

Attached to:

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O.T. - Dr White - drafts

Commerce -

423927 4-4-63

ECONOMIC DEVELOPMENT

Several surveys have been made of the resources and potentialities of the Trust Territory of the Pacific Islands during the period that this area has been under the jurisdiction of the United States. Further studies will be needed to explore new opportunities for development, but the general picture of the Territory is well known. It is a region of small, widely-scattered, tropical islands with limited resources. The population is relatively small, and most of the people still live under rather primitive conditions. However, improvements in public health and education that have been made under U.S. administration are resulting in rapid growth of the population and rising expectations of the people.

The United States has had long-range policies and plans for the development of the Territory, designed to fit the physical and human resources of the islands. These policies and plans, which date back to the Second World War, are restated and elaborated in the High Commissioner's annual reports to the United Nations and in budget statements and work plans. The basic policy of the United States has been to reserve the resources of the islands for the use of the inhabitants, and to assist the people in becoming economically self-sufficient. The United States cannot be accused of exploiting the economic potentialities of the Territory for its own benefit, or of pushing the people into development programs for which they were not ready. The more common criticism nowadays is that the islands have not been developed fast enough.

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Substantial progress was made after the Second World War in rehabilitating the people of the Territory who had been made destitute by the hostilities. Since then, the development of the islands has proceeded at a slower pace. Most of the pre-war industries, which were largely destroyed by the war, have not been rebuilt. These industries, such as the sugar industry and the drying of bonito, were designed to serve the Japanese Empire and were not considered to be economically feasible for the indigenous people after the repatriation of the Japanese settlers and other oriental workers. Up to now, no major new industries have been developed to take the place of these pre-war industries.

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The total income of the islands has risen gradually over the years, but income per capita is still very low. In FY 1962 the estimated total cash income of the islands, which is made up largely of wages and export earnings from copra, exceeded six million dollars, but this amounts to only \$76 per capita. Most of the people share very little in this cash income. They continue to subsist in their traditional ways using rather primitive tools and methods.

At the same time, the population has been increasing rapidly. In recent years the net annual increase in population has averaged about $3\frac{1}{2}$ percent. At this rate the population will double in twenty years. The subsistence economy cannot be expected to support so many people at an adequate standard of living. Population pressure is already apparent on some of the smaller islands.

More comprehensive development plans must be prepared to cope with these problems. The Territorial Government has a planning and development organization, but it needs to be strengthened. Economic development boards are now functioning, or are scheduled to be organized, in each district, but they are not fully representative of the people. The elected district congresses also have economic committees which consider development problems. At the Territorial level, economic problems have been under study by a subcommittee of the elected Council of Micronesia. Technical assistance is provided by a small staff of experts in agriculture, fisheries, cooperatives and marketing, business methods, economics, and community development.

The Territory needs a complete system of planning and implementation extending from the Territorial level out to the smallest inhabited island. * This development organization should have access to the best technical assistance that can be provided by the United States.

An adequate development fund should also be established to supplement the capital that may be available from private sources. Since most of the island people are lacking in modern business experience and initiative, this fund should be used not only for loans and loan guarantees, but also for pilot projects to test the feasibility of new industries.

The United States has spent a substantial amount of money since the Second World War on the rehabilitation and development of the private sector of the economy, but the scope and magnitude of this program has not been adequate. Much more money has been spent on the public sector, mostly for administrative expenses and for facilities that were considered

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to be essential for the proper administration of the Territory. In the future, greater attention must be given to the improvement of public facilities and services, such as transportation, public utilities, and communication, that are a prerequisite for economic development. For example, better roads on the islands and more regular shipping service throughout the Territory would greatly stimulate economic growth.

Construction standards in the islands must be improved. In the past, both the government and the people of the Territory have had to make extensive use of quonset huts and other salvaged military building materials. Future construction should be of a more permanent character, designed to suit the climatic conditions and cultural background of the area. The Territorial Government should take the lead in this field, both in its own construction program and in helping the people to replace substandard buildings and homes with more adequate structures.

Public work and public employment will probably continue to be a major element in the economy for a good many years to come. This can serve as a training ground for future private employment. W. J.

The wages of Micronesian employees of the government will have to be increased during the next few years. The original Micronesian pay scale was based on the assumption that the Micronesian employees would be working near their homes and would either produce their own food or acquire it from their relatives at a very small outlay of cash. This system has begun to break down as more of the people are employed away from home, and a shift is made to a cash economy. Some increases in the Micronesian pay scale were made last year. Micronesian employees who live away from their home district also receive a pay differential. This

differential was recently raised from 15 to 25 percent. However, the general level of wages of Micronesian employees is still far below the compensation of American employees of equal training and skill. Higher salaries are especially needed to attract the younger Micronesians who have studied abroad. Their skills will be lost to the islands if they cannot be offered better salaries.

As wages are raised, the people must be encouraged to save more and to invest their savings in homes and business. The present rate of saving in the islands is too low to provide very much of the capital needed to develop the economy of the Territory. In designing the tax system of the Territory, special attention should be given to taxes and tax incentives that will encourage savings and capital formation.

Steps are being taken to supplement local capital and know-how with selected American investments. This is possible under the President's directive of August 23, 1962 to facilitate the free entry of American citizens, investments, and flag vessels into the Territory. Naval clearance will no longer be required of American citizens and of ships entering non-defense portions of the Territory, but the High Commissioner will continue to exercise necessary controls. The advisability of admitting foreign businessmen and foreign investments is another question. The Trusteeship Agreement provides that all foreign nations and companies, other than American, must be accorded equal treatment. This could lead to serious problems. However, it should be possible to admit foreign tourists into non-defense areas, and foreign vessels for limited purposes, such as the unloading of fish.

These steps are being taken with due regard for the interests of the local people. New industries developed by American capital will, of course, employ local labor. As the savings and abilities of the people increase, they will be able to participate more actively in the ownership and management of these new enterprises. Industries that might require the introduction of foreign labor will not be encouraged to become established in the Territory. The resources and economic opportunities in the islands are too limited to justify opening the doors to immigration.

Agriculture has always been the backbone of the development program, and this should continue because agriculture is still the major source of livelihood in the islands. But present methods of farming and gardening are still very inefficient. Too many people are engaged in producing too few agricultural products. Too much food is imported that could be grown in the area. The diet of many of the people is inadequate, especially at certain seasons of the year when staple crops and fish are in limited supply, and cash is not available to purchase imported food. Economic progress will be retarded until agricultural efficiency has been improved and production diversified. Then, more of the labor force will be available to engage in other productive work. Efficient agriculture can also make a much larger contribution to the export earnings of the islands.

Homesteading of agricultural land by citizens of the Trust Territory should be accelerated. At least two distinct types of homesteads are needed: (1) Small subsistence homesteads for those who have other sources of livelihood, and (2) large homesteads for full-time farming by modern

in building small hotels and cottages that blend into the natural surroundings. Areas of unique, scenic beauty, historic interest, or of special recreational value should be preserved in public parks.

The prospects for any high degree of industrial development in the Trust Territory are not very promising at the present time. The islands lack the power resources and basic raw materials that are usually considered to be essential for industrial development, but there are some possibilities. Plants can be built to process the present and potential export products of the islands, such as coconuts and fish. This will provide additional employment and raise export earnings. Some small industries can also be established to produce for local markets. This will help to reduce the heavy dependence of the islands on imported goods.

Products of the Trust Territory should be admitted duty free into the United States. The volume of this trade will probably never be large enough to upset American production of competing industries. The products of the islands are already under considerable disadvantage because of the great distance and high cost of transportation to the United States. So it would mean a great deal to the fledgling industries of the Territory to be able to sell their goods in the United States without paying duty.

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Merchandizing and marketing also need improvement. The Government of the Trust Territory has long followed a policy of encouraging and assisting in the establishment of private trading companies and stores. The well-managed stores have been successful, but the others are inefficient and expensive. Local shareholders and directors have often not understood good business practices, and have begun to declare large dividends before their business was on a sound footing. Some of these companies that have borrowed heavily from the Territorial loan fund may have to reorganize as cooperatives in order to serve their communities better. One trading company has already done so, and two others are considering the same step.

Throughout the economy, the general goal of the development program should be to introduce modern efficient methods that will make it possible for the people to sell their products and services at home and abroad at competitive prices. This is the only way that the people of the Territory will ever be able to raise their standard of living to a modern level.

In summary, the Task Force recommends that the following steps be taken to develop the economy and improve the standard of living in the Trust Territory:

1. Prepare more comprehensive development plans.
2. Strengthen the planning and development organization at each level of government, and make it more representative of the island people.

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3. Extend to the government and people of the Territory the best technical assistance that is available in the United States.
4. Establish a development fund with an initial capitalization of at least one million dollars to fill the gap between available private capital and the volume of investment needed to maintain an adequate rate of economic growth.
5. Rehabilitate and expand the public facilities and services, such as transportation, public utilities, and communication, which are essential for the development of modern business and industry in the Territory.
6. Encourage and assist the people in replacing substandard buildings and homes with better structures. Both public and private buildings should be designed to suit the climatic conditions and cultural background of the area.
7. Gradually raise the salaries and wages of Micronesian employees of the government to a more adequate level. ?
8. Encourage more savings, through banks, credit unions, and re-investment in business, so that the people can participate more fully in the development of the economy.
9. Design an efficient system of taxation and tax incentives that will stimulate capital formation.
10. Encourage the best type of American businessmen to participate in the development of new industries which the local people lack the capital and know-how to establish. This is now possible under the President's recent directive to facilitate the free entry of American citizens, investments, and flag vessels into the Territory.

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11. Admit foreign tourists with proper credentials into non-defense areas; also, foreign flag vessels for specific purposes, such as unloading fish. The advisability of admitting foreign businessmen and investments will require further study.
12. Accelerate the development of agriculture as the major source of livelihood and of export earnings at the present time.
13. Expedite the homesteading of agricultural land by the people of the Territory. Wherever there is an adequate supply of agricultural land, the homesteads that are intended for full-time farming should be big enough for modern farming methods. Public land not needed or nor suitable for homesteading should be managed constructively as public forest, range, parks, or demonstration farms.
14. Continue to encourage the formation of producers' and consumers' cooperatives and credit unions as a means of transition from the indigenous economy to more modern business methods.
15. Develop the offshore fisheries and the tourist potentialities as the two largest undeveloped resources of the Territory.
16. Develop modern industries to process coconuts, fish, and other export products in order to increase the export earnings of the islands.
17. Enact Federal legislation to permit the free entry into the United States of products produced or processed in the Territory.
18. Develop import-saving industries, wherever feasible, in order to reduce the heavy dependence of the islands on expensive, imported goods. Service industries should also be developed and improved.
19. Improve the efficiency of merchandizing and marketing of both local produce and imported goods.

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