid could permit the orderly financing of increased government expenditures, it was explicitly assumed that any major increase in U.S.

aid had to be ruled out. Since the November coup, the United States has supported new and expanded GVN programs in the expectation of an increase in U.S. assistance, but the full implications of the new situation as yet do not appear to have been fully grasped.

The change in outlook about the immediacy of military victory, together with the new requirement to expand U.S. support, makes continued emphasis on burden-sharing in negotiations with the GVN inappropriate. Moreover, although measures to facilitate exports, generate savings, and increase domestic revenues might be desirable from an economic development point of view, now is not the time to worry about the adjustment of the Vietnamese economy to peacetime conditions. Yet burden-sharing and economic adjustment continue to be stressed. There has not yet been any explicit disavowal of the aims of U.S. policy as expressed in the FY 1964 CAP in which it was stated that

> We would like the GVN to promote exports, draw down some of their exchange reserves, reduce imports, increase tax revenues, and shift income from urban to rural areas. All of these measures would help to close the resource gap and all have been strenuously resisted by the GVN.*

None of these policy objectives contribute to winning the war, yet all have continued to be stressed to the GVN. Immediately after the coup they were reemphasized at the November 20th meeting in Hawaii. More surprising, they were again reflected in the May 1964 "Forrestal negotiations" with the GVN over the $125 million aid increase. These negotiations were basically an expression of the new policy and their real significance was as a concrete expression of U.S. support to the GVN to do whatever was necessary to win the war. Yet some of the conditions insisted upon still reflected past U.S. concern with burden-sharing and long-run economic viability. For example, the Memorandum of Understanding agreed to during these negotiations stressed the importance of "promoting exports," and urged the GVN to "increase tax

*Agency for International Development, Country Assistance Program, Vietnam, Part II, August 1963, p. 16.

receipts and take measures to mobilize savings." Specific measures proposed by the United States included presumptive taxation for small businessmen who do not keep records, increased austerity tax rates, a vigorous campaign to encourage savings, and a draw-down of GVN foreign exchange reserves. These measures are in direct contrast with the program we recommend.

The Potential for Increased Domestic Output

We are convinced that there is in Vietnam today a large margin of unused resources, expressed in unemployment and idle financial capital, which could be drawn into productive use through a more expansionary economic policy and a concerted GVN effort to improve the investment climate and reduce the administrative barriers to private domestic enterprise. It is not possible to make a precise estimate of the impact an expansionary government program would have on domestic production. However, even in the absence of a precise estimate of the likely supply response of the Vietnamese economy, an expansionary economic program can now be adopted. We believe that such a program, as outlined above in Section II, would make a direct contribution to the war effort.

Our primary interest in expanding domestic output in Vietnam is to increase employment. But closely associated with this goal is an interest in improving career possibilities and giving more Vietnamese a stake in the future. A vigorous domestic economy will serve both of these goals. However there is an important distinction between direct job-creation (through public works programs, for example) and indirect job-creation through induced expenditures (such as those resulting from increased government salaries). As a route to reducing unemployment, the latter is much less certain than the former. The extent to which jobs are created indirectly depends on the marginal propensities to save and to import, as well as on the response of domestic producers to higher demand. In the absence of adequate data, it is impossible to calculate the supply response that increased

demand will bring forth. However, there is every reason to believe that the expansionary policy we are recommending would result in a substantial increase in domestic economic activity.

There is no major economic obstacle to increased domestic output. Labor is widely available, and, although much of it is unskilled, structural barriers to increasing employment are likely to dissolve under vigorous demand for workers. Savings are also available in the form of unused financial resources. And finally, U.S. aid permits the importation of the necessary materials and equipment both for supplying new enterprises and for enlarging existing ones. In short, the Vietnamese economy is not now straining at its limits. Furthermore, there appears to be relatively more entrepreneurial resources than in most underdeveloped countries, although such resources may well prove to be a significant bottleneck.

The supply response of the Vietnamese economy has not been adequately tested. Even at present levels of demand the evidence suggests that highly profitable investment opportunities exist. The barrier to increased output lies in the governmental attitudes and security situation mentioned earlier. Domestic entrepreneurs have not yet been given a full opportunity to demonstrate their capacity for new enterprise. Nor has there been a sufficient increase in rural incomes to stimulate any marked increase in local production in the towns that serve rural areas.

Perhaps there is no short-cut to increased output, and only the gradual elimination of deep-seated structural barriers to economic progress will do the job. But Vietnam today has a unique opportunity to sound out the possibilities of an expansionary policy. The risk of balance of payments crises and inflation often inhibit underdeveloped countries from taking this path, but U.S. aid serves to counterbalance these risks. The chief cost of a sluggish response would be to raise the aid bill. Given the returns an expansionary economic policy would bring, this risk seems well worth taking.

Transfer of Resources

The expansionary program we are recommending, even if successful in increasing domestic production, will lead to an increased demand for imports. Only a part of this program can be accommodated by capturing hitherto unused domestic resources; a substantial part of the necessary resources will have to be provided by the United States and, perhaps, other donors. It is sometimes suggested that an increase in U.S. aid will compete with domestic production and undercut domestic economic expansion. This need not be the case. There is no economic barrier to the transfer of resources from the United States so as to complement domestic production, rather than compete with it.

It would be possible for unlimited aid to supplant rather than supplement domestic production. The goods provided by external assistance and brought into the economy through commercial channels compete with domestic production for consumers' and investors' piasters. If imports are priced too competitively an increase in domestic incomes would, in a situation where aid was unlimited, be expressed largely in an increase in imports financed by outside aid and only marginally by an increase in domestic output. The result would be higher real incomes and a higher aid bill, but little increase in domestic output and employment. But there is evidence that under present conditions domestic production can compete with imports in Vietnam. New investment in recent years has in some industries been extremely profitable. At the same time local businessmen are aware of large unrealized profit opportunities in many other industries. These unrealized profit opportunities indicate that investment in new enterprises is inhibited by barriers other than the overcompetitiveness of imports. If these barriers are not reduced, increased incomes may be largely translated into increased imports financed by U.S. aid. But failure to provide increased assistance will not itself remove these barriers.

The barriers we believe to be most important include a government climate hostile to private business, complicated government administrative procedures and requirements, fear of mounting insecurity, and uncertainty about the durability of U.S. support and the future of the government. The relation between U.S. aid and these barriers is discussed in Section V of this report, where it is pointed out that U.S. aid can be used so as to weaken, not strengthen, these barriers. From a purely economic point of view, increased assistance can provide the imported equipment and materials required by domestic producers, as well as permit increased demand to be expressed in real increases in consumption rather than merely in higher domestic prices. The operational question is whether current USOM procedures adequately facilitate the transfer of U.S. resources to meet these needs.

The Commercial Import Program (CIP)

The determination of the appropriate level and composition of the Commercial Import Program poses difficult technical problems. If it is borne in mind, however, that the CIP is essentially a device for transferring generalized command over resources, not of specific resources, these problems can be better placed in perspective. When aid is limited in amount the determination of the over-all level of the CIP itself determines the maximum level of domestic economic activity. When aid is essentially unlimited, this causal relation is reversed. In order to ensure that the availability of aid results in maximum domestic economic activity, we are recommending that more U.S. assistance be put on a contingency basis, as described in Section V.

The composition of the CIP is essentially passive, reflecting rather than creating market conditions. However, it does have some, probably minor, influence on the pattern of final demand. Since the GVN maintains a comprehensive system of import controls, the decision by the United States as to what goods it will finance may influence the willingness of the GVN to permit certain imports rather than others. This leverage may well be desirable. Moreover, because

financing only particular classes of goods, or "import codes," improves the palatability of U.S. aid to Congress, this procedure serves another useful end. Finally, we must remember that Vietnamese importers are relatively inexperienced. The U.S. technicians who administer the CIP provide a useful technical service by reviewing their requests and suggesting desirable alterations in them. For these reasons we do not recommend that this procedure be altered.

Nevertheless, certain procedural problems in the Commercial Import Program deserve more consideration than they have hitherto received. The codes the United States chooses to finance include mainly raw materials and equipment, which are essential to domestic production. Were there no difference in administrative requirements between GVN and U.S. financed codes it would not matter to the importer who financed what. But there are differences. Goods imported under the CIP are subject to U.S. administrative requirements including Small Business Administration (SBA) public bid requirements, USOM feasibility studies in cases of capital equipment imports, limited world-wide procurement regulations, and, most recently, Aid Policy Directives 21 and 22 which tie aid more closely to U.S. sources. These requirements are time-consuming and restrict the ability of Vietnamese importers to purchase their most preferred goods in the cheapest markets. From a U.S. balance of payments view it may be desirable to channel aid to U.S. and non-European sources, but this does restrict Vietnamese importers both in their choice of imports and in the prices they have to pay. Prior to 1960 the share of imports from the United States in the CIP was 25 per cent. It is expected to rise to 55 per cent in FY 1964 and even higher in 1965. But American equipment is sometimes inappropriate as well as expensive, and American materials are frequently expensive. Thus the increase in the U.S. share of the market is not an unmixed blessing, since this major alteration in the source of CIP imports raises costs to Vietnamese producers and inhibits domestic enterprise. In some cases, this problem is explicitly recognized and codes are split. Thus, in pharmaceuticals the GVN finance one-third of the program in order to permit local processing

of European products ineligible under CIP financing. Similarly, AID finances only polyester and polyamide fibers while the GVN finance most other fibers.

We do not recommend seeking an over-all exception to established AID procedures for Vietnam. However, we do recommend that more attention be given to these problems to assess their importance, and possibly to determine ways of further easing the burden of these requirements. The $10,000 upper limit on imports which can be brought in without being subject to SBA bidding procedures should not be lowered. For products where these procedures are obviously irrelevant (such as cement, for which U.S producers cannot hope to compete with nearby sources) there should be procedures for waiving them. An alternative to seeking waivers of source-origin requirements might be to move further in the direction of splitting codes, or possibly concentrating more on those codes for which U.S. goods are competitive even if this means financing consumer goods rather than materials and equipment. Our objection is not a general one to tied aid, but rather to the fact that it makes the local producer pay the cost. If source-origin requirements are inhibiting domestic economic activity in Vietnam, ways to reduce this cost should be sought.

Closely tied in with the effectiveness of the CIP is the question of GVN tariff policy. Prior to the de facto devaluation in December 1961, tariffs (although nominally high) barely compensated for the overvaluation of the piaster. The flat austerity tax on all imports imposed at that time has significantly increased the protection given domestic producers. Nevertheless the high tariff rates remain misleading since they are applied on the c.i.f. value of imports before the 5/7 tax is applied. The result is that real tariff rates are significantly less restrictive than nominal rates. Nevertheless the present tariff system, which generated substantially over one-third of total GVN tax receipts in 1963, provides a sizable margin of protection to domestic producers.

It is desirable that the structure of GVN tariffs be such as to allow the importation of materials and producers' goods that cannot

be produced domestically. For these the costs of CIP requirements to importers could be reduced: by allowing materials and equipment from U.S. sources to come in at low duties, the United States would indirectly pay the cost of source-origin requirements, through a higher aid level. Facilitating such imports would not only make domestic industries in general more productive but would also stimulate local processing of imported goods.

There is now a general policy of using the CIP to support incipient domestic production. It is essential that CIP administrators continue to be aware of the problem of desirable import substitution. Higher tariffs on particular goods that might be produced locally would appear to be an efficient and desirable way to support this policy. It may be desirable, for example, not only to respond to local initiative but to stimulate local initiative through increased protection prior to any demonstration of local interest. Alternatives such as cessation of U.S. funding of particular codes and the imposition of GVN direct controls have serious drawbacks. In the past the threatened cessation of U.S. funding has been used to give an impetus to local production of such things as nails, screws, and glass. This frequently results in direct government entrance into the industries concerned. GVN licensing, on the other hand, is frequently accompanied by GVN controls over profit rates in the industries thus protected. In both cases, the climate for private investment is further weakened.

The problem of relying too heavily on increased protection is that it may stimulate the wrong kinds of economic activity, thus reducing the long-run viability of the economy. Although this cost is only of marginal importance at the present time it is also largely avoidable: there is opportunity for efficient industrial production in Vietnam. Tariff policy should seek to give impetus and support to industries for which local resources and market conditions are most appropriate.

Before concluding this brief review of the role and problems of the CIP, we think it is appropriate to state that we think many of

the criticisms of this program in the past have been misdirected. In particular, it is not the fault of the CIP that there is a domestic demand for imported luxuries. The CIP has only a very marginal impact on the internal distribution of income, and as long as there are rich Vietnamese, luxuries will be desired. Moreover, frustrating the demands of the rich is not necessarily a wise policy; for, in so doing, not only political support but economic incentives are impaired. It is as a device for transferring a general command over resources that the CIP must be judged; as such, it has proved its worth.

Public Law 480, Project Assistance, and the Military Assistance Program (MAP)

In FY 1964, PL 480 Title I ($39 million) and Project Assistance ($89 million) together transferred more resources to Vietnam than the CIP ($113 million). The Military Assistance Program transferred direct military resources approximately equaling the total of the economic programs. All three of these programs -- PL 480 Title I, Project Assistance, and MAP -- directly affect the Vietnamese economy, though only the first operates through the market. There is scope for improving the economic effects of these programs without reducing their effectiveness in supporting urgent military and counterinsurgency programs.

The main components of PL 480 aid are flour, cotton, tobacco, and milk products. The tobacco and cotton programs -- which together account for about one-half of PL 480 aid -- have been sharply criticized on the grounds that they prevent the establishment of local production of these commodities. Without discussing the validity of this criticism, we believe that there are further considerations that rob this objection of its force at this time. In the first place, even if it were possible to establish domestic production of cotton and tobacco it might not be desirable. Introducing these crops might be a way of raising rural incomes, but it would do so outside the pacification program. For these crops to be profitable they would have to be undertaken on a significant scale in order for the necessary

marketing and processing facilities to be established but this means that the benefits of such a program would flow in large measure to contested areas. In line with our previous argument about the desired rural program there is little reason to expect that the security payoff would be significant. Crop selection is simply another rural program that should be determined on the basis of its contribution to the war effort. In the second place, there is a real problem in trying to restructure Vietnamese agriculture at a time when it is already in a state of severe disequilibrium. Just because tobacco and cotton were grown in the past does not mean that they are necessarily appropriate now. Until such time as it is possible and desirable to put Vietnamese rice production, for example, on a more rational basis, it does not appear judicious to attempt a large-scale effort to introduce new crops. It may be that these crops would make a real contribution to economic development in Vietnam, but until more attention can be devoted to this goal, we believe it would be unwise to attempt a drastic reform of U.S. policy on PL 480 aid.

Project Assistance and the MAP raise a different issue because, although they do not operate through the market, they do provide non-agricultural goods that might be produced locally. The problem here is that reliance on domestic production might delay and reduce the efficiency of urgent programs. Nevertheless in programs of this size there is an opportunity to achieve a desirable impact on the domestic economy. The demand is there and should be used for local production when possible. It is not a question of curtailing these programs but of finding ways and means of phasing in local supplies in place of imported supplies. In construction projects, for example, Project Assistance can be used to support the development of new materials to be substituted for imported materials. Thus, it may not be necessary to continue to import roofing materials to the present extent. The demand generated by Project Assistance for certain materials can be used to stimulate the production of local substitutes.

Inflation

As we pointed out above, the concern felt in the past about the danger of inflation reflected a very real problem. However, the effective removal of a ceiling on U.S. aid has greatly diminished the probability of touching off an inflationary spiral in Vietnam. Nevertheless to err on the side of overoptimism would also be a mistake. The cost of inflation would be high indeed. The general principle to be followed is that we should not shrink from desirable actions because of undue concern over future inflation, but we should be prepared to act promptly in the face of an immediate threat.

The adoption of the expansionary program we are recommending will increase the demand for domestic goods and services. In some cases, increased demand is likely to lead to once-for-all price increases, probably of a moderate nature. But domestic output would also rise. We do not know for sure how elastic domestic supply is. We are confident that in the long run domestic production will respond to increased demand, but we cannot be equally confident of short-run developments. Bottlenecks may well appear, usually as a result of shortages of specific materials and equipment but perhaps also as a result of a temporary shortage of trained labor at the right place. Should specific price increases occur, they may lead to commodity speculation and increase the danger of more general inflation.

In general, however, the ability of the United States to provide adequate imports through aid to meet increased demand places Vietnam in a very good position to meet any inflationary danger. Even in rural areas, imports can serve to meet increased demand. There is a wide substitutability between imported and domestic goods throughout the country, and this can be counted on to make aid effective in meeting threatened inflation. The ability to move promptly in supplying the necessary imports is the basic defense against inflation. It is essential that this ability be adequately utilized. There must be continuing watchfulness to reduce dangers from bottlenecks and speculative activity. This may require large temporary increases

in U.S.-financed aid to meet speculative bulges in demand. As such bulges would not be sustained, no permanent increase in aid levels is required to meet this problem, but the ability to move rapidly to meet exceptional demand is essential. At the same time, the possibility of price increases makes it essential that no important income group be left out of our income-raising programs. Price increases accompanying economic expansion will reflect the increased incomes of those who share in the gains brought by a higher level of domestic economic activity. But fixed income recipients and the unemployed must be protected in advance.

An additional reason for our relative optimism about the improbability of serious inflation is our feeling that the recent increase in the Vietnamese money supply may have been given an exaggerated significance. In the countryside, peasant debt is traditionally large. This debt is not included in measurements of the money supply and, accordingly, any increase in the latter alone exaggerates the increase of over-all liquidity. Moreover, it may well be that there has been a shift in the countryside away from debt into cash; that is, from an overdraft system to cash balances. It is difficult to measure peasant debt and the form in which it is held. A more thorough analysis of rural monetary phenomena seems to be required. In the meantime, the rapid increase in currency and demand deposits in recent years should not cause undue alarm.

In conclusion, we strongly second the Kaysen recommendation made in December that emergency anti-inflation procedures be agreed upon. The announcement of such procedures, supported by an adequate U.S. guarantee of aid funds, would not only make it possible to stem inflationary developments at an early stage, but would greatly reduce the likelihood of their occurring at all.

Long-run Adjustment and Development of the Vietnamese Economy

One of the problems of designing an economic program in direct support of the war effort is the effect on the long-run viability

of the economy. The priorities are clear: long-run economic viability will not be a problem unless we are successful in meeting the short-run problem of winning the war. It would not be prudent to enhance the former at the cost of jeopardizing our success in meeting the latter. Nevertheless attention to this issue is necessary to avoid unnecessary costs and distortions, and to demonstrate our confidence in the future of Vietnam.

A major war effort is by its nature distorting. It draws resources from productive to unproductive uses and leads to reconversion problems. All nations at war are subject to this economic distortion. For Vietnam there is the further complication that U.S. aid results in a degree of import dependence unsustainable over the long run. Nevertheless, it is well to remember that the end of the war will bring with it great opportunities for increasing economic efficiency and productivity. To a large extent U.S. aid is simply a way to make up for the loss in real income which the war would otherwise engender. An end to war destruction and the resumption of normal commercial operations throughout the country will greatly increase the over-all productivity of the economy.

The expansionary economic program we recommend not only will further support Vietnamese standards of living through the duration of the war, but would also provide gains which will remain after peace is reestablished. Vigorous economic activity in cities and towns, reflecting, in part, an improved climate for private investment, can be expected to continue. Neither will the benefits of the public works programs we are recommending cease with the end of the war. The major gap in our program from a development point of view is that it does not provide for a general rise in rural productivity and living standards. But this is a point at which security and development objectives are in sharp conflict. Peace will make it possible to make fuller and more efficient use of rural resources. For example, it will be possible to reestablish equilibrium in the rice market. Agricultural exports could be stimulated and exchange-market equilibrium attained. At the present time, these

policies are not desirable. The establishment of export prices nearer to world market levels would be most effective as a means of increasing rural incomes across the board. We have discussed earlier our reasons for objecting to such a program. At the present time, the urban economy is dependent on U.S. aid. Peace would make it possible in some measure to substitute increased rural productivity for U.S. aid.

The United States is not supporting opulence for the few but some degree of well-being for the many who would otherwise suffer from the major war effort now under way. When account is taken of the distortion and costs of the war, it is hard to feel that the United States is really teaching the Vietnamese to "live beyond their means." The potential for increased productivity after the reestablishment of peaceful conditions does not mean that it will immediately be possible to curtail U.S. aid sharply. Support will be necessary during the reconversion period and after. War damage cannot immediately be undone. Policies will not be changed overnight. The establishment of an effective development program will not come easily. A change in the nature of the U.S. aid effort will be necessary, with less stress on supporting incomes and more stress on raising productivity.

V. QUESTIONS OF POLITICAL AND ADMINISTRATIVE FEASIBILITY

GVN Incentives and Capabilities

THE PROGRAM WE RECOMMEND requires close cooperation between the United States and the GVN. Can the United States enlist the necessary GVN support? If so, will it be possible to translate this support into effective programs? We are optimistic on both scores.

Mutual Interest and GVN Concurrence

Discussions of U.S. leverage over GVN policies often understate the considerable overlap of self-interest. Because of common self-interest, the GVN will often respond to U.S. suggestions for desirable programs simply because they make sense. And the adoption of the program we are suggesting will undercut one persistent source of tension between the two governments -- disputes over burden-sharing. In the past, it seems to have been argued that the existence of unemployed domestic resources meant that the United States need not provide as much aid to Vietnam as might otherwise be the case. The result has been predictable: GVN willingness to undertake desirable economic and social programs has been undercut rather than reinforced. But in our discussions with GVN ministers we struck a highly responsive chord by stressing the positive contribution that reducing unemployment and invigorating economic activity would make to the counterinsurgency effort.

Moreover, the expansionary program we are recommending -- increased emphasis on urban welfare, direct increases in incomes to certain segments of the population, and an improved climate for

private business -- is a balanced one which attempts to avoid some of the political dangers which might otherwise follow if the GVN simply reduced control over private commercial activity, for example. To improve the climate for private investment without simultaneously setting in motion a major program to improve urban welfare would be politically unwise or even dangerous. Although a more permissive attitude toward private profits is needed if domestic economic activity is to be effectively stimulated, such a policy, if unaccompanied by a concrete expression of the GVN's interest in improved social welfare, would appear to many as a reflection of GVN bias in favor of the Saigon elite. At best, and only to the sophisticated, it would appear as a rather unattractive trickle-down policy. Those who would be most dismayed by such a policy -- intellectuals, students, and urban proletariat -- are groups in which any major disaffection would be extremely dangerous. Similarly, a direct increase in incomes may be necessary to protect those groups that are unlikely to share directly in the benefits of economic expansion but would feel the impact of the price increases that, even under optimistic assumptions, are likely to accompany it. The two groups most directly affected in this way would appear to be the urban unemployed and government workers. The increases we recommend in government salaries and urban public works programs are, therefore, integral parts of our over-all economic program.

A Durable U.S. Commitment

A major obstacle to GVN cooperation has been their doubts concerning the durability of the U.S. commitment. Though these doubts may seem perverse in the light of present U.S. policy, they are understandable. On the one hand, the Vietnamese are being asked to adopt policies that will drastically distort their economy in an effort to accelerate the war effort, and to adopt measures that will curtail their freedom of diplomatic action and profoundly change their administrative structures and procedures. On the other hand, they hear that U.S. policy toward their country is based on domestic political considerations. They are aware that a sizable body of American

opinion is hostile to the present U.S. commitment in Vietnam. The GVN are made constantly aware of U.S. dissatisfaction with their performance. In the face of the uncertainties these facts produce, the United States must show patience and concern in meeting GVN doubts. We must help the GVN to obtain the necessary self-confidence to act vigorously. To do this we must recognize the need for U.S. support based on mutual interest extending beyond the period of insurgency and looking toward the establishment of a viable peacetime Vietnamese economy. U.S. support is the foundation of present GVN policies; to improve the latter, we must allay their doubts about the former.

Ambassador Taylor's pledge of U.S. support in his arrival statement in Saigon is only the most recent expression by high-level U.S. officials of the American commitment to Vietnam. Such statements are extremely valuable, and it may be desirable to go further and in explicit terms emphasize U.S. willingness to assist Vietnam in putting her economy back together after peace is reestablished. This broadening of our commitment would have several desirable effects. It would help to allay GVN anxieties about the economic future and increase their willingness to cooperate in drawing up desirable economic policies. It would also reassure private investors that the economic future was bright. And, perhaps most important, it would demonstrate that the U.S. is concerned about the welfare of the people of Vietnam, not merely about the strategic importance of winning the war. There are many ways to express such a broadened commitment. In addition to Presidential and other official statements, concrete actions such as increased support for private U.S. investment in Vietnam would have this effect. In the past a similar broad national interest has been expressed by Congress in such major programs as the Marshall Plan and the Alliance for Progress. It might be useful to begin joint planning with the GVN now on postwar reconstruction and development, making it clear that they could count on substantial U.S. support. It is, however, beyond the scope of this Report to recommend the particular set of techniques that the United States should employ in communicating its commitment to the GVN.

Increased U.S. Leverage

Success in convincing the GVN of the durability of U.S. support will not eliminate all problems. Ever since the United States entered the foreign aid field it has had to face the problem of impairing incentives through the substitution of aid for domestic effort. The GVN should not assume that if they do not do their job the United States can and will do it for them. The attitude of the present GVN is basically constructive, but there is always a temptation to assume that U.S. aid is a substitute for their own efforts. While persuasion, explanation, and reassurance are necessary, pressure will also be needed. Techniques that tie U.S. assistance more closely to GVN performance -- such as provision of funds on a contingency basis -- can be evolved. The GVN must be constantly reminded of the importance of their actions to the successful prosecution of the war.

What does providing aid on a "contingency basis" imply? Simply financing the resource gap does not tie aid closely to performance. We recommend that while the major portion of U.S. aid continues to be made available in a fixed amount, additional amounts be made available as the GVN undertakes certain programs that the United States thinks are essential. Two kinds of GVN performance are necessary: the acceptance and setting in motion of programs, and the efficient execution of these programs. In some cases it will be best to provide funds upon receiving agreement on the program itself and some guarantees that it will be set in motion. Thus, GVN announcement of a public housing program could be made the basis for releasing supplemental funds if it is felt that the plans for carrying out the program are adequate. In other cases, such as the pacification program, where the problem is one of ensuring that piasters are spent quickly, supplemental funds could be made available to the GVN upon receipt of evidence that the expenditures have actually been made. In such cases the form of aid could be flexible. Generally it seems desirable to continue to use the Commercial Import Program for transferring

U.S. resources, but the possibility of providing limited amounts of dollars in the form of cash grants might be considered.

In either case, the availability of aid will precede the need for it since there will be some lag before import demand reflects the increased GVN expenditures. The difficulty of making adequate calculations of import demand makes it impossible to guarantee that a given CIP will enable the GVN to meet rising import demands without dipping into its foreign exchange reserves or tightening import controls. For this reason the policy (adopted in the Forrestal negotiations) of financing some portion of imports above a certain level would be a useful one to continue. The United States should establish the principle that GVN reserves are not inviolable and can be used to meet unanticipated increases in import demand. By requiring the GVN to finance a share of these unanticipated increases, the United States would establish this principle; at the same time, by providing additional aid, the United States would give the GVN an incentive not to cut back desirable programs.

Joint U.S.-GVN Staff Work

A corollary of open-ended U.S. aid should be to require closer staff cooperation between the United States and the GVN. The United States cannot finance the Vietnamese economy without an adequate voice in economic policy. Joint staff work would be a useful and acceptable way of providing this voice. What is needed is broad agreement on policy at the top, coupled with joint staff work at the technical level, for even the best ideas can be frustrated by poorly drafted programs. Moreover, if this sort of cooperation does not exist the United States will be forced to assert control in a much more heavy-handed fashion. If an undesirable program is drafted the only recourse of the United States at the present time is to use what amounts to a veto. For example, the present land reform proposal which was drafted unilaterally by the GVN is one in which there are serious weaknesses. By failing to influence it during the

drafting stage the United States may be forced to express its objections in a less palatable form.

The United States certainly should not attempt to run the GVN. But U.S. staff can give support and advice. A model for the type of cooperation we are recommending already exists in the Province Committees which jointly implement the pacification plan. This type of cooperation has several desirable consequences in addition to improving the programs themselves. In the first place it provides timely information about what the GVN is planning to do. This is essential. Moreover, it helps the GVN by giving them assurance that U.S. support will be forthcoming for programs that have been worked out jointly. In addition, joint staff work could support those elements in the GVN most sympathetic to the U.S. point of view. We understand, for example, that ARVN generals vetoed a proposal to increase GVN salaries. U.S. participation in planning for government pay increases would greatly improve the chances of securing agreement within the GVN on such a program. Finally, joint staff work would make it difficult for officials of the GVN to design programs directed more to advancing their own particular political position than to winning the war.

There are dangers in such a policy. If it appears that the United States wishes to run the GVN, the propaganda backlash could be substantial. Moreover, it might reduce GVN initiative and authority. But this need not be so if the Americans understand their role and receive proper guidance from their superiors. There is no reason why closer staff cooperation cannot be achieved if both sides realize the desirability for it. One thing is essential: U.S. officials must be prepared to give serious weight to GVN <u>political</u> considerations. Political issues are not only important to GVN officials but to winning the war. The United States will not succeed in strengthening the GVN if it does not assist them in meeting their political difficulties, as well as in strengthening their technical performance.

GVN Administrative Ability

New GVN programs are often considered undesirable because they will stretch even thinner the "thin veneer" of administrative capacity in Vietnam. But the main obstacle is not a shortage of people who can do the job; there is more administrative capability than is currently being used. The obstacle lies in the organization and motivation of those already available, particularly in the middle and lower levels of administration. More demanding leadership will call forth better performance from these people. An important corollary is that new programs are not necessarily in conflict with old. To do a better job in one area does not mean that a poorer job has to be accepted in another.

The "administrative problem" as it relates to rural programs is to find ways and means of increasing the authority and improving the performance of province, district, and village authorities. It is a lack of decentralized authority and financial control that is impairing rural administration, not an over-all shortage of administrative ability. A good start has been made in overcoming these obstacles. The current pacification plan provides a means of increasing the effectiveness of the present officials at the same time that it increases the urgency of doing so. Increased decentralization of control over funds, increased local control of programs, better and more numerous rural cadres, will directly improve the quality of rural administration.

In brief, we believe that much can be done to improve GVN performance with present administrative resources. Also, these resources can be increased quickly through the provision of foreign experts, not necessarily American, working directly for the various GVN ministries. Each ministry needs expert help. The United States should indicate its willingness to finance and promptly supply such assistance, and encourage the GVN to request it. Increased use of foreign specialists working within the GVN would not only improve the present quality of GVN policy-making and administration, but would also

provide a simple means of training Vietnamese officials and increasing Vietnamese competence.

Finally, it is important to place administrative difficulties in the proper context. In Vietnam today something must be done to bolster a government that lacks the popular support and self-confidence necessary for it to carry out an effective counterinsurgency program. There is no choice -- the United States must press the GVN to carry out a program that will solidify its support and strengthen the base from which it operates. If this results in administrative difficulties, the United States must stand ready to help out in any way it can. There is scope for significantly expanded joint U.S.-GVN staff work as well as for providing additional expert assistance directly to the GVN. That the task is difficult does not make it any less urgent.

U.S. Costs and Necessary Actions

We have recommended a significant change in focus for U.S. economic assistance in Vietnam to fit a unique situation. It is important to keep in mind that the objective in Vietnam is the winning of the war. The proposed programs are intended to support that objective; yardsticks appropriate to the war effort should be employed when evaluating the program.

A Rough Cost Estimate

We have not made a detailed estimate of the cost of the recommended programs. The actual cost of these programs will, of course, be a function of the particular set of programs implemented and the timing of their implementation. These issues have not been addressed in this Report. We have, however, estimated in a rough fashion the likely cost of the recommended programs to the United States to be sure that they are within reasonable bounds. The procedure followed was to estimate changes to individual line items in the GVN budget which would be implied by a program of the general character we recommend.

From these estimates we conclude that, if the proposed programs were vigorously supported, they would lead to an increase of approximately 5 billion piasters in the GVN budget during the first year. We then made an allowance for increased domestic production that would be called forth from this increase in expenditures and assumed an effective piaster-dollar exchange ratio of 100 to 1. These estimates lead to the conclusion that the total U.S. cost of these programs should be something less than $40 million. Furthermore, if the GVN adopts the expansionary economic program we are proposing, the benefits of this program will not only be assignable to the additional GVN programs, but also to previously committed GVN programs. In such a situation, earlier calculations of required aid may have been conservative in the sense that they overestimated the amount of non-project aid that would be required to prevent uncontrolled inflation. It is therefore possible that enough aid has already been appropriated.

All of this is, of course, highly uncertain. The United States should therefore be prepared to provide additional funds if they are necessary to start the desired programs. Under even the most pessimistic assumptions, the additional cost of the required programs is not high compared to the importance of the war and to the amount already being spent. Under the circumstances, it is certainly desirable to hedge against uncertainty by supporting potentially desirable GVN programs. Given the U.S. commitment in Vietnam, the alternative may be to escalate the war with all its cost implications, including the cost of additional U.S. lives.

We wish to emphasize, however, that it is not at all obvious that there will be a requirement for additional U.S. appropriations. AID money already appropriated is likely to remain unused unless the GVN shows more initiative than it has thus far. To ensure that the desirable programs are in fact initiated and that the already available AID resources are fully utilized should be a major short-run concern of U.S. policy.

More Effective U.S. Guidance

We have detailed in previous sections a number of actions that we believe the U.S. government should undertake in support of the proposed program. The present GVN is eager for guidance and assistance. It will drop or initiate programs simply because of U.S. opposition or encouragement. In fact, it listens so receptively to U.S. advice that Americans must be careful to present a consistent package of positive recommendations. The first requirement for improving GVN performance is to improve U.S. policy recommendations and negotiating techniques.

To improve its performance in this area, the United States will have to become more involved than it has to date in helping to design and to implement GVN programs. The necessity for and the inherent dangers in doing so have been mentioned earlier. The United States must commit additional staff with sufficient experience and ability if this activity is to succeed.

In this report we have emphasized that in our view the achievement of U.S. objectives in Vietnam requires a complex of interrelated programs carried out by an effective GVN; that success will at best be difficult and will probably remain highly uncertain for an extended period of time. Nevertheless, given the high priority the United States has given Vietnam, it is important to undertake appropriate economic, political, and military programs. We have focused on a set of civil programs which are designed to interact with other programs, primarily military, in a manner which should contribute to U.S. objectives. By themselves, these proposed programs are not sufficient to guarantee success. They are, however, in our opinion clearly necessary to U.S. objectives in Vietnam. Surely if the United States can come to a decision about what the GVN ought to do, the United States can give the Vietnamese the financial and technical support needed to do it.

Appendix A

LAND PROBLEMS

The Proposed GVN Land Reform

IN MAY 1964, a report to the Vietnamese Prime Minister was drafted by the Vice Prime Ministers for Pacification and for Economy and Finance, proposing a land reform program. Approval was hoped for in mid-June, with public announcement to follow soon after. This schedule must have been upset, however, as we have not heard of the program's promulgation.

Among the main program features are the following: (1) The amount of land (including ancestral land) that may be retained by a private owner is to be set at 15 hectares in South Vietnam and 4 hectares in Central Vietnam, as compared with a previous retention quota of 115 hectares for all Vietnam. (2) Land beyond these quotas will be expropriated, with payment to be 10 per cent in cash upon expropriation, the remainder in equal installments over twelve years at 3 per cent interest. Prices will be set at the levels established by the Land Reform Council at the end of 1958. (3) The expropriated lands will be sold to tenants at half-price, with payment to be made in twelve equal annual payments, interest free. The difference between the sale and purchase prices will be made good by the GVN. As the land prices set in 1958 are well below present levels, the purchase will be advantageous to the tenant and the annual payments easily met.

In our discussions with GVN ministers, we gained the impression that some mobile teams would be set up in Saigon to service trouble spots, but that implementation would be mainly the responsibility of existing local administration. Although the program is to refer to

the whole country, it is intended to be implemented primarily in the pacified areas, implementation spreading with the "oil stain," because these are the areas in which GVN administration can most rapidly and securely carry out the work and because it is desired to use these areas to display a quality of life that will attract peasants to the GVN cause.

Our doubts about this program revolve around the ability and willingness of local administrators to execute it. According to information obtained from the U.S. Embassy and USOM field staff and our own field trips, many of these administrators are themselves landlords. Those who are not tend to be obligated to landlords through family, business, and political ties. Thus the program seems to require these men to act strongly counter to what they perceive as self-interest. Tenants on the whole do not possess a counterbalancing influence in local affairs, nor is there at present any institution in a position to supervise compliance with the program.

Existing statutes protecting tenants often go unenforced, in large part because of the role of landlords in local administration. The tenants' response to announcement of a new program is likely to be skeptical, or at best one of wait and see. If the new program also went unenforced, it would appear merely as another act of bad faith, dividing the peasants from the rural administration. At the same time, landlords, who figure importantly in both civil and military hierarchies, would feel alarmed and attacked. In short, there seems a real danger that announcement of the present program would combine the worst outcomes of radical land reform and complete inaction. The problems of tenancy would not abate, but the class conflict on which the Viet Cong prey would be sharpened.

There is evidence that the GVN program was hastily drafted, without a careful investigation of the underlying facts or consideration of many of the possible consequences. Yet this is a venture in which haste may produce negative results. A better program can be devised. USOM and the U.S. Embassy have access to the necessary experts. Many of the dangers of the present plan could be mitigated through a more generous approach to the landlords. Material support from the Americans

could make this possible. The best course of action, therefore, would be delay in order to permit joint US-GVN consultations and the drafting of a more judicious program.

Suggestions for Land Policy

Vietnam's land system is complex in normal times and has become extremely complex as a result of a Viet Minh land reform during the war against the French, the abrogation of the Viet Minh reform by Diem, Diem's land reform, and the current assault on landlords and GVN authority led by the Viet Cong. We were not able to develop a reliable picture of the present state of land titles, nor of the relative roles of landlords and tenants, especially in areas that have passed through the hands of all the contending sides listed above. Any simple prescription, therefore, is likely to run afoul of many unanticipated dangers.

Under the circumstances, our preference would probably be to delay action on land titles until the facts are better known. As an interim policy, a more determined effort could be made in the pacified areas to enforce and perhaps improve upon existing statutes that provide for maximum rents and security of tenure. As areas undergo pacification, tenure contracts could be signed, with no collection of rent to be enforced in the absence of a contract. Collection of back rents should be suspended. Tenants would probably find themselves none the worse off and with a greater feeling of security concerning their right to till the land than when they were subject to VC tax levies and the uncertainties surrounding ultimate tenure generated by VC propaganda. Meanwhile the GVN would gain in stature, at least to the extent of having enforced laws often ignored under Diem.

Given the desire for more immediate action which seems to exist within the GVN, however, this cautious approach may not be practicable. If the GVN are indeed determined to undertake land reform, the proposal now under consideration could be modified to mitigate the possible consequences of the uncertainties it seems now to confront.

Matching Words and Deeds

For reasons already cited, there is probably little to gain, possibly much to lose, in an announcement that cannot be matched by implementation. On the other hand, it is very difficult to predict at the outset how much of the program can be carried out. The basic program, therefore, might provide for implementation through Land Reform Districts, to be established individually as local conditions permit. Reform would not be promised in any locality until a District were established, that is, until the central authorities could ensure that implementation could be carried out. If the program encountered unanticipated difficulties, the pace of execution could be slowed.

The Interests of the Landlords

Insofar as the GVN depend on landlords to provide civil and military leadership, it is not desirable to undermine either their morale or their moral standing by suggesting that their property can rightfully be taken for less than adequate compensation. The spirit of the land reform should not be one of taking from the avaricious landlord to compensate the exploited tenant. Rather the GVN should be showing compassion for the tenant's burden, but with no criticism of the landlord implied. Compensation for expropriated land should be generous, to minimize resistance from the landlords. It would probably be wise, too, to make most or all of the compensation in cash. Given the recent changes in regime, landlords may feel little confidence in promissory notes. If the reform is limited to pacified areas, the amount of land purchased in each year will be limited, as will be therefore the amount of liquidity released into the economy. Tenants, of course, should buy the land at a reduced price, with installment payments.

Interim Measures

As the reform may not be executed quickly, interim measures for protection of the tenant are important -- security of tenure and rental limitations. Even if the land reform bogs down hopelessly, these measures will assure the most fundamental tenant interests. Evictions

or sales by landlords for other than the most compelling cause should be suspended, to avoid a situation in which landlords could evade the ultimate intent of the reform by bringing in fictitious "tenants," "purchasers," and so on. Collection of back rents in newly pacified areas should be suspended.

Ensuring Fair Play

Even if the land reform proves beneficial on balance to the tenants, its good political consequences will be diluted or lost if it differs greatly in execution from the clear intent of the law. Announcement of the program introduces a new set of expectations, and departures from these may be interpreted as bad faith or miscarriages of justice. Land reform is a complex process, with many possibilities for error or manipulation. Within Land Reform Districts, there should be some representative, supervisory body. For example, Village Tenure Committees might be created with, say, five tenant members elected by the local tenants, two landlord members elected by the local landlords, and two public members chosen by the Village Council.

The foregoing suggests some areas in which modifications in the GVN proposals might be useful, but it does not begin to do justice to the complexities of the problem. Land reform is both an art and a science. The final program should be adopted only after careful consideration by experts familiar with both techniques of land reform and the sociology of the Vietnamese countryside.

Appendix B

POTENTIAL FOR YOUTH ACTIVITIES IN VIETNAM*

YOUNG PEOPLE ARE a large segment of the population of South Vietnam, as in any country with a rapidly rising population. They are a present and future source of recruits for the Viet Cong, and for the Government armed forces. In spite of the veneration of age typical of Asian rural societies, the young people are also a channel for changing attitudes. Finally, the youth is the group most directly affected by the lack of both amusement and opportunities for employment particularly in resettled hamlets.

Peace Corps Type Activities

Since the exit of the Diem Government there has been a flurry of interest among urban youth and student organizations in activities to help the rural people. There are said to be some thirty organizations now attempting to carry on programs of this kind. Many are of the one or two day work camp variety, but others are more substantial. Three of these programs are described below. These activities are of interest first because they should affect the attitudes of the youths and students taking part, many of whom will become civil servants, and give them a better understanding of the problems and attitudes of the rural people. Second, if properly carried out, these activities should give the villagers a greater sense of unity with the urban or elite group represented by the city youth. Third, some contribution to economic and social advancement in the villages should result.

*This memorandum was prepared by Curtis Farrar of AID/Washington at the request of the authors.

National Voluntary Service

An outgrowth of the Voluntary Youth Association, whose main program has been short period work camps, the NVS is sending 100 longer term volunteers to two locations this summer to work on a program including Hygiene and Public Health, Agricultural Extension, Education, and Social Welfare. The larger groups will break up into smaller teams and in the successive phases of their activity will bring local youth into the team to gradually replace the outsiders. The initial phases of the program cover May to August 1964. One million piastres have been provided through the IVS budget to support this activity. Although this group has sought advice and support from foreigners, including USOM, The Asia Foundation, and IVS, it is intent on retaining administrative control of its own program and has resisted detailed guidance from foreign experts.

Agricultural Students

Some 90 students for the agricultural colleges, principally the one at Saigon, are undertaking a summer program closely associated with the IVS volunteers. One important result will be to give practical experience to the agricultural trainees during their technical education. It is planned also to retain the best of the Vietnamese students and to develop an IVS type of Vietnamese organization around them.

Popular Cultural Association

This group is providing volunteers for educational work in rural or provincial areas during university vacation, through the Ministry of Education. Several groups of four have been placed in the IIIrd Corps area. The one at My Tho is teaching children of school age. The volunteers are paid an expense allowance of 900 piastres per month out of U.S. Rural Affairs funds, which they find inadequate.

Rural Youth

The principal rural youth group in which USOM has been involved has been the 4-T (modeled on the American 4-H), an activity of the

Ministry of Agriculture. This group includes youths aged 10 to 18. It is growing rapidly at present, and has some 1200 clubs with over 48,000 members. However, the degree of active participation by the members is not considered satisfactory, and the USOM adviser proposes to concentrate on increased activity rather than higher membership for the present. The 4-T relies on a network of 36 provincial agents, 137 district workers, and some 2000 local leaders. Periodic training programs are provided for these leaders.

Under the Commission for Youth and Sports there are also Provincial Youth officers, who have some training, but very limited means to carry on their programs.

There are a number of other national organizations with varying actual or potential effectiveness in rural areas. This includes Boy Scouts and Girl Guides, as well as a number of Buddhist and Catholic organizations, including labor groups.

Problems in Youth Program

1. In view of recent history and the political potentialities of youth organizations, the Government, or at least some elements in it, is hesitant about encouraging youth activities on a decentralized basis. Yet, there is presently no nucleus around which could be built a centralized organization that would command the cooperation of the diverse existing youth organizations.

2. In spite of the existence of the Inter-Agency Youth Committee, U.S. Government interest in this field is not yet effectively concerted. Within USOM itself, youth activities are carried on in a number of different offices. The degree of attention given to this question in various provinces depends largely on the personal interest of the Provincial Representative.

3. While supplies such as cement and Bulgar Wheat are relatively freely available for youth activities, piastres for cash expenditures, construction of youth centers, sport equipment, 4-T projects, etc., are scarce and uncertain.

4. There is a shortage of effectively trained and active youth workers, and particularly of persons experienced in organizing and carrying out projects involving large-scale voluntary labor.

Suggested Lines of Action

1. In pacification planning and programs, give a high priority, both in the GVN and in USOM, to youth activities.

2. Make piastres available at provincial and district level, including particularly funds for youth centers, credit for 4-T projects, and support for volunteer workers from urban centers.

3. Encourage the greatest possible insulation of the youth movement from politics and persuade the GVN not to try to centralize activities, but to support effective organizations and leadership wherever they may be. At the central level some coordination might be achieved through a Coordinating Council, on which all youth organizations could be members, and which might have some Government funds to grant to member organizations for worthwhile projects. At the town and rural level, advantage should be taken of the best available adult leadership and of any existing organizations on a flexible, pragmatic basis, supporting 4-T, Buddhist, Catholic, or School-centered groups as seems appropriate. Some coordination can be achieved through youth centers in which various groups would hold activities. Emphasis should be on self-improvement, participation in the economic and social betterment of the town or village, and recreation. Propaganda should not be given undue emphasis.

4. Provide increased in-country training for cadres, Provincial Youth officers, 4-T leaders, etc.

5. Review the responsibility for youth activities within USOM and other U.S. Government agencies in Vietnam to determine whether better coordinated and more effective support can be given to the GVN in this field. More use might be made of IVS volunteers who have previous experience with 4-H or similar activities, and of U.S. military

personnel who might expand present English teaching activities and supervise sports programs. Means should be found to check on the planning and execution of projects planned in rural areas for urban youth until both the GVN and the youth groups themselves have developed sufficient experience to deal adequately with the various logistical and organizational problems involved.

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