Chapter Three

Reform or Collapse: Economic Challenges during Vietnamization

Phạm Kim Ngọc

Phạm Kim Ngọc was born in Hanoi in 1928. He earned a bachelor's degree in economics with honors from Southampton University in 1952, and another degree in money, banking, and international finance from the London School of Economics. He left London for Saigon in August 1955 to run the Import Department of Credit Commercial Bank of Vietnam as it was opening for business. Ngọc worked in banking for the next eleven years and went into government service for a brief stint of six months under Prime Minister Nguyễn Cao Kỳ as deputy minister for economics in mid-1966. He finally left Credit Commercial Bank of Vietnam in 1967 to set up an investment company with a business associate. In October 1969, he became minister of economy in the government of President Nguyễn Văn Thiệu. Ngọc returned to banking, his lifelong interest, in March 1974 to set up an innovative agricultural bank called Ngân Hàng Nông Doanh, but this project was cut short in April 1975.

The Americanization of the war started in earnest in March 1965, with the landing of about three thousand American marines in Đà Nẵng. U.S. troops gradually took on more of the fighting as troop levels continued to climb significantly over the next three years. By mid-1969, they peaked at some 550,000 soldiers.

The Tết Offensive of 1968 drastically changed the political landscape in the United States. The American public was shocked when they realized that over half a million U.S. troops could not prevent the enemy from staging such a spectacular military offensive. In March, President Lyndon Johnson announced he would not seek reelection, and Richard Nixon was later elected as his successor on a platform of restoring peace in Vietnam. Weeks later, the Paris peace talks between Washington, Hanoi, and Saigon got started.

Meanwhile, the "Vietnamization" of the war—U.S. troop withdrawal—began. This was a difficult and painful process, militarily, politically, and economically. A major readjustment of thinking on the part of the Republic of Vietnam was required. Likewise, in the United States, the antiwar movement became more vocal and influential.

In order to replace the departing American troops, the Army of the Republic of Vietnam (ARVN) started to increase correspondingly. We aimed for nine hundred thousand soldiers, roughly 4.7 percent of the South Vietnamese population. In order to accommodate the growing defense burden, President Nguyễn Văn Thiệu reshuffled the cabinet in September 1969. He approached Nguyễn Hữu Hanh, the former head of the central bank, to serve as minister of economy, responsible for the transition from dependence on American assistance to self-sufficiency.

By tradition, and under normal circumstances, the minister of economy position was much sought after. It always had high visibility and prestige, but also carried heavy responsibility. All previous ministers had lasted no more than a year. Unbeknown to me, however, Nguyễn Hữu Hanh proposed my candidature instead, which was immediately accepted by President Thiệu and Prime Minister Trần Thiện Khiêm.

That same day, I was transported by helicopter to the presidential retreat in Vũng Tàu and ordered by Thiệu and Prime Minister Khiêm to appear on television to announce a new government austerity program. I pled clumsiness in public speaking, hoping to avoid the TV announcement, but my superiors quickly dismissed my lame excuse. Unwittingly, I thus became the center of controversy right at the start of my public career.

The 1969 Austerity Tax

That evening, totally unprepared, I delivered the speech on austerity. My deputy minister, Trần Cự Uông, had written the announcement for me on very short notice. But my mentor Nguyễn Hữu Hanh had already agreed in principle with this belt-tightening program, in consultation with American officials.

I was aware of the political risks connected with the minister of economy post; many friends advised against it. After all, I came to the ministry as a lone cowboy, with no staff of my own, no support from any political party, and no military background. Despite over a decade of work in banking, I had had barely six months' experience in government affairs. But I felt that addressing the challenges our country faced outweighed my own personal risks, so I decided in favor of the opportunity.

My position entailed working closely with the Ministry of Finance and the U.S. Agency for International Development (USAID). The immediate task was determining how to transfer privately held resources to the government in order to finance the war efforts. But this objective was stymied by certain laws, relics of the French system, requiring National Assembly approval of all fiscal proposals.

In order to raise funds for the war effort, we proposed implementing austerity taxes (*thuế kiệm ước*) on imports, which I outlined in my inauguration speech. Subsequently Deputy Minister Trần Cự Uông and I collaborated with Finance Minister Nguyễn Bích Huệ to prepare taxes on over two hundred categories of imports, from necessities like gasoline and diesel to luxuries like wine and brandy. We aimed to increase government revenue by 40 billion piastres. A large staff from both ministries handled the tedious job of fine-tuning the list of tax rates.

Next, Finance Minister Nguyễn Bích Huệ and I appeared before the assembly to negotiate and defend the austerity taxes. I'll always remember one elected representative demanding a lower tax rate on imported scooters—and then publicly criticizing me, after I agreed, for "doing a favor" for the scooter company. This was the moment when I lost my innocence in the world of Saigon politics.

In another instance, I was called to the presidential palace and instructed to remove newsprint import subsidies. But the local press, with a strong vested interest, was fiercely against the removal of these subsidies, which would result in higher newsprint prices. They condemned my pronouncement as "another government attempt to muzzle the free press."

A subsidy of newsprint imports made no sense to me—there was already a local producer of newsprint—but it created windfall profits for the newspaper companies. So the local newspapers went on strike, and the foreign press took notice. In response, I was ordered to restore this "fundamental privilege of democracy" after the minister of press and information declared the press to be "essential defenders of democracy."

Despite these quarrels, the austerity tax program was duly announced. The prices of luxuries but also basic necessities went up immediately. Old inventories were also illegally sold at the new prices. So even though our tax preparation had involved many principals and had been debated in public, critics pointed at me as the "partner" of profiteers.

But despite public indignation over my alleged misconduct and incompetence, the gain in revenue for the government was abysmal. The business community, from importers to retailers, made a killing because it was both impractical and beyond the capacity of Ministry of Economy officials to keep track of private-sector inventories, separating sales of old stock at the old prices from the sale of new stock at the new prices. In practice, the application of a myriad of tax rates—over two hundred different import tax rates, as I recall—was a nightmare. It only enabled smart importers to conspire with corrupt bureaucrats in order to evade taxes for personal gains.

We had hoped the austerity taxes would raise 40 billion Đồng; instead, they brought in only 4 billion Đồng of additional revenue, just 10 percent of what we had hoped for, while generating inflation and public outrage. Meanwhile, the 1969 budget deficit swelled to 50 billion Đồng. The black market rate for the dollar reached four hundred piastres. The 1970 national budget was forecasted to increase by 50 percent, from 131 billion piastres to 200 billion piastres in the first year of Vietnamization. U.S. domestic politics put pressure on the embassy and USAID to seek devaluation of the piastre, which had been kept at 118 piastres per U.S. dollar since the 1966 reforms.

In hindsight, the austerity tax fiasco enacted in October 1969 was due to poor timing, as much as ineptitude in implementation on my part. We imposed such heavy import taxes at a time when the import-based economy was severely shaken up by the prospect of price inflation at 50 percent and the simultaneous cutbacks of American aid. Hoarding and speculation were the order of the day.

The foreign press, which thought I had acted "courageously," reported that I had been overwhelmed by "vested interests." The local press was even worse, charging me with misconduct, with being in cahoots with profiteers and speculators, and with professional incompetence. They asked President Thiệu "for my head." Somehow, just by the skin of my teeth, I survived this fiasco. I believe I owed it to the president's confidence in me.

Working with the United States

The problem was that fighting a war the American way was not cheap—and definitely beyond our means. Between 1956 and 1975, total U.S. economic and military assistance amounted to $25.3 billion, or an average of $1.2 billion annually. At the peak, it was about $3.9 billion in 1973. The gross national product of South Vietnam was estimated at about $3.2 billion in 1972, so the peak year, 1973, saw American aid that was more than South Vietnam's entire gross national product.

Replacing expensive U.S. troops with South Vietnamese forces would be a real challenge. Our target was for the ARVN to expand to nine hundred thousand soldiers in two years. The U.S. government, however, looked at Vietnamization quite differently from the way that we understood it. The American economic counselor Robert Harlan demanded concrete evidence of our efforts toward self-help. He wanted major reforms and was anxious to see immediate action and results, such as increased tax revenues and stabilized prices. In other words, he wanted "shock therapy" and he wanted it immediately. Vietnamese leaders, on the other hand, were concerned about both the immediate survival and the long-term viability of the country.

Deep down, I had the feeling that the United States was trying to foist the Vietnamization program on unsuspecting Vietnam leaders without necessary increases in foreign aid, given the mood of the American public and in Congress before the looming presidential election in 1972. Mr. Harlan did not appreciate the travails we would have to endure in a new, democratic Vietnam. Nor did he take into account the limited capacity of our private sector to finance Vietnamization. I had the impression of being lectured, with much self-righteousness, on the political management of an economy in transition. Our government faced outright hostility from both the South Vietnamese and American public, while Mr. Harlan and my mentor Nguyễn Hữu Hanh goaded me with suggestions from the sidelines. We were in uncharted territory, since we had no historical data whatsoever with which to assess the impact and effectiveness of our revenue measures. I needed more time, and I needed more support for a slow and soft approach.

In the meantime, as a result of Vietnamization, the national budget deficit seemed to increase daily. Inflation soared, as the black market rate for the U.S. dollar hit the ceiling. To the foreign press, it seemed "immoral" for a country at war to demand American aid without increasing domestic taxes, when the streets of Saigon were swamped with luxuries and conspicuous consumption.

We were seen as a society detached from the reality of war and corrupted at all levels. Our inability to control our customs checkpoints was described as "an open scandal" by the American ambassador in his report to the president. In simple economic terms, we seemed to want both guns and butter, paid for by the American taxpayer. This did not conjure up a positive image, and it became a serious political issue, always high on the agenda each time officials from the two governments met. U.S. assistance to South Vietnam came to be seen by the American public as misguided at best, and squandered away by corruption at worst.

Already caught between a rock and a hard place, I was informed out of the blue by an American security official that my capable deputy minister, Trần Cự Uông, had some sort of secret relationship with the communists. I replied that that this was a matter for the higher-ups, since we had both been appointed by President Thiệu. Eventually, Thiệu dismissed Trần Cự Uông, and he went to work in the private sector.

Still, out of this unfortunate incident came the unexpected opportunity to work closely with another Ministry of Economy official, Nguyễn Đức Cường (see chapter 1 in this volume). We had known each other since 1967, when Cường was working as a specialist in the Directorate of Commercial Aid at the ministry. He was then drafted by the army and had reached the final stage of military training when he was discharged by special exemption from the Ministry of Defense. Indeed, many of our most talented technocrats were conscripted, and we had to allow them to serve at least nine weeks in the military before we could request them back. After Trần Cự Uông's departure, Cường took over the daily grind of the trade portfolio and eventually rose to become my deputy. Meanwhile, I was increasingly forced to negotiate with American officials and to market our government's policies to them, an unexpected role that I dreaded and was not always well-prepared for.

My first confrontation was with Mr. Harlan and his group of economists, who pushed for a "reform blitz" in an economy nurtured by American aid for over fifteen years. They dreaded the antiwar mood in the U.S. Congress and suspected their Vietnamese counterparts of harboring a dilatory demeanor.

The Americans wanted to withdraw "on schedule and with honor," and the fundamental question was whether or not South Vietnam would be in a position to take over the fighting without increased U.S. aid to soften the economic and social upheaval of Vietnamization. They all self-righteously believed that we could. Yet from my perspective, they misunderstood the reality of our challenging circumstances.

I had many meetings with officials at the highest levels of the U.S. government, and they were all very talented and capable. But the data clearly indicated that our defense spending was unsustainably high, and the American policymakers refused to grapple with the inability of our impoverished country to carry the full weight of Vietnamization in the long run.

Instead, the main American concern was that South Vietnam's economic woes did not threaten U.S. withdrawal or jeopardize Nixon's reelection prospects in 1972. Visiting American officials wanted to look at me straight in the eyes and hear me reaffirm the various measures we had planned, so as to prove our commitment to shouldering the burden of the war.

Still, not all Americans were unsympathetic. In April 1970, Vũ Quốc Thúc (see chapter 2) and I met with Deputy U.S. Ambassador Samuel Berger, and after a long conversation, I believe he came around to supporting our view.

Floating Exchange and Interest Rates

As a consequence of the austerity tax fiasco, I realized that we had no choice but to completely overhaul our entire economic and financial structure and to face head-on the challenges of devaluing the currency to reflect market conditions, adopting a realistic interest rate to combat inflation and modernizing the tax code to increase government revenue. But the first and most politically sensitive problem was tackling the black market in foreign exchange.

Of course, our proposed reforms required consent from the National Assembly, and I knew the ensuing debates would be just as debilitating as the struggle to impose austerity taxes. Grandstanding legislators enjoyed attributing the nation's misery to my personal incompetence, and I made sure to return the favor. They never forgave me for calling their intelligence into question. But then, fortunately, the president's legal assistant Vũ Ngọc Trản initiated what was called the Program Law, which bypassed the assembly and permitted President Thiệu to impose economic reforms by decree for a period of five months.

Of course, the assembly opposed this measure, and some elected representatives demanded my resignation in exchange for their support. After four months of dithering, they finally agreed to back just one of the Program Law's provisions: reforming the Đồng-to-U.S. dollar exchange rate. Henceforth, devaluation of the currency was now in the purview of the executive and could be implemented by presidential decree.

In order to soften the impact of currency devaluation on the economy, and to minimize political backlash, we decided to implement a crawling peg system, starting in October 1970. The National Bank of Vietnam would devalue the exchange rate only gradually, by a small percentage each time in order to meet our annual target. This floating rate also increased the purchasing power of U.S. aid. I want to emphasize here that what we did was revolutionary at the time; the world was still on a fixed exchange rate system, and the U.S. dollar did not leave the gold standard until August 1971.

Following the innovative crawling peg exchange rate reform, our next move was to address the problem of low interest rates—otherwise known as "cheap money." In the face of continuing currency devaluation and soaring inflation, cheap money was clearly a macroeconomic anomaly that needed to be dealt with. With budget expenses growing by another 30 percent in 1971, inflation was clearly unsustainable and intolerable, resulting in a catastrophic impact on consumer prices. The National Bank of Vietnam saw the need to rapidly reduce the amount of money in circulation.

The private Bankers' Association, on the other hand, had little or no incentive to change. They benefited from cheap money by fixing deposit rates at 2–4 percent, and loan rates at 7–9 percent, which were effectively "negative" compared with an inflation rate between of 30 and 60 percent. They claimed to keep deposit rates low due to "lack of employment of loanable funds" outside traditional commercial businesses.

As with the currency devaluations, we decided to adopt a floating rate system. In this system, the National Bank of Vietnam would adjust interest rates gradually, in small increments following a large initial adjustment. As a result, interest rates rose to 22 percent on one-year deposits, a level unheard of in Vietnam, and possibly in the world at that time.

Some American officials were wary about our innovative approach. I recall one meeting with a high-level U.S. Treasury official in 1970, who suggested issuing gold-backed treasury bonds to encourage the private sector to make loans to the government. Indeed, we certainly had an urgent need to sterilize the massive amounts of cash in circulation. But having been a banker for over a decade, I believed that private savers would be far more responsive to higher interest rates than to what they would see as the government's treasury bond bluff.

Sure enough, the public responded positively to the rising interest rates. Apart from its salutary effect on hoarding and speculation, "expensive" money increased private deposits in the third quarter of 1970 by 8 billion piastres, almost equal to our annual domestic taxes. For the first time, commercial banks began to invest significant amounts in treasury bills, with 90 billion Đồng—12 percent of the national budget—in 1974 alone. As a banker myself, I understood their financial conservatism and their historic preference for foreign borrowers. But now, to finance Vietnamization, we were finally able to employ sovereign borrowing in addition to taxation and the printing press.

In summary, the gradual adoption of both floating exchange rates and increased interest rates, with frequent small adjustments, had become the norm. As a result, for the first time since the establishment of the Second Republic in 1967, the banking system started to play an important role in the implementation of the government's monetary and exchange rate policies.

Toward Effective Tax Collection

The next challenge confronting us was to collect taxes from the general public more efficiently, without a repeat of the 1969 social upheaval and political uproar, least especially given the upcoming 1971 South Vietnamese presidential election.

Previously, our massive increases in defense spending to prosecute the war had been financed through a combination of American aid and deficit spending. But with U.S. aid scaled back and the ARVN forced to compensate for departing American troops, our budget deficit exploded. We simply could not cope with this double whammy.

While negotiating with the United States, I insisted that American aid should be phased out gradually and that our budget deficit could not be balanced right away. I did not dispute Mr. Harlan's insistence that we needed to increase our tax revenues, but taking into account the already agitated South Vietnamese public, I asked for time and patience, in light of these political sensitivities. My concern was to observe the art of the possible in a young democracy.

But the Americans had other ideas, self-righteously demanding a rapid response that ignored the reality of our political circumstances. On the tax issue, Mr. Harlan and I parted company from the very beginning. Concerned about antiwar sentiment in the United States, he insisted on immediate tax increases. I agreed that this might have produced some extra revenues, but it was not worth the cost—enormous protests on our streets. Given our tax collectors' impotence and corruption, and the determination of wealthy individuals to avoid paying their share, the burden was sure to fall on lawyers, doctors, teachers, and civil servants, and the political fallout would be untenable.

I tried to explain that harsh fiscal measures would result in disastrous consequences, even worse than the 1969 austerity tax protests. But Harlan insisted that both parties share the fiscal burden of Vietnamization. His approach amounted to a political time bomb, in the face of growing Buddhist and student unrest on the streets of Saigon.

To build support for my soft approach, I began courting foreign journalists, using an ARVN plane to take them and their spouses for weekend beach vacations. This provided a forum where I could state my case for the record without embarrassing my government.

Sure enough, the American press began to report that "Minister Ngọc says America needs to decide between troop withdrawal and economic assistance, because South Vietnam cannot cope with both demands at the same time." They also gave me the benefit of the doubt that I could deliver, if given sufficient time and support.

Next, I directed my public campaign toward our own journalists, and to the National Assembly. Nobody disputed the pressing need for us to take responsibility for our own defense against the communists. Yet there was no agreement on how to assume the enormous tax burden this would entail. Instead, the public was certain that the departing Americans would give us the wherewithal to replace them. And our minister of economy had already botched the austerity taxes, hadn't he, without punishment to boot? Journalists could not sell newspapers by supporting us, and in the face of public opinion, elected politicians refused to cooperate.

Thus, I knew I would also need support from the U.S. embassy. Fortunately, I was able to win over the ambassador, Ellsworth Bunker, in my struggle for political pragmatism over economic orthodoxy. In 1970, Bunker replaced Harlan with Charles Cooper, a former economic counselor whom I had known for several years. Charles Cooper and I began by reviewing our total domestic tax receipts. We both knew we needed to expand the tax base, from taxing imports to taxing domestic activity as well, in order to increase revenues. And we agreed to push ahead with a series of structural reforms, starting with monetary measures, which had attracted less opposition than tax increases.

Fortunately, Cooper did not see my reluctance to carry out the fiscal measures immediately as the usual South Vietnamese procrastination but, rather, as a wise delay. Mutual trust was a prerequisite to success, and we could not afford to lose precious time on fruitless discussion or confrontation. Backed by Cooper's influence, Harlan's two-year plan, which tilted the financial burden heavily toward South Vietnam, was shelved. I also pushed against American plans for price controls and rationing. At times, I could not help but feel that we were being accused of profligacy and untrustworthiness, and that it was the destiny of small countries to be pilloried on the altar of fiscal discipline by their duplicitous donors.

In fact, we had inherited our weak tax structure from French colonial times. Back then, failure to file and pay income tax was not a crime, and income tax debt owed to the government was only enforceable through civil courts. The government's tax revenue base had always been narrow, and other than customs duties, business licensing fees, and taxes on alcohol, tobacco, or liquor, the income tax was the only broad-based source of revenue.

Worse still, previous administration of income tax had long been ineffective and was generally seen as arbitrary if not corrupt by taxpayers. Beyond withholding taxes at the source on wages and salaries, we faced an uphill battle collecting from small unincorporated business and the public at large. Most kept no reliable accounting records, so tax collectors were forced to impose arbitrary negotiated settlements, often relying solely on visible evidence of wealth. The upshot was that tax assessments were often far lower than what taxpayers actually owed, even as they felt that our collectors were arbitrary and unfair.

Another challenging hurdle was our entrenched bureaucracy. But we simply had to work with them. We had to explain the fiscal predicament to our tax administration and devise a tax structure that was simple to administer, leaving little room for arbitrary improvisation by tax collectors.

Finally, there was the National Assembly, which refused to approve fiscal measures designed to transfer resources from the private sector to the public sector. They mostly belonged to the Saigon elite and, like me, were well sheltered in the capital city. On the other hand, our paltry collection of income taxes to finance the war was deemed offensive by foreign journalists and the American Congress alike, which further alienated the American public. There was no doubt that a quantum leap in internal tax revenues was imperative to reducing deficit financing, controlling inflation, and alleviating our dependence on foreign aid, which we knew would decline sharply in the near future.

Our team had decided early on that while a properly enforced progressive income tax had to be at the core of any fair domestic tax system, we also needed a broad-based tax on consumption to achieve our fiscal goal. The only question was which kind of tax would be optimal, given the context of the South Vietnam economy at the time. To achieve this goal, the Ministry of Finance fiscal team adopted a two-pronged approach. First, we sought to broaden the domestic tax base in a manner that would not inhibit future economic growth and development. And second, we worked to improve the efficiency and integrity of domestic tax administration. In pursuit of these objectives, we eventually settled on a value-added tax (VAT), since it was structurally more consistent with the goal of fostering economic development and exports, and the administration of this type of tax could provide more objective data for income tax assessment.

Conceptually, the VAT was a tax on the value added at each stage of the supply, production, and distribution chain, hence its name. In practice, it was a tax paid by the buyer at point of purchase and collected by the seller on behalf of the government. Failure to remit the tax to the government became a crime under Vietnamese law: taxpayers subject to the VAT could face criminal prosecution if they failed to comply. And by forcing business to record their purchases and sales, our tax collectors could obtain more accurate data. But the most attractive feature of the VAT was its broad base. It amounted to a tax on the largest component of gross domestic product, private consumption. And our calculations showed that the budget deficit could be meaningfully reduced merely by small adjustments to the tax rate.

Still, introducing the VAT was a leap of faith. At that time, it had only been attempted in a few European countries. We had no help from USAID, because the United States had no experience with the VAT, and it was not well understood even in academic circles. Little did we know that eventually the VAT would be recognized as a good revenue-raising measure and applied across Europe, Asia, and Latin America, with the United States still the exception.

The problem was the public had never heard of this type of tax—and was in no mood to learn, especially coming from young technocrats like us, who had little life experience. Worse still, when we translated "value-added tax" into Vietnamese, the result was a tongue-twister: "thuế trị giá gia tăng." With little public support for the measure, we had to bypass the National Assembly and impose the tax through presidential decree under the Program Law—a short-term solution to the weak existing legal framework. The initial rate was 10 percent, with an exemption on essential goods and services.

By 1974, our domestic tax structure resembled that of a modern nation, and we were able to increase tax revenues by 70 percent. Better still, despite the constant threat of cutbacks, American aid also increased moderately in 1971.

A Bold Initiative in Đà Nẵng

Having implemented major reforms including the flexible exchange rate, raised interest rates, and the value-added tax, we then continued structural reforms in favor of sustainable growth. We reduced the number of tax codes on imports from over two hundred to just four: 0 percent, 25 percent, 50 percent, and 200 percent. And we began to phase out protection of domestic industries in favor of a more free-market approach.

Through it all, the public and the press built me up as the front man, a lightning rod for the government's economic agenda. In reality, it was teamwork, with Charles Cooper and I leading a joint U.S.-Vietnamese team of experts. Charles and I set the plan, and colleagues at the Ministries of Economy and Finance, and the National Bank, carried it out. None of them enjoyed publicity, so I ended up being the group's spokesman to the outside world.

Of course, this meant that I became the bearer of bad news. It felt like I was the most controversial minister in the whole cabinet. But I was proud of our team, whose accomplishments were often lost amid the grandstanding and criticism. President Thiệu supported me behind the scenes, and Prime Minister Trần Thiện Khiêm did not interfere. This was more than I could have hoped for.

Looking back, I regard 1970 as the turning point in my tenure. It was then that the economy gradually began to stabilize. Inflation was brought back under 20 percent, and our floating exchange rate helped to tackle currency speculation. Banks began to buy government bonds, helping to raise much-needed revenue for the state.

Washington also seemed convinced that we were making progress, reallocating an additional $80 million in aid from other recipient countries in order to bypass the need for congressional approval. True, our structural reforms did not bring about change quickly enough to turn things around. Nevertheless, given the challenge posed by the ongoing war and American withdrawal, I believe that our team's achievements in 1970 and 1971 were significant.

But then, the war heated up again, and our reforms were overtaken by the 1972 "Fiery Summer"—another massive communist attack across the border. Economic policy, however innovative or pragmatic, suddenly felt irrelevant. Deficits hit the stratosphere, and inflation soared to 60 percent. Somehow our economic team managed to avoid retribution. For my part, I appealed to the business community to stand behind our armed forces. The Saigon Chamber of Commerce rallied behind me, visiting our troops at the front lines and giving away hundreds of millions of Đồng for the cause.

Nonetheless, I remained a lightning rod for controversy. In central Vietnam, long a hotbed of street demonstrations by Buddhists and students, I had abolished rice rationing in pursuit of my commitment to free-market principles. When President Thiệu arrived to visit, one province chief tried to disguise rice shortages by staging a "Potemkin" storage center. When it was revealed that his bounty of "rice" was actually no more than plastic bits and the remnants of shopping bags, my opponents were quick to hold me responsible.

Still, I remained committed to my ideals. During my trip to Đà Nẵng, now overwhelmed by refugees fleeing the violence, I rejected the standard view that humanitarian calamities are best solved by massive government relief. Instead, the maverick in me saw the refugee crisis as a problem of temporary unemployment. I was sure the dislocated farmers preferred to work rather than remain on the dole. So I set up a special agency alongside the relief camps, giving refugees the choice to work instead of accepting handouts.

The agency, known as the Agency for the Development of the Da Nang Area was managed by an executive from Shell Oil Saigon. And we were eventually able to secure funding and support from Charles Cooper and USAID. I hoped the project, which we called "the poor helping the poor," would serve as a model for other war-torn provinces.

And by all accounts, it was a success, given the circumstances. Refugees were put to work cleaning up sewers, digging irrigation canals, and contributing to public works in poor areas of Đà Nẵng. Later, it was expanded to Saigon and the other military regions, employing some thirty-two thousand people.

Looking Back

As the year 1973 began, things seemed to have settled somewhat. The Paris Peace Agreement was signed on January 23, and the last remaining American combat troops left sixty days later. That April, President Thiệu flew to California to meet with President Nixon. Our entire economic team was allowed to join, to help negotiate post-cease-fire aid with the American experts. We had been hard at work on a Keynesian model for developing the economy in a peace environment. But in the end, peace proved just as elusive as American aid.

In this conflict, there were two administrations and two armies at war in South Vietnam. This made our task of enforcing fiscal discipline, fighting inflation, and economic restructuring enormously challenging. We were asked to assume the financial costs of the war, though they were clearly well beyond our means. This endangered the very existence of our young democracy. In the face of this economic conundrum, both parties—the Republic of Vietnam and the United States—saw things through their own perspectives. Our American advisors moralized that "it was time for Vietnam to stand on its own feet" and complained that our inflation was compounded by the fact that South Vietnam's "haves" paid no taxes. Foreign observers saw conspicuous wealth in a country at war: motorbikes, televisions, and every kind of luxury. Economists criticized what they saw as a country that "consumes much, but produces little." Meanwhile, our politicians kept approving more expensive budgets but shied away from unpopular revenue-collecting measures, instead blaming the situation on incompetent ministers. For too long, we had avoided the political taboos of currency devaluation and taxation whenever confronted with the structural imbalances of our economy.

Still, looking back, I believe our reforms, carried out despite significant factors beyond our control, withstood the test of time.