



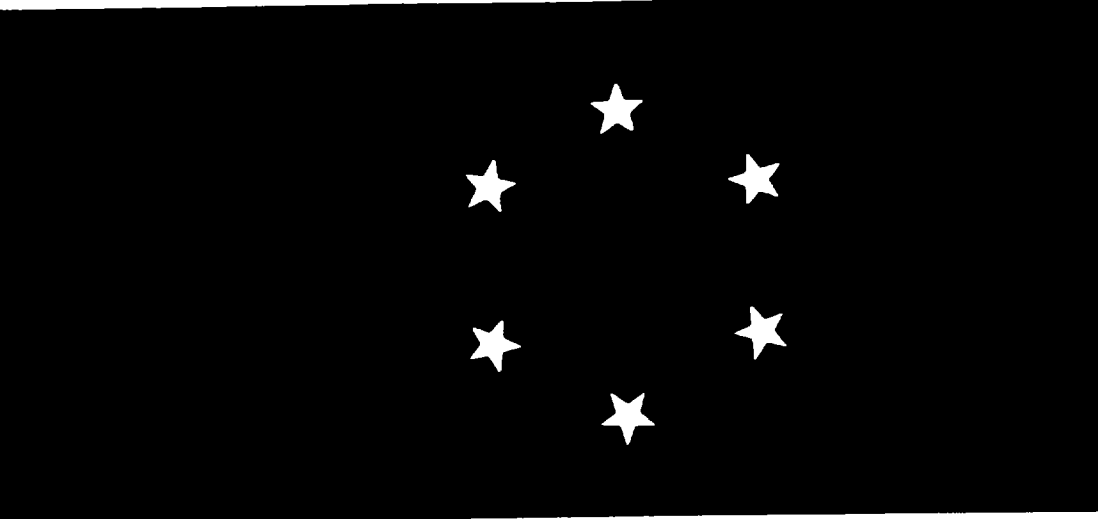
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# ECONOMIC DEVELOPMENT PLAN FOR MICRONESIA:

A Proposed Long-Range Plan for Developing  
the Trust Territory of the Pacific Islands

## PARTS III & IV

December 1966

Robert R. Nathan Associates, Inc., Washington, D. C.

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## PART III

### THE ECONOMIC IMPACT OF GOVERNMENT EXPENDITURES AND PROGRAMS

Past, present, and future economic conditions in the Trust Territory economy have been, are and will be largely determined by the size and emphasis of the expenditures and programs of the Trust Territory Government. Both the impact of the direct dollar expenditures and the impact of the programs will exert a major influence on the direction and rate of economic development in the Territory. The Government's activities and impact are described and analyzed, and recommendations are presented in Part III.

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ECONOMIC DEVELOPMENT PLAN  
for the  
TRUST TERRITORY OF THE PACIFIC ISLANDS

Submitted  
to the  
HIGH COMMISSIONER

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The total Report is issued in three separate bindings.

Part One Binding contains

Preface

Introduction

Part I: Conditions, Problems, Possibilities;  
Policies, Directions, and Goals

Chapters 1 - 3

Maps (inside back cover)

Part Two Binding contains

Part II: Expansion Possibilities by Economic Sectors

Chapters 4 - 9

Parts Three and Four Binding contains

Part III: The Economic Impact of Government Expenditures  
and Programs

Chapters 10 - 12

Part IV: Total Expansion Potential; Resource Needs,  
and Immediate Priorities

Chapters 13 - 14

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## CHAPTER TEN

### SIZE, DISTRIBUTION, IMPACT OF GOVERNMENT SPENDING AND RECEIPTS

Government spending is now and for some time in the future will be by far the largest factor in the Trust Territory economy. Both through the direct impact of the dollars spent, and through the impact of the programs undertaken, Government expenditures are the major determinant of economic conditions and dwarf all other determinants by comparison.

This Chapter looks at the overall impact of the Government-financed activities, not only of the Trust Territory Government (which is far greater than all other governments combined), but also of Micronesian governmental units (Congress of Micronesia, district legislatures and municipal councils). The impact of direct expenditure of other United States Government agencies whose purposes lead them to undertake programs and to spend money in Micronesia are also assessed.

#### TOTAL GOVERNMENT EXPENDITURES IN THE TRUST TERRITORY

Estimates of the recent and present annual rate of total government spending in the Trust Territory are presented in Table I.

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TABLE I

Total Government Expenditures in Micronesia  
(by spending units)

(Estimated Annual Rates, 1965-1967)

	Dollars	Percentage of Total
Trust Territory Government Administration	\$21,000,000 <sup>1/</sup>	90%
Other United States Government		
Weather Bureau	130,000	
United States Post Office <sup>2/</sup>	40,000	
Wage Payments to Micronesians		
Kwaj. Military Installation	1,400,000	
Coast Guard	30,000	
TOTAL	1,600,000	7%
Micronesian Government		
Congress of Micronesia	350,000	
District	250,000	
Municipal	100,000	
TOTAL	700,000	3%
GRAND TOTAL	\$23,300,000	100%

**Source:** Compiled, derived, and estimated from figures obtained from various reports and departmental files of the Trust Territory Government and from figures and information obtained through interviews with headquarters and district administrative officials, and with members of the Congress of Micronesia, the district legislatures, and several of the municipal councils, local businessmen, and others.

**A Note of Warning:** The figures in this table and in subsequent tables in this Chapter are estimated on the basis of information and data compiled from a wide variety of sources. Most of the sources provide little basis for precise estimates. The error in some of the minor and/or most difficult to estimate figures may be as great as fifty percent. The analyses and conclusions in the text take into consideration the limitations of these data. Figures are rounded to prevent the illusion of precise accuracy.

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Footnotes to TABLE I

- 1/ This approximate expenditure figure for the Trust Territory is larger than the \$17.5 million budgetary limit on appropriations and grants, as a result of expenditures from commercial revenues and fund accounts and the expenditure of funds "carried over" from previous years.

In the years following the major increases in United States grants (the authorization was increased from \$6.5 million in 1961 to \$15.0 million in 1962 and to \$17.5 million in 1963), Trust Territory Government expenditures did not expand rapidly enough to use up all the available funds. The unspent monies were carried over into the 1965-1967 period. These carryover funds have made it possible for the Government to spend at a rate somewhat higher than current appropriations and grants would have made possible. Unless there is some increase in the level of United States appropriations and grants during the 1967-1968 period, there will have to be an absolute reduction in the rate of Trust Territory Government expenditures during those years.

- 2/ Only the direct payments to Micronesian employees are included. Many millions of dollars are actually being spent by the United States Government at Kwajalein, but since the bulk of these expenditures neither flow into the Trust Territory economy nor produce services or goods which enter the local economy, only the payments to Micronesians are included.

The figures for the Trust Territory Government are reasonably accurate. The expenditures for Micronesian governmental units, especially the municipalities, are very tenuous estimates.

Estimates of Micronesian government expenditures are partly based on local government budgets. The municipal governments budget funds which may or may not be forthcoming, from current taxes, from assets they hold, and from past-due taxes. Actual post-hoc local government expenditure figures generally are not available. Even if the figures presented for the Micronesian governments were in error by as much as 50 percent or more, however, the totals, from the point of view of economic impact, are so very small that the error would not distort the conclusions regarding the impact of total government expenditures on the Trust Territory economy.

Table I shows total government spending flows into or through the economy to be estimated at \$23.3 million, of which Trust Territory Government spending accounts for about 90 percent and other United States Government expenditures account for about 7 percent. The remaining 3 percent is made up of expenditures by the Micronesian governmental units.

RELATIVE SIZE OF BASIC ECONOMIC SUPPORT PROVIDED BY GOVERNMENT EXPENDITURES AND ACTIVITIES

The purpose of this section is to present estimates of the

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magnitude of government spending impact. The effect of government spending can be assessed in at least the two following ways: (1) in terms of the government's direct dollar expenditures which add to and help to support the money and market sectors of the economy, and (2) in terms of the total value of government "production" as a part of the annual net product or annual real income of the society.

Table II illustrates the relative importance of government activities in supporting the money and market sectors of the economy. Table III shows the relative importance of government programs and activities in producing the annual "Net Territorial Product" or "Net Territorial Income" of the Trust Territory. The figures presented in Tables II and III are estimates, and are meant to indicate general and relative magnitudes rather than precise dollar amounts.

The dollar flow into the Trust Territory economy results from trade, travel, and government expenditures. The annual total of this inflow is shown in Table II to be about \$12.3 million. Of this total, about three-fourths (\$9 million) is provided by government expenditures, and the remaining one-fourth (\$3.3 million) comes from exported goods and sales to travelers.

TABLE II

Role of Government Expenditures in Providing Dollars to Support the  
"Money and Market" Sector of the Trust Territory Economy

(Estimated Annual Rates, 1965-1967)

		<u>Dollars</u>	<u>Percentage of Total</u>
Total New Dollars Introduced by Government Spending			
Total Government Spending (all Govern- ment Units) from Table I	\$23,300,000		
Subtract:			
--estimated "escape dollars"	11,300,000 <sup>1/</sup>		
--local commercial revenues	1,900,000		
--local taxes	<u>1,100,000</u>		
Total		\$ 9,000,000 <sup>2/</sup>	73%
Total New Dollars Introduced by Exports, and Sales to Travelers			
Exports			
Copra	\$ 2,500,000		
Scrap Metals	400,000		
Offshore Fisheries	150,000 <sup>3/</sup>		
Inshore Fisheries	70,000		
Handicrafts	60,000		
Vegetables	50,000		
Trochus Shells	30,000		
Expenditures of Travelers	<u>70,000</u>		
Total		<u>3,300,000</u>	<u>27%</u>
Grand Total		\$12,300,000 <sup>4/</sup>	100%

Source: See Source Note and Note of Warning, Table I, above.

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Footnotes to Table II

1/ Dollars paid for direct purchases of equipment, supplies, vehicles, construction materials, etc., from outside the Trust Territory have no direct dollar impact on the local economy. Also, that part of non-indigenous salaries which is not spent in the Trust Territory has no direct local impact. (Table V, below, presents a comparison of impact dollars and escape dollars from Trust Territory Government expenditures)

2/ This figure can also be derived in the following way:

Add: Total direct impact dollars from:		
Trust Territory Government expenditures (See Table V for derivation of this figure)		\$7,800,000
Wage payments of military and other U.S. Government agencies to Micronesian residents		1,600,000
Direct expenditures by Micronesian governments		<u>700,000</u>
	Total	10,100,000
Subtract: Total dollars withdrawn by local taxes collected		<u>1,100,000</u>
	Total New Dollars Introduced by Government Spending	\$9,000,000

3/ This figure includes only the dollars brought into the Trust Territory economy by the Van Camp fishing operation in Palau. Only wages paid to Micronesians, local spending by foreign fishermen, and local payments for supply, repair and maintenance services are included in this figure.

4/ This figure includes only dollars flowing from outside the Trust Territory to people and businesses in the Territory. Incomes received by Micronesians from dollars already circulating in the Trust Territory (from local sales of goods and services) are not included in this figure.

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The significance of these dollar flow estimates is that the dollar flow is ultimately responsible for all market directed or money earning activities; government activity (mostly United States grants) now accounts for about three-fourths of this dollar inflow.

Table III shows that the estimated total dollar value of all goods and services available for use in the Trust Territory plus net additions to capital facilities currently amounts to about \$38.3 million per year, or about \$430 per capita. About one-half of this total product, or "real income" consists of government provided (both locally produced and imported) goods and services; about 35 percent results from local production of both subsistence and locally marketed products; the remaining 18 percent comes from goods imported into the private markets of the economy. These estimates indicate the sources of the total economic product available to be distributed among and to support the people of Micronesia.

#### EVALUATION OF ABSOLUTE AND RELATIVE SIZE OF GOVERNMENT EXPENDITURES

The domination of the Trust Territory economy by the Government is the most important feature of the economy. From the point of view of economic development potential, some of the effects of government domination are desirable; others are undesirable.

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TABLE III

Value of Goods and Services Available for Consumption and Investment in the Trust Territory<sup>1/</sup>

(Estimated Annual Rates, 1965-1967)

	<u>Value</u>	<u>Percent</u>
<u>Value of Goods and Services Provided by Government</u>		
Total Government Expenditures	\$21,800,000 <sup>2/</sup>	
Subtract Maintenance and Depreciation	<u>3,600,000<sup>3/</sup></u>	
	\$18,200,000	47
<u>Value of Goods and Services from Private Production</u>		
<u>(Unduplicated)</u>		
<u>Subsistence Sector: 4/</u>		
Agriculture	9,000,000	
Fisheries	1,500,000	
Manufacturing, Construction and Services	<u>500,000</u>	
	11,000,000	30
<u>Commercial Sector:</u>		
Domestic Trade and Services	2,000,000 <sup>5/</sup>	
Agriculture and Manufactured Products for Domestic Use Plus Construction	100,000	
Production of Goods for Export	<u>3,300,000</u>	
	5,400,000	14
<u>Value of Goods and Services Commercially Imported</u>		
<u>In Excess of Exports</u>	<u>3,700,000</u>	<u>9</u>
<u>TOTAL VALUE OF GOODS AND SERVICES FOR CONSUMPTION AND INVESTMENT</u>		
	<u>\$38,300,000</u>	<u>100</u>

Source: See Source Note and Note of Warning, Table I, above.

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Footnotes to Table III

- 1/ This table presents a rough measure of the total value of all goods and services available in the Trust Territory, whether derived from local production or from external sources. Those provided by Government are valued at cost, and those from the private sector are valued at local prices. Net capital investment is included along with current consumption but not shown separately. No attempt has been made to exclude goods and services used by foreigners while in the Territory.
- 2/ This figure derived from Table I assumes that of the total of \$1,600,000 paid directly to Micronesian residents by United States agencies, only the \$100,000, which is included, represents the value of services provided for the economy of Micronesia (some of the Post Office and Weather Bureau operations). The remaining \$1,500,000 (primarily military expenditures), which is excluded, is spent to produce goods and services, not available to Micronesia. Expenditures other than for local labor are not directly relevant.
- 3/ This figure includes \$3.2 million for depreciation and \$.4 million for maintenance.

The expenditures which are made to maintain and/or replace in the same condition, previously existing physical assets, add no new net product to the economy and therefore must be subtracted from total expenditures to find the net value of goods and services provided by the Government. Also, during each year the value of each existing building or piece of equipment declines somewhat and is "consumed" as it approaches the end of its "useful life." The amount by which existing facilities decline in value must be subtracted as depreciation from the amount by which other facilities and fixed assets are increased in value by new construction, purchases of new machinery and equipment, and other additions of valuable assets to get the net addition of assets and facilities.

The total value of existing useful fixed assets owned by governments in Micronesia is estimated to be about \$45 million. The average length of useful life of these assets is estimated to be about 15 years. Therefore a depreciation rate of about 7 percent per year, or \$3.2 million must be offset by maintenance, reconstruction, replacements, or by the production of other goods and services before there are any net additional facilities and fixed assets.

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Footnotes to Table III, continued

- 4/ National accounts for the advanced nations of the world generally exclude goods and services produced in the "subsistence sector" (i.e., items produced for home consumption) because of their small magnitude. Also, there is the problem of difficulty of measuring the total value of the output of these nonmarketed products. Though based only on the roughest estimates, the subsistence production in Micronesia is included because of its relative magnitude.

The values presented for subsistence sector production should not be considered precise. So far as possible, estimated local values have been assigned to estimated total outputs. If all the goods which are presently being produced and consumed in Micronesia were to be replaced by sufficient quantities of imported goods to provide equivalent levels of consumption, the cost of the imported goods would probably amount to between two and three times the \$11 million figure presented in Table III. In principle the value of any imported, Government-supplied or private commercial sector supplied goods and services used as raw materials or components are deducted in the \$11 million total for subsistence production.

- 5/ The figures for market sector production include only the net value of products and services actually produced. It is the value added estimates in the local economy which are presented. These figures exclude (1) the value of all imported goods used in local production; (2) the value of goods saved and carried over from previous periods; or (3) the value of capital used up in the production process, that is, depreciation on fixed capital.

### Desirable Economic Effects

Large scale government expenditures are indispensable in the economy of the Trust Territory if the standard of living of Micronesians is to be maintained. Total economic activity is directly related to government spending. The welfare of the people is dependent on government spending, both because of the direct value of services provided, and because of the impact of the injections of government dollars. These dollar injections directly support incomes, indirectly result in respending, and support trade, service and most of the market-oriented production and employment in the Trust Territory.

Government dollar flows provide the basis for healthy local development through enterprise stimulation, employment experience opportunities, increasing the sophistication and abilities of the people, providing sources of savings and capital accumulation, and other such direct and indirect effects.

Government programs, financed by the government expenditures, can provide the essential ingredients of infrastructure, resource development and the other essentials for the base of a growing economy. Indeed, if meaningful economic development becomes a reality in the Trust Territory it will be because of well-conceived and efficiently implemented government programs.

### Undesirable Economic Effects

Demands for Resources. The Government as a resource user tends to drain off resources and compete with developing enterprises in resource (especially labor) markets, and to distort these markets so as to stifle business growth. Also, the priority use of transportation and other facilities and services reduces the availability of and sometimes inhibits or prohibits business and private use of these facilities and services.

Distortion of Standards and Prices in Resource and Product Markets. The Government tends to set standards, both of performance on the job, and of living patterns. Thus, important influences have been exerted on product and resource markets which have proved to be detrimental to the development of the Trust Territory. The desire to support the living standards of the indigenous people has led to the establishment of employment patterns and practices resulting in wage payments in excess of productivity. Private enterprises can only compete in the labor markets if high prices are paid for their goods and services. Such prices may be dependent upon import restrictions. Government employees, who receive the high wages, can pay these high monopoly prices. But the growth in real income of all the other members of the society tends to be retarded.

Erosion of the Desire to Work for Economic Development.

Another undesirable economic effect of the dominant government role in the society is that it is often interpreted as an indication that significant private economic activity is not possible and that any steps in the direction of development would not be worth the time and effort required.

Generally, the easiest and most secure job is the government job; the easiest and most certain way to solve all economic problems is to let the Trust Territory Government solve them. Unless the Government uses its dominant influence to strengthen the base for private enterprise development, any increase in government activities, relative to the rest of the economy, can only be detrimental to private economic development.

It is difficult for service-oriented governmental administrators to direct their efforts and funds toward the economic development objective. The re-allocation of funds away from direct services and toward developing a stronger and more viable local economy (which could perpetually afford better living conditions, including government services) requires an understanding of the long-range effects of all immediate actions. It is much easier and simpler to expend all the resources to make "the patient" comfortable and happy

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in the short-run than to do the sometimes unpleasant things necessary to cure "the disease" and to make the patient healthy and strong in the longer-run.

Erosion of Local Responsibility. The expenditures of grant funds from the United States dwarfs the expenditure of the local government units. Under these conditions it is easy for the local governments to conclude that nothing they could do would be significant by comparison. Therefore, they may decide to stop trying--and many do. In recent years, this effect has developed and strengthened the lingering effects of dependence and lack of self-reliance, and has led to and/or strengthened the tendency of some Micronesian government leaders and people to look almost entirely to the United States to provide the money, goods, infrastructure and services which they desire.

#### Impact of Government Expenditure Levels

Previous sections of this Chapter have shown the general size of the impact of government expenditures on the money economy and on total economic activity and living standards in Micronesia. Certainly without the money injections from outside which are now being made by the Trust Territory Government, the Micronesian economy would be stagnant at a very low level, and the people

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would be living without most of the modern goods and services which they now enjoy. The undesirable effects of government expenditures and activities could never be so great as to negate the positive effects of government spending in supporting the economy and the people of Micronesia.

Almost all of the opportunities for economic expansion in the Trust Territory result from the direct and indirect effects of government expenditures, programs and activities. The detrimental effects do exist, but many can be eliminated, and should be eliminated as quickly and completely as possible. The following subsections break down the direct expenditures of the Trust Territory Government to assess the immediate direct impact of the money, and to assess the extent to which the government is directly absorbing the scarce resources and services available to support the development of the Trust Territory economy.

Government Demands on Local Resources. The Trust Territory Government has followed a consistent policy of using local resources always up to and frequently beyond the maximum feasible extent consistent with the objectives of the Government's programs. This policy, in view of the size of Government activities in the



Trust Territory, has required that a very large share of the best of Micronesia's resources be absorbed into government activities.

Labor is the most critical resource from the point of view of the impact of the Government on the development potential. If it is assumed that the labor force includes all able bodied persons, both male and female, 14 to 65 years of age, the total labor force of Micronesia includes about 33,000 persons. When government labor use (3,500 persons) is looked at as a percentage of this "total labor force estimate" the use rate (11 percent) does not appear exceedingly great. But many, probably most of these 33,000 people, for reasons discussed elsewhere in this report, are not available and are not likely soon to become available for wage employment. When government employment is compared with the total number of persons employed for wages and salaries (7,500 persons), the Government use rate is seen to be nearly 50 percent. And when only the most capable, educated, skilled, or experienced people are considered, the Government absorption rate is probably as high as 80 to 90 percent.

According to a recent survey conducted by the Trust Territory Division of Education, of the total of all Micronesians who graduated from high school in 1965 and who remained and were available for jobs in the Trust Territory, some 80 percent are now

employed by the Government. More than three-fourths of these high school graduates are employed as school teachers. It is likely that teaching and other government jobs will be immediately available to all Micronesians who graduate from high school during the next several years.

Because of government labor needs, private enterprises have very little opportunity to find capable people to employ. During recent years the Government's demand for skilled and educated people has increased much more rapidly than the supply, and the Government has often filled jobs with seriously unqualified people. The kind of labor market distortion which has resulted provides a serious impediment which, unless corrected, will be fatal to the healthy expansion of the private economy.

The further expansions in government programs which are likely to occur during the next several months and years are almost certain to aggravate this already very serious labor market problem unless the expansions are carefully planned within the context of the existing labor markets of Micronesia. There is a critical shortage of either experienced, or educated, or skilled, or literate, or in fact of available wage labor of any kind, in most places in Micronesia.

The Government's use rates of Micronesia's basic resources other than labor are not generally great enough to create any significant impediment to economic development. The Government uses only the relatively small amounts of land on which its buildings and facilities are located. Although the Micronesian economy may be thought of as "land poor" as compared with most other areas of the world, in reality most places in Micronesia today have sizeable surpluses of land for almost any development purpose other than extensive commercial agricultural expansions. The relatively scarce factors of production in Micronesia today are 1) labor; especially capable and productive labor, including supervisors, managers, and administrators; and 2) capital.

Government Demands on Facilities and Services. The priority demands of the Government for services, especially transportation, communications and utilities, absorb large percentages of the totals of these services available. The Government provides and pays for most of these services, almost all of which were originally created to support government activities. The Government's use of these services, therefore, cannot be considered to be a net subtraction from the Micronesian economy. But the extent of the Government's demand and use must be considered as a limitation on the total services available to support private enterprise operations and potential expansions.

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Table IV presents summary estimates of present use levels and excess capacity for each of the major kinds of facilities and services available in the Trust Territory. The table illustrates the fact that any further increases in government demands without corresponding increases in the total quantities of services available will result in net reductions in the services available to support existing or new economic enterprises, and will result in bottlenecks, lost time, and inefficiency in carrying out the expanded government programs.

#### DISTRIBUTION OF DIRECT GOVERNMENT PAYMENTS

Table V presents a general breakdown of government payments, and gives some indication of the size of both the immediate and respending effects of the government dollars introduced into the Trust Territory economy. The large percentage of the funds paid to outside individuals and businesses (almost three-fourths of the total) illustrates the fact that many of the people and resources which are required to work for the betterment of the Trust Territory cannot be found in the Territory. If the Government's programs and projects are to be effectively implemented, qualified people and almost all other resources must come from outside. This is as true for the Trust Territory Government as it is for any expanding private enterprise in the Trust Territory.

TABLE IV

## Trust Territory Government Use as Compared with Total Use and Excess Capacity of Major Facilities and Services

(Estimated Average Rates, 1966-1967)

	Percentage of Present Capacity Used By		Present Excess Capacity <sup>1/</sup>
	<u>T.T. Gov't</u>	<u>All Other</u>	
Transportation			
Air	24	36	40
Sea	32	48	20
Communications	85	15	a
Utilities			
Electric	85	15	a
Water	85	15	a
Sewer	85	15	a
Other Facilities and Services			
Transit Warehousing	40	60	a
Western Style Housing	90	10	a
Hotels	70	30	a
All Other	90	10	a

Source: See Source Note and Note of Warning, Table I, above.

a Present excess capacity, when it exists, is so small as to be negligible. Each of these facilities and services is more characterized by shortages than by excess capacity.

<sup>1/</sup> These excess capacity estimates are based on estimates of the average peak demand requirements as compared with the extent of the presently offered and presently available services.

Except in the case of sea and air transportation, all services listed in the table are currently operating near the maximum capability of all the existing facilities and equipment. Any significant expansion will require major additional capital investments.

Estimates of air and sea transportation capacity are based on the flexibility of present schedules, personnel and equipment, and the estimated ability of the services to be expanded without major delays or changes in the appropriations for operating funds.

In the case of air transportation, increases of perhaps as much as 100 percent or more in capacity could be achieved by relatively small capital outlays for airfield improvements (especially lighting) and by expanding the scheduled and unscheduled use of present aircraft.

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From the point of view of providing the appropriate services and creating the proper conditions for the healthy development of the Trust Territory, the payments now going directly to Micronesians are much more likely too large than too small. The economic development potential of Micronesia will be less harmed if the Trust Territory Government uses too few of Micronesia's people and resources, than if the Government tries to use too many local people and resources, too soon, and thereby jeopardizes the success of its efforts to bring improved conditions to Micronesians.

The largest single direct payment item, as shown in Table V, is that of wages and salaries paid to indigenous employees. Direct payments to Micronesians are currently running at the annual rate of \$4.8 million, or about one-fourth of the total of all direct Trust Territory Government payments.

Table V shows that the economic impact of the direct payments is major. As the Trust Territory economy develops, it will be able to offer increasing numbers of quality resources (including labor provided by both indigenous and non-indigenous residents), products, and services, both to the Government and to private businesses. As local production expands, the economic impact of government expenditures will progressively increase as

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TABLE V

## Distribution of Direct Payments by Trust Territory Government

(Estimated Annual Rates, 1965-1967)

	<u>Dollars</u>	<u>Percentage of Total Payments</u>	<u>Estimated Percentage Spent In Local Economy</u>	<u>Estimated Direct Dollar Impact</u>
Wages and Salaries Paid To Indigenous Employees	\$ 4,800,000	23%	100%	\$4,800,000
Non-Indigenous Employees <sup>1/</sup>	4,500,000	22%	40%	1,800,000
Payments for Contract Construction and Purchased Services <sup>2/</sup>	3,300,000	15%	15%	500,000
Payments for Purchases of Supplies, Equipment, and Other Items <sup>3/</sup>	4,000,000	20%	2%	100,000
All Other Direct Payments <sup>4/</sup>	<u>4,400,000</u>	<u>20%</u>	<u>15%</u>	<u>600,000</u>
<b>Total Payments</b>	<b>\$21,000,000</b>	<b>100%</b>	<b>37%</b>	<b>\$7,800,000</b>

Sources: See Source Note and Note of Warning, Table I, above.

<sup>1/</sup> Includes salaries and post differential payments.

<sup>2/</sup> Almost all of these payments are made to outside firms. Small amounts are paid directly to Micronesian firms; some of the money paid to outside firms is paid to local indigenous employees; some of the money paid by the firms to non-indigenous employees is spent in the local economy. The total direct local economic impact is estimated to be 15 percent of the total amount of the payments.

<sup>3/</sup> Some supplies and materials are purchased locally, when available, but of the kinds of supplies needed, the amounts which can be purchased locally are very small.

<sup>4/</sup> Includes scholarship payments, contributions to some revolving funds, contributions to social security and retirement funds and many other kinds of payments, both to local and outside individuals and organizations.

a result of the increased purchases of local labor and products, and as a result of the increasing respending effect of the dollars introduced by the Government. This prediction assumes, however, that economic development is to be pursued as a major effort and goal of the Government.

American employees' wages and salaries amount to about \$4.5 million, or slightly less than total wages and salaries paid to Micronesians. Many American employees of the Government have been in the Trust Territory several years, some even since the time of the United States Navy Administration. Some of these Americans have married Micronesians and have broken many of their ties with the United States. Thus, the salary payments received by many of these non-indigenous employees have about as much impact on the local economy as do payments to Micronesian employees

Table V shows that some 15 percent of total government payments were made directly to contracting firms, or to purchase or contract for services. Almost all of the construction contract payments went for school, hospital, teacher housing, and infrastructure construction, and have been made to contractors from Guam. Although these contractors use indigenous labor when available, almost all the labor, materials, and supplies had to



be imported. A few small contracts have been let to Micronesian companies which hire people in the very thin local labor markets, and import materials and supplies as needed.

Expenditures for purchased and contract services are made largely for air and sea transportation; a major item is the cost of transporting employees and their household goods between the Trust Territory and the United States. The services figure is a small percentage of the total construction and services figure, partly because some of these services pay their own way through user charges. The Government makes direct payments to the Micronesian companies which operate the station vessels, and makes payments to the contract airline operators. Many Micronesians are employed by these transportation activities.

Table V shows that an estimated 15 percent of the total payments for contract construction and services find their way into the local economy either through direct payments to local people, or through local spending by non-indigenous people. Payments for the purchase of supplies and equipment (the third major item in Table V) are made almost entirely to business firms in the United States, Japan, Guam and elsewhere. A very small portion of these expenditures affect the local economies, through payments for transportation, handling and other miscellaneous services. But most of these ancillary services are

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performed by government employees. The impact of these direct payments on the local economy is very small.

Of the total of all Trust Territory Government payments shown in Table V (\$21 million), an estimated \$7.8 million, or about two out of every five dollars spent, flow either directly or indirectly into or through the Micronesian economy. The total local impact of these expenditures, relative to the size of total Trust Territory Government expenditures, may appear to be small. Yet, in view of the kinds of people and resources needed to effectively meet the requirements of development in the Trust Territory, and in view of the virtual non-existence of these resources in Micronesia, the relative amounts of cash flowing directly and indirectly into the local economies is very large -- perhaps even exceedingly large, given the available quantities and qualities of domestic resources.

#### SOURCES OF GOVERNMENT FUNDS

The sources of funds to support government spending in the Trust Territory are 1) appropriations and grants from the United States Congress, 2) commercial revenues from government enterprises and from reimbursements to the Government for services performed, and 3) local tax, fee, and license revenues. The two latter categories are small as compared with the appropriations and grants from the United States Congress.

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Under the Trusteeship agreement with the United Nations, the United States administers the Trust Territory of the Pacific Islands. By delegation from the Congress of the United States, and under the direction of the Secretary of the Interior, the actual administration of the Territory is the responsibility of the High Commissioner, who directs the Trust Territory Government Administration. Almost all government programs and activities in Micronesia are undertaken by the Trust Territory Government Administration, and almost all the funds for these programs are provided by grants from the United States Congress.

Direct appropriations are made to support the High Commissioner, his top echelon staff, and the Judiciary. All other United States funds are provided as earmarked, special purpose grants from the United States Government to the Trust Territory Government. The grant monies can only be used to support the specific programs and activities for which the monies are provided, and as specified in the authorization and appropriations legislation passed by the United States Congress. The Congress usually provides for the grant monies to be distributed among the various programs as requested by the High Commissioner and as approved and supported by the United States Department of the Interior.

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The Congress establishes upper limits on the total amounts which can be directly appropriated and granted to support the programs and activities of the Trust Territory Government. The present ceiling is set by the Congress at \$17.5 million. The Congress is currently considering legislation to increase this ceiling, so as to approximately double the allowable total amounts of appropriations and grants to the Trust Territory Government. It appears very likely that the proposed ceiling increase will be granted sometime during the fiscal year ending in June 1967.

Table VI shows the breakdown of total monies currently received by all governments in Micronesia. Some \$17.5 million, or almost nine out of every ten dollars of total government income result from appropriations and grants made by the United States Congress. The second largest source from which government monies are received, i.e., commercial revenues and reimbursements, is small as compared with amounts of United States appropriations and grants. Total commercial receipts now amount to about \$1.9 million, or about 9 percent of total government receipts. Most of the commercial revenues received are used to help offset the cost of continuing to provide the services which generate the revenues.

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Table VI

Total Monies Received by Governmental Units in the  
Trust Territory

(Estimated Annual Rates, 1965-1967)

	<u>Dollars</u>	<u>Percentage of Total</u>
<b>Appropriations and Grants from United States Congress</b>		
Appropriations	\$ 430,000	
Grants	<u>17,070,000</u>	
Total	\$17,500,000	86%
 <b>Commercial Revenues and Reimbursements</b>		
Air and Sea Transportation Revenues <sup>1/</sup>	850,000	
Communications and Utili- ties Services	390,000	
House, Land, & Bldg. Rentals <sup>2/</sup>	280,000	
Sales, Services, Equipment Rentals	250,000	
Medical and Dental Charges	<u>80,000</u>	
Total	1,900,000	9%
 <b>Taxes, Licenses, Fees<sup>3/</sup></b>		
Export Taxes (copra, trochus, scrap)	220,000	
Import, Sales, and Excise Taxes on Imported Goods	800,000	
Property Taxes	2,000	
Head Taxes (paid in cash)	10,000	
Licenses and Fees	35,000	
Motor Vehicle	<u>20,000</u>	
Total	<u>1,100,000</u>	<u>5%</u>
	\$20,500,000	100%

Source: See Source Note and Note of Warning, Table I, above.

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## Footnotes to Table VI

- 1/ Includes only revenues actually paid. No charges are made for the major air passenger class, i.e., government passengers. Government air freight also moves "free." Air and sea transportation revenues are accounted by the Trust Territory Government in "Funds" separate from the general government expenditures and receipts.
- 2/ This figure is almost entirely made up of reimbursements by American employees for housing provided by the Government.
- 3/ The present tax systems at all three levels of government are too new to provide enough experience to make any more than the most general and tentative estimates. The figures presented here include estimated revenues of all local government units, and are expected to be distributed among the three levels approximately as follows:
- |                        |                         |
|------------------------|-------------------------|
| Congress of Micronesia | \$750,000 or 68 percent |
| District Legislatures  | 250,000 or 23 percent   |
| Municipalities         | 100,000 or 9 percent    |

Some of the revenues collected by the higher levels of government are expected to be shared with the lower levels of government.

Present tax laws of all three levels of government would produce significantly larger revenues than reported here if all taxes due were collected by all levels of government.

All the commercial revenues reported in Table VI were produced from services provided by the Trust Territory Government or from rentals of government facilities and equipment to private firms which provide services. The only commercial revenues reported by any other government units in Micronesia (so far as can be determined) are the some \$10,000 collected by the Municipality of Saipan for transportation equipment rentals, hauling services, utility sales, public market commissions, interest income, and a few other minor items; by the Municipality of Moen (Truk District Center) of some \$2,000 in interest and dividend income from their investment of some \$5,000 in the Truk Trading Company; and by the Municipality of Koror (Palau District Center) of some \$24 for land rentals. These municipal commercial revenue figures are not included in the totals presented in Table VI.

The third category of fund receipts presented in Table VI is taxes, licenses, and fees. With the exception of the small amounts of commercial revenues collected by the Saipan, Moen, and Koror Municipalities, the monies collected from taxes, licenses, and fees provide the total financial resource base of all the Micronesian units of government, including the municipalities, the district legislatures, and the Congress of Micronesia. This

total amount of some \$1.1 million, or about 5 percent of the total of all government receipts in the Trust Territory.

All of the local taxes now being collected in the Trust Territory result from legislation passed by the Micronesian legislative bodies; all expenditures of these taxes, fees, and license receipts are made by the decision of these legislative bodies. The only limitations on the taxing and spending powers of the legislatures and councils are: 1) the legal specification of the Congress of Micronesia (Public Law 1-6) regarding the general kinds of taxes which can be levied and the general kinds of expenditures which can be made by each level of government, and 2) the specification that all taxation and other legislation by the municipal councils and district legislatures must be approved by the District Administrator as chief executive in the District, and that all legislation by the Congress of Micronesia must be approved by the High Commissioner as chief executive of the Trust Territory Government.

Prior to the creation of the Congress of Micronesia (in 1965) as the legislative branch of the Trust Territory Government, taxes were levied by the Trust Territory Government on certain imports and exports. From 1960 through 1965, the Trust Territory Government's tax revenues averaged between

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\$300,000 and \$400,000 annually. During that period the municipal councils (which generally follow traditional forms and have existed for many years) and the district legislatures (established as elected bodies by the political development efforts of the Trust Territory Administration during the latter 1950's and early 1960's) levied their own taxes and collected revenues for their own use.

In 1965, Secretarial Order No. 2882 of the Secretary of the Interior gave to the Congress of Micronesia the authority to pass legislation, including the power to levy taxes and to spend the resulting revenues. All taxes previously levied by the Trust Territory Government were abolished, and the Congress of Micronesia in its first session (July, 1965) levied approximately the same kinds of taxes on imported and exported goods as had been previously levied and collected by the Trust Territory Government.

Of the total local government revenues of \$1.1 million from taxes, fees, and licenses, about \$750,000, or 68 percent go to the Congress of Micronesia, about \$250,000, or 23 percent go to the district legislatures, and about \$100,000, or 9 percent go to the municipal councils. The major portion of these funds at all three levels of government is usually used to support the operations and activities of the legislative bodies and to pay salaries, per diem, and transportation reimbursements to the legislators and councilmen.

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Most of the tax revenues of the Congress of Micronesia result from taxes on imports and exports; most of the revenues for the district legislatures result from sales excises on the resale of imported goods and from wholesale business license taxes. The municipalities levy a variety of business license, permit, motor vehicle, amusement, and head (per capita) taxes; a few municipalities levy some forms of personal or real property taxes.

The head tax is the traditional tax in most parts of Micronesia. Most municipalities allow individual taxpayers to pay at least some of their head taxes by working on public projects, usually at the rate of \$1.00 per day. Current head tax rates range from one dollar to as high as \$25 or more per year; however, only a few municipalities actually collect more than a small percentage of the head taxes due, either in cash, or in contributed labor. Some municipalities which levy the head tax make no effort to collect it.

Tax collection rates for all units of government and for almost all kinds of taxes levied, are generally low. Many government units in Micronesia could more than double their current tax revenues by enforcing the tax laws which they have already passed; all could gain sizeable revenue increases by effective tax law enforcement.

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The Congress of Micronesia rebates a part of its tax revenues to the district legislature in the district in which the taxes were collected; the district legislatures make some grants to the municipalities. The revenue rebates to the district legislatures can generally be used at the discretion of the legislatures. Grants from the higher to lower levels of government are made only for specified purposes or functions.

The total of \$20.5 million received for the support of governmental units and government programs in Micronesia, as shown in Table VI, includes only money received for the support of government administration and for programs undertaken by these governments (i.e. the Trust Territory Government, and the three levels of Micronesian legislative bodies). The total figure in Table VI does not include the sources of the some \$1.6 million flowing into the local economies of the Trust Territory as a result of expenditures associated with United States military activities at Kwajalein, or by the Weather Bureau, Coast Guard, Post Office and other United States Government agencies in the Territory. Although these expenditures do have a significant impact on the economy, as shown previously, they are more like exports in that they serve needs existing outside the Trust Territory.

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EVALUATION OF PRESENT SOURCES OF GOVERNMENT FUNDS

The present situation, in which the overwhelmingly large portion of total funds to support government programs and activities in Micronesia comes from grants and appropriations from the United States Congress, is necessary at this time. There can be no question that if the people of Micronesia are to participate in the modern world and to develop economic and political strength in their own right, sizeable injections of funds from outside will be necessary for many years to come.

Regardless of the needs for outside funds, however, the Micronesian governmental units and the Micronesian people, if they wish to develop viable economic and political institutions, have responsibility to fund as many as possible of the government programs and activities which are most important to them. It will be necessary for the Trust Territory Government to make sure that the Micronesian governments recognize this responsibility, and to help them to develop the policies, laws, and institutions essential to its fulfillment.

At the present time the average tax burden on the middle and upper income groups in Micronesia is nowhere near as large as the average tax burden on people of comparable income and living levels in the advanced nations, including the United

States. This situation is understandable in view of the traditional cultures and political and economic relationships in Micronesia; in view of the newness of the district legislatures and the Congress of Micronesia; and in view of the historical relationships between the Micronesians and their outside administrators.

The lack of full understanding about matters of government finance and about government finance administration, have made and will continue to make it difficult for these governmental units to develop effective government finance policies, laws, and administrative procedures. It has always appeared (and in fact it generally has been) easier for the Micronesian governmental leaders to obtain public services by seeking them from the outside administration than by levying and collecting taxes to support the costs of the desired services.

As time passes, if the approach and emphasis of the assistance provided by the Trust Territory Government is directed toward this objective and effectively implemented, local tax revenues will finance an increasingly large portion of the cost of government programs in Micronesia. The recent report, Public Finance in Micronesia, prepared by Dr. J. R. Tabb for Robert R. Nathan Associates, Inc. (presented to the

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Trust Territory Government in September, 1966) contains a detailed analysis of the existing government finance conditions in Micronesia, and presents recommendations which will enable the Trust Territory Government and the Micronesian governmental units to work together to develop increasing strength in government finance at all levels.

Another consideration necessary in the evaluation of present money sources to support government programs and activities in Micronesia is the question as to whether or not the big money injections from outside are self-perpetuating or are self-replacing. The answer to this question will depend on whether or not Trust Territory Government programs will be aimed toward fostering economic development and expanding local non-government sources of income. To the extent that the injections of money, and the programs which they support, lead to expanding indigenous economic strength, these expenditures will be self-replacing. To the extent that the programs lead to rising expectations among the people without at least equal increases in the viability of the local economies, the expenditures will lead to the need for increasing expenditures from outside in future years.

Chapter Eleven of this report takes a careful look at each of the major programs currently undertaken by the Trust

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Territory Government from the point of view of the actual or potential economic development stimulation and influence of each. The following, final section of this Chapter presents a summary of the kinds of programs supported by government expenditures in Micronesia, and briefly assesses the relative balance of expenditure emphasis between and among these programs.

#### PATTERNS OF GOVERNMENT EXPENDITURES AMONG MAJOR FUNCTIONS

Table VII presents a breakdown of government expenditures according to the function, or ultimate purpose for which the expenditures are made. The figures in Table VII are broken down by major function, rather than by the budget item breakdown used by the Trust Territory Government.

Because of the special geographic and other characteristics of the Trust Territory, about one-third of the Government's expenditures go to meet the high costs of transportation, supply, personnel, communications, housing, buildings, equipment, utilities, and other support services, and to meet general administrative management costs. The total amount of this "overhead" cost is of such size that each government program requires almost \$1.00 of overhead expenditure for each \$2.00 of direct program cost. Table VII shows, for example, that the direct cost of education programs is running at the rate of approximately \$6.6 million

TABLE VII

Patterns of Government Expenditures Among Functions  
(Direct Expenditures Include Construction Costs)

(Estimated Annual Rates, 1966-1967)

		<u>Dollars</u>	<u>Percentage of Total</u>
Trust Territory Government Expenditures			
Direct Services to Individuals			
Education			
Direct Expenditures	6,600,000		
Overhead <sup>1/</sup>	<u>2,700,000</u>		
<u>Total</u>		9,300,000	44%
Health and Medical			
Direct Expenditures	4,000,000		
Overhead	<u>1,600,000</u>		
<u>Total</u>		5,600,000	26%
Utility and Other Direct Services <sup>2/</sup>			
Direct Expenditures	2,100,000		
Overhead	<u>800,000</u>		
<u>Total</u>		2,900,000	14%
General Government			
Headquarters & District			
Executive Offices	600,000		
Protection & Enforcement	500,000		
Judicial	200,000		
Overhead	<u>500,000</u>		
<u>Total</u>		1,800,000	9%
Direct Development Programs			
Economic Development <sup>3/</sup>	800,000		
Agriculture	360,000		
Industrial & Commercial	120,000		
(Co-ops 90,000)			
(Other 30,000)			
Fisheries	80,000		
Econ. Analysis & Planning (cont)	<u>230,000</u>		
Political Development	70,000		
Community Development	100,000		
Overhead	<u>400,000</u>		
<u>Total</u>		<u>1,400,000</u>	7%
<u>GRAND TOTAL</u>		<u>\$21,000,000</u>	<u>100%</u>

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Table VII, continued

	<u>Dollars</u>	<u>Percentage of Total</u>
Micronesian Governmental Expenditures <sup>4/</sup>		
Legislative Salaries, Expenses, Support Services	530,000	79%
Programs and Activities		
General Gov't, Regulation, and Enforcement	50,000	
Public Works	60,000	
Individual and Community Services	<u>40,000</u>	
<u>Total</u>	<u>150,000</u>	<u>21%</u>
<u>GRAND TOTAL</u>	<u>\$ 700,000</u>	<u>100%</u>

Source: See Source Note and Note of Warning, Table I, above.

- 1/ Total overhead expenses consist of total administrative costs, plus operations and maintenance of all plant and equipment necessary to provide transportation, communications, utilities, and other services to support the operating programs, and the land management activities of the Department of Resources and Development. The total of all these costs amounts to some \$7.5 million (including capital outlays), from which \$1.5 million is deducted as the estimated value of direct services provided to Micronesians. The remaining \$6 million is allocated pro rata among the programs as "overhead".
- 2/ This figure does not include housing, utility, and other services provided to American employees of the Government. This figure does include about one-half of the total expenditure of the Division of Agriculture, reflecting the fact that many, perhaps most of the agricultural programs are aimed primarily toward providing direct services to individuals rather than toward the direct economic development of agricultural enterprises.
- 3/ It is obvious that the breakdown under direct economic development includes many expenditures which are not now focused primarily toward direct and immediate economic development. The two following chapters provide analyses and recommendations for sharpening the focus and increasing the emphasis of the direct economic development function.
- 4/ The total expenditures of the Micronesian governmental units by function are very difficult to estimate. The only figure in which the likely error of estimate is small is the \$530,000 figure for legislative salaries and support. Total expenditures by level of government break down approximately as follows:
- |                        |                         |
|------------------------|-------------------------|
| Congress of Micronesia | \$350,000 or 50 percent |
| District Legislatures  | 250,000 or 36 percent   |
| Municipalities         | 100,000 or 14 percent   |

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The estimated total expenditures figure present here (\$700,000) is \$400,000 less than the estimated revenues (\$1,100,000) reported in Table VI, above. The Congress of Micronesia has not yet passed the necessary appropriations legislation to enable the remaining anticipated revenues to be spent. Legislation providing for grant funds to be used at the discretion of the district legislatures was passed in the July, 1966 session of the Congress but the act was disapproved by the High Commissioner primarily on the grounds that it provided for an improper delegation of Congressional authority.

(including capital outlays) while the overhead which must be added to get the true cost of the education program is about \$2.7 million, giving a total cost of the education program of some \$9.3 million per year. Because of the relatively very high overhead and operating costs, the total amount of \$9.3 million spent to support the education programs buys much less total education service in the Trust Territory than it could buy in an advanced nation where the many problems of acute resource scarcities and high logistic support costs would not be encountered.

Table VII shows that some 44 percent of total Trust Territory Government expenditures are made for, or to support, education programs. The education programs plus the health and hospital programs amount to some 68 percent or two-thirds of total expenditures of the Government. These two programs can be thought of as "direct service" programs; they are aimed directly toward improving the conditions and situations of individual persons by the direct action of the government, and are supported by the direct expenditure of government funds allocated for this purpose. It should be recognized, however, that education programs, especially, can be designed to greatly strengthen the human resource base for economic development.

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In addition to the education and health programs, another direct service program of the Trust Territory Government is that of providing utility and various other services to the individual members of some of the communities. Although the expenditures for these service functions are difficult to isolate, it is estimated that some \$2.9 million are spent to provide utilities and various other miscellaneous services directly to individuals. In some cases the services are provided free; when charges are made the charges are usually less than the total costs of the services. In total, the direct, individual service program expenditures (education, health, utility, and miscellaneous services) amount to some \$17.8 million and account for more than eight out of every ten dollars spent by the Trust Territory Government.

The remaining \$3.2 million of Trust Territory Government expenditures are spent for general government and for direct development programs. General government includes the enforcement of law and order, protection of persons and property, and the maintenance of the chief executive and his staff both at headquarters and in each of the six districts. The general government function also includes the judicial function, which

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consists of providing judges, operating the courts and providing legal counsel to defend accused persons. Table VII shows that expenditures for general government amount to about \$1.8 million, or about 9 percent of total government expenditures.

The third and final general classification, or group of expenditures is made up of programs designed to exert a direct influence on political, social, or economic conditions in the Trust Territory. Total expenditures for these programs, including overhead, amount to about \$1.4 million, and account for only about 7 percent of total expenditures by the Trust Territory Government. Expenditures to support development programs are very small as compared with the total expenditures for direct services to individuals. However, the direct service programs do, or can be designed to, provide vital support for the direct development programs. The great emphasis placed on direct service programs relative to direct development programs reflects the past and present emphasis of the Trust Territory Government on providing maximum immediate benefits directly to individuals.

Finally, Table VII shows the expenditure patterns of the Micronesian governmental units. The money used to support the members and activities of the legislative bodies uses up more than three-fourths of the total funds which these governmental

04-427013

units have at their disposal. The remaining monies are shown to be spent for such things as general government, regulation and enforcement, public works, and minor sums for individual and community services. Although a few of the local governmental units have made some small expenditures to help individual agricultural and other enterprises in which certain members of the legislature have had some particular interest, no consistent or significant effort has yet been exerted by any of the Micronesian governmental units toward the support of economic development, either direct or indirect.

04427014

## CHAPTER ELEVEN

### DESCRIPTION AND EVALUATION OF GOVERNMENT PROGRAMS AND ACTIVITIES

#### INTRODUCTION

Chapter Ten has dealt with the broad impact of government spending on the economy of the Territory as a function of the total volume of such spending relative to the overall size of the economy. This chapter deals with the component parts of the total government program, their specific economic and social objectives and the economic impact of success in achieving these objectives.

If economic development is to be a major objective of the Trust Territory Government, the Government should attempt to create an environment and an institutional framework which encourages private participation in desirable kinds of development. There must be security of property and person, intelligent formulation of legal instruments and administrative practices regulating all types of business transactions, a revenue system which encourages rather than penalizes constructive economic activity and a minimum of restrictions on engaging in production and trade.

The government also should provide many services including education, health, transportation, communications and other

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utilities essential to a healthy and prosperous society. In the Trust Territory the Government should go even further to initiate new enterprises by undertaking research, feasibility studies, pilot projects, providing credit and making available technical assistance. It is in the planning of all such services and activities that the Government can provide more or less constructive leadership in supporting and stimulating the most effective use of all available resources.

#### HUMAN RESOURCE PROGRAMS

The two major programs under the present Department of Community Services are people-oriented. These two programs, education and health, account for more than two-thirds of all Trust Territory Government expenditures. Various other programs scattered throughout the other three departments of the Trust Territory Government (Public Affairs, Resources and Development, Administration), to a greater or lesser extent, directly affect the people of Micronesia. The major effort of the forthcoming Peace Corps program will be to improve the understanding, abilities, attitudes, health, and other conditions of the people.

This section describes and analyzes each of the present programs which has, or could be designed to have, a significant economic development influence on the human resource base of the Trust Territory economy.



Public Education

Prior to the major expansion of the Trust Territory education program in 1962, the program was very limited. The goal was to provide all Micronesian children with the opportunity to obtain six years of elementary schooling.

Junior secondary schools with limited capacities were established in each district to accommodate students having the desire and ability to compete successfully for admission. A senior secondary school, Pacific Islands Central School (PICS), serving all of the Trust Territory, was established in Truk and later moved to Ponape. The senior secondary school was limited to outstanding students who were specifically selected to attend. While some special training schools were established for nursing and certain other technical skills, the only other formal education was made possible by a small number of scholarships for Micronesian students to attend schools outside the Trust Territory, and by the several private mission schools located in various places throughout the Territory.

Elementary schools were supported by local taxes and other funds generated by the villages and municipalities. The Trust Territory Government supported these schools only to the extent of providing school supplies and some financial assistance for constructing buildings. The junior secondary schools (intermediate

09-427017

schools) in the district centers and the senior secondary school at Ponape were entirely supported by the Trust Territory Government.

Instruction in the elementary and intermediate schools was performed by Micronesian teachers, most of whom had little formal education and little or no teacher training. Policies tended to perpetuate traditional local culture and little attempt was made to teach the English language. Mimeographed texts were prepared in the local language, which was generally the language of instruction.

In the secondary schools, English language texts were used and all instruction was in English. The students of the Pacific Islands Central School (PICS) were brought from all districts of the Trust Territory. Their inability to communicate in their local languages required that they learn English as a common second language. Because only superior students were selected to attend PICS, and because of the language skills which students acquired at PICS, many of the most capable Micronesians found in Trust Territory today are PICS graduates. It is likely that the strongest unifying force existing in Micronesia today results from the fact that the young, educated leaders of each district are intimately acquainted with most of the emerging leaders of all the other districts because of their prior experience as classmates at PICS and sometimes, later, at the University of Hawaii.

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In 1962, a sudden and dramatic shift occurred in official Trust Territory Government educational policy and expenditures. A new program for accelerating educational development in the Trust Territory was formulated, calling for new school construction and providing for qualitative changes in instruction by introducing large numbers of American teachers into the Trust Territory. Major emphasis was placed on the teaching of English.

Whereas elementary education had been regarded almost entirely as a municipal responsibility prior to 1962, the new policy placed responsibility for all levels of education directly on the Trust Territory Government. The limited objective of providing universal education through only six elementary grades and providing limited opportunities for advanced education to selected students was replaced by the expanded objective of providing to all students education through senior secondary school. Massive increases in the educational budget were financed by increases in United States grants.

As indicated in Table I, not only did the new program provide for a huge absolute increase in the size of educational programs, but it also provided for increased emphasis on education relative to all other government programs.

TABLE I

Trust Territory Government Expenditures for Education  
Compared to Total Trust Territory Government Expenditures

FY 1960 - 1966

<u>Fiscal Year</u>	<u>Education Program</u>	<u>School Construction</u>	<u>Total Education Expenditures</u>	<u>Total Trust Territory Expenditures</u>	<u>School Expenditures as Percentage of Total Trust Territory Expenditures</u>
1960	\$ 638,300	121,900	760,200	8,224,900	9.2
1961	506,400	240,600	747,000	8,315,200	9.0
1962	569,100	196,600	765,700	8,795,700	8.7
1963	963,300	222,800	1,192,100	16,744,900	7.4
1964	1,928,600	1,431,600	3,360,200	18,231,200	18.4
1965	3,530,600	1,099,600	4,630,200	23,507,700	19.7
(Est.) 1966	3,800,000	2,800,000	6,600,000	21,053,800	31.0

Source: Compiled and derived from Trust Territory Government records, Department of Budget and Finance

Note: The figures presented in this table and in subsequent tables in this Chapter are the most accurate available records of actual expenditures for the indicated fiscal years. The figures which were presented in Chapter Ten were estimated average annual rates of expenditure, and included overhead costs. Therefore these figures are not precisely comparable to those presented in Chapter Ten. School construction figures for 1966 include an estimated \$1.8 million carried over from previous years.

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Between 1962 and 1965, annual Trust Territory Government education expenditures increased by more than 500 percent. Whereas direct educational expenditures amounted to less than 10 percent of total Trust Territory expenditures in the fiscal years 1960 through 1963, such expenditures amounted to about 30 percent of the total in 1965. Including general education overhead such as transportation and administration, the present estimated annual rate of education expenditures amounts to almost 45 percent of total Trust Territory Government expenditures. (See Table VII, Chapter X).

The effect of the accelerated education program on the number of Micronesian children attending public schools is shown in Table II. Between 1962 and 1965, total public school enrollments increased by approximately 75 percent. Particularly impressive is the 400 percent increase in the number of secondary school students between 1960 and 1964, and the near tripling of intermediate and secondary school enrollments between 1961 and 1965.

TABLE II

## Public School Enrollments in the Trust Territory

FY 1960 - 1965

<u>Fiscal Year</u>	<u>Elementary</u>	<u>Intermediate</u>	<u>Secondary</u>	<u>Total</u>
1960	10,630	935	135	11,700
1961	10,580	886	176	11,642
1962	12,200	1,165	200	13,565
1963	13,596	1,323	300	15,219
1964	15,844	1,646	660	18,190
1965*	17,497	-	2,984	20,481

\*Intermediate and secondary schools were combined in 1965.

Source: Compiled from the Thirteenth through the Eighteenth Annual Reports to the United Nations, and figures provided by the Trust Territory Division of Education

In 1960, according to the Thirteenth Annual Report to the United Nations, no non-indigenous teachers were employed in Trust Territory public elementary schools. Only five non-indigenous teachers were employed in public intermediate schools. These particular teachers were employed on Saipan, which was then under the administration of the United States Navy. Pacific Islands

34-427022

Central School (PICS) employed six American teachers. All other teachers in the Trust Territory were Micronesians.

Between 1961 and 1965 more than 150 American teachers and educational supervisors were added to the Trust Territory Division of Education staff. During the same period, the Micronesian teaching staff was increased by approximately 155 teachers, or about 30 percent.

At the end of school year 1965, the Trust Territory elementary program employed 122 American staff members and 770 Micronesian staff members, including teachers, principals and supervisors. The secondary program employed 75 Americans and 153 Micronesians.

A survey conducted by the Trust Territory Division of Education in December 1965 indicated that even then few Micronesians possessed teaching qualifications acceptable by American standards. Approximately 50 percent of all Micronesian teachers have nine years or less formal schooling. Approximately 35 percent have a high school education and only 8 of 770 Micronesians (one percent) have college degrees. The remaining Micronesians (approximately 60 teachers) have had some college level work. The Division of

04-427023

Education has attempted to increase the proficiency of Micronesian teachers by establishing teacher workshops and summer courses.

American teachers have been used almost entirely as English language teachers, but some American teachers, primarily those stationed in district centers, devote limited time to other areas of instruction. All Trust Territory high schools have American principals and, with one or two exceptions, all elementary schools have Micronesian principals. The latter have generally been selected on the basis of their status in the community rather than on the basis of their formal education or professional capabilities.

A major effort has been made as part of the accelerated program to provide substantial school buildings and teachers' houses in all communities having the minimum population required to justify a school. Many new elementary schools have fewer than 50 students. Approximately 680 classrooms are now in use in the Trust Territory; 285 classrooms still remain to be constructed under the accelerated school construction program. Housing facilities have been built for approximately 250 teachers.

04-427024



TABLE III

Indigenous and Non-Indigenous Public School Teachers in the Trust Territory

FY 1960 - 1965

04-427025

<u>Fiscal Year</u>	<u>Public Elementary Schools</u>		<u>Public Intermediate Schools</u>		<u>Public Secondary Schools (High Schools)</u>	
	<u>Indigenous</u>	<u>Non-Indigenous</u>	<u>Indigenous</u>	<u>Non-Indigenous</u>	<u>Indigenous</u>	<u>Non-Indigenous</u>
1960	428	-	71	5	2	6
1961	457	-	83	7	2	6
1962	519	7	77	19	8	7
1963	533	8	55	1	18	15
1964	483	42	47	16	20	22
1965	612	106	47	28	29	30

Source: Thirteenth through the Eighteenth Annual Reports to the United Nations

Table IV indicates the pattern of school development in the Trust Territory. The number of elementary schools did not increase between 1962 and 1965, but many new school buildings were constructed to replace temporary and other inferior buildings. In 1965, the intermediate schools were merged with the high schools.

TABLE IV

Public Schools in the Trust Territory  
(number of schools)

FY 1960 - 1965

	<u>Elementary</u>	<u>Intermediate</u>	<u>Secondary*</u>
1960	164	8	1
1961	164	8	1
1962	170	8	1
1963	172	7	5
1964	173	13	7
1965	169	-	8

\*The Vocational Training School located in Palau is not included. Intermediate and secondary schools were combined in 1965.

Sources: Thirteenth through the Eighteenth Annual Reports to the United Nations

04-427026

Private Education

Although the Trust Territory Government assumed complete responsibility for the financial support of public schools in 1962, a rather sizeable private school system has continued to be at least partially supported by Micronesians. Mission schools have a long history in Micronesia. These schools, operated by various religious denominations, have continued to grow and currently enroll almost 6,000 students. Most students pay tuition ranging from about \$5 to \$50 per year.

TABLE V

## Private School Enrollments in Trust Territory

FY 1960 - 1965

	<u>Elementary</u>	<u>Intermediate</u>	<u>Secondary</u>	<u>Total</u>
1960	2,787	767	200	3,754
1961	3,820	918	195	4,933
1962	3,525	1,027	177	4,729
1963	4,083	1,316	195	5,594
1964	4,279	1,163	163	5,605
1965*	4,463	-	1,275	5,738

\*Intermediate and secondary schools were combined in 1965.

Source: Thirteenth through the Eighteenth Annual Reports to the United Nations

04 427027

Generally, the ratio of non-indigenous teachers to indigenous teachers in private schools has been much greater than for public schools. Many Micronesians and some Trust Territory educators express the opinion that the quality of instruction has been much better in the private schools than in the public schools. Xavier High School For Boys, located in the Truk District, enrolls students from throughout Micronesia and is generally regarded as the best secondary school in the Trust Territory.

As Trust Territory public schools become better equipped to meet the educational needs of the Territory, the ratio of private school students to public school students will tend to decrease. But it is likely that the private schools will continue to provide important educational services.

#### Vocational and Technical Schools

Very little has been done to meet the need for vocational education in the Trust Territory. For most part, the public school curriculum has been adopted, almost intact, from the liberal arts oriented public school programs in the United States. The major objective is to prepare students for entrance into the liberal arts programs of American colleges and universities where they can continue to pursue academic programs.

04-427028

TABLE VI

Indigenous and Non-Indigenous Private School Teachers in Trust Territory

FY 1960 - 1965

04-427029

	Private Elementary Schools		Private Intermediate Schools		Private Secondary Schools (High Schools)	
	<u>Indigenous</u>	<u>Non-Indigenous</u>	<u>Indigenous</u>	<u>Non-Indigenous</u>	<u>Indigenous</u>	<u>Non-Indigenous</u>
1960	77	39	31	26	1	20
1961	160	46	37	31	-	18
1962	115	38	43	35	3	18
1963	106	29	45	29	2	22
1964	98	37	30	36	N/A	N/A
1965	111	32	21	29	3	29

Source: Thirteenth through the Eighteenth Annual Reports to the United Nations.

To review vocational training programs it is necessary first to make a distinction between student exposure to industrial arts, as contrasted with effective programs in vocational education. Some simple and superficial instruction in woodworking, metalworking, mechanical drawing and agriculture is offered in all high school programs. With the exception of some business courses such as typing, clerical practices and shorthand (taught only in the Marianas District High School) however, none of the courses gives students saleable skills, or prepares the students for advanced apprenticeship positions.

The best industrial arts program is offered by the Truk District High School. A separate building, staffed with two American and three Micronesian industrial arts teachers, has been provided. Courses in metalworking, boatbuilding, house frame construction and mechanical drawing are offered in conjunction with the regular high school program. With proper organization, personnel and sufficient financing, an effective and diversified vocational program could be instituted at Truk, built on the present very good industrial arts base. The limited agricultural instruction offered in most of the high schools is directed toward improving subsistence agriculture with little or no emphasis toward modern commercial agriculture.

04 427030

The public institution which at the present time most nearly meets the requirements of a vocational school is located in Palau. A vocational program was established in Palau in 1961. At that time, the only Trust Territory senior secondary school (PICS) was located at Ponape. The Palau Vocational School was established to teach useful manual skills to students who had completed intermediate school (through the 9th grade), but who were not continuing on to PICS. Even though a high school is now located in the Palau District, the Palau Vocational School has continued to operate.

The three year vocational training program, originally conceived to substitute for senior secondary school training, is still in effect. The vocational school has 47 students, most of whom are Palauans. Courses are offered in boatbuilding, carpentry, electricity and automobile mechanics. The faculty consists of one American (who teaches English language) and eight Micronesians.

Most of the Micronesian instructors were trained and employed by the Japanese before and during World War II, and instruction is often in the Japanese language. Students are taught the use of the Japanese techniques and hand tools of 30 years ago. Vocational instruction in Palau does not provide students with the skills which the Territory requires. The Palau Boatyard, for instance, will not accept boatbuilding graduates of the vocational

school in any other than a beginning apprentice capacity.

An attempt to establish a realistic vocational agriculture program has been made by the Trust Territory Division of Agriculture. The Trust Territory Farm Institute, located in Ponape, offers a nine-month training program in general agriculture. The institute has one (American) instructor and about 20 students. Prerequisite requirements for enrollment are minimal; many of the students are practically illiterate. The scale of the program is so small and limited that the results, in terms of the need to train and develop commercially oriented farmers in Trust Territory, are insignificant.

The Catholic mission in Ponape is in the process of establishing a new private vocational school. Courses will be offered in agriculture, automobile mechanics, woodworking and metalworking. Students who have completed six years of school will be accepted. The plan is to enroll 25 students during the first year of operation and to gradually build the enrollment up to 100 students. The first full year of operation of this school (Ponape Agriculture Trade School) will begin in the fall of 1966.

As mentioned previously, the Trust Territory Government operates a school of nursing (at Saipan) and a teacher education center (at Ponape). The nursing school is staffed by two American



registered nurses and a Micronesian nurse who recently graduated from the University of the Philippines. Approximately 25 students, both male and female, now attend the school. These students will be assigned to medical staffs in the various districts after 24 months of training.

The Micronesian Teacher Education Center at Ponape is operated by the University of Hawaii under a contract with the Trust Territory Government. The Center provides a 12-month teacher training program for teachers who have less than 12 years formal education and who would not be qualified for admission to college. Forty-five Micronesian teachers are currently enrolled in this program.

#### Advanced Education

In 1965, a total of 236 Micronesians, not including medical trainees, were attending technical institutions and institutions of higher learning outside the Trust Territory. Total scholarship funds available to Micronesians for advanced education currently exceed \$400,000 annually.

TABLE VII

Micronesian Students Attending Technical and Academic  
Institutions Outside Trust Territory  
(Medical Trainees Excluded)

FY 1965

<u>Subject</u>	<u>Number of Students</u>
Agriculture	13
Business Administration and Economics	32
Education	59
Electricity, Electronics, Mechanics	6
Home Economics	7
Pre Law and Law	8
Liberal Arts	63
Nautical	3
Political Science and Sociology	16
Natural Sciences	3
Theology	23
Other	<u>3</u>
Total	236

Source: Eighteenth Annual Report to the United Nations

A number of Micronesians have attended the Fiji Medical School and have taken short practical courses for medical practitioners. No Trust Territory citizen has yet received the M.D. degree. While a few Micronesians are currently enrolled in pre-medical college courses, no Micronesian is now attending any medical school which offers the M.D. degree.

04-427034

Economic Implications of the Education Programs

Basic education policies and programs are having a profound impact on the Trust Territory. The large amounts of direct employment and the sizeable capital improvement programs have an immediate and large impact on jobs, incomes and markets in the economy. The end product of education programs, the educated youth, will have skills, talents, training, attitudes and aspirations which differ greatly from those of their parents and grandparents. The higher levels of knowledge and skills can provide a much stronger human resource base for economic development.

More than 900 Micronesians, about 25 percent of all Micronesians now employed by the Government, are employed by the Department of Education. Their earnings account for an important part of total Micronesian money income. The employment of Micronesians on new school and teacher housing construction projects, and the money flows created by the expenditures of all construction workers, has enlarged local prosperity in many districts. Further, experience and new skills have been acquired by Micronesians who have served as local contractors or as laborers.

The immediate impact is small as compared with the increasing economic impact of providing the growing population with 12 years of formal education. Thus, school curriculum and quality of

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instruction will be major determining factors in the long-term development of the Trust Territory. The greatly expanded educational facilities and services should be carefully aimed toward the most desired long-run objectives, and should be used wisely and effectively to move toward these ultimate goals.

The sudden explosion of the present educational system throughout the Trust Territory gave little time for careful planning or for custom designing. This is understandable. The system was directed by educators who have been trained to work in a highly advanced industrial society. They could hardly help but pass along their own values and their own experiences. Also, because of insufficient financing for many years, Trust Territory education planners had been forced to choose the curriculum which gives the broadest coverage for the least cost. The liberal arts curriculum demands little more than minimum shelter and a few books; the vocational curriculum demands specialized buildings and expensive machinery and tools. Liberal arts was the obvious choice.

Expanded resources now make it possible for adaptations to be made in the approach to education in the Trust Territory. Unless the education program is reassessed and redesigned to meet the special circumstances of this unique case, many of the beneficial

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effects which the current educational expenditures could be expected to produce, will fail to accrue.

### Medical Services

Compared to most underdeveloped areas of the world, both the number and quality of medical services available to the people of Micronesia are quite good. Compared to highly developed countries such as the United States or the countries of Western Europe however, the services are seriously deficient. The recent United Nations World Health Organization report on medical services in the Trust Territory reported that there are many deficiencies when the services are judged on the basis of the standards of the United States. This report did not judge the services by standards in comparable areas.

Each of the six districts has a hospital. In addition, a 60-bed rehabilitation hospital, primarily designed for the care of polio patients, is located in the Marshall Islands. Three dispensaries, with 10 to 20 beds each, are located on three populous islands which are not near district centers: Kusaie in the Ponape District; Rota in the Marianas District; and Ebeye in the Marshalls District. Medical service on the thinly populated outer islands is provided by small dispensaries and medical aid stations which do not provide in-patient care.

04-427037

Each district is assigned a Medical Doctor who acts as a clinical supervisor, but public health administration and general medical practice is left to Micronesian medical practitioners. These practitioners are generally graduates of the practical medical course offered at Suva, Fiji. With the exception of medical practitioners stationed at the district hospitals and at the three major dispensaries, no medical practitioners are available to outer island people. Medical aid stations are staffed with Micronesians who have only been exposed to short courses in first aid. It is only when the outer islands are visited by field vessels that more sophisticated medical service is provided.

While small nominal charges are made for medical services, no one is denied medical treatment because of his financial status. For all practical purposes, medical treatment in the Trust Territory is financed by the Government. Medical and dental fees collected in 1965 amounted to only \$65,500 -- less than 4 percent of the total cost of the program.

During fiscal year 1965, approximately 580 Micronesians were employed by the Trust Territory Medical Department. Only 19 non-indigenous employees, including eight Medical Doctors, were on the Medical Department staff. Total expenditures for medical programs during the year were just under \$2 million.

CA-427038

In economic terms, the Trust Territory medical programs have a direct impact through the relatively large number of Micronesians who receive money income from employment sponsored by the Medical Division and from the income produced by the construction of hospitals and other medical facilities. The growth of medical employment and expenditures is shown in Table VIII. At the present time, medical service expenditures, including medical service overhead expenditures not directly budgeted to medical services, and capital improvements, amount to about one-fourth of total government expenditures.

The medical services program relates to the level of Micronesian productivity, which is partly determined by general health standards. An area populated by sick or sickly people will not be very productive; in such an area programs to make people healthy can greatly increase the development potential. But the standards of health in the Trust Territory are already relatively high. It is not likely that any significant increases in labor productivity would result from increased public health efforts.

Given the present broad coverage of medical services, minimum conditions for maintaining a generally healthy population probably

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TABLE VIII

Number of Medical Employees and Total Medical Expenditures  
Compared to Total Trust Territory Expenditures

FY 1960 - 1966

<u>Fiscal Year</u>	Non-Indigenous		Total Medical <u>Expenditures</u>	Total Trust Territory <u>Expenditures</u>	Medical Expenditures As Percent of Total Trust Territory <u>Expenditures</u>
	Medical <u>Employees</u>	Indigenous Medical <u>Employees</u>			
1960	20	461	\$ 886,700	\$ 8,224,900	10.8
1961	18	458	758,000	8,315,200	9.1
1962	6	449	794,800	8,795,700	9.0
1963	6	457	1,007,300	16,744,900	6.0
1964	17	571	1,503,700	18,231,200	8.2
1965	19	581	1,954,000	23,507,700	8.3
1966 (Est.)	N/A	N/A	4,000,000	21,053,800	19.0

Source: Compiled and derived from data provided by the Trust Territory Public Affairs Department and the Department of Budget and Finance. Medical expenditures for 1966 include an estimated \$1.5 million carried over from previous years.

04-427040



already exist in Micronesia. This is not to say that an increase in medical services would not be desirable. Increased quality and coverage of services could go further in reducing human suffering and would undoubtedly result in some marginal increases in productivity. Further expansions in health and medical services will need to be justifiable mainly on welfare grounds.

#### Utility and Other Services Provided to Individuals

In addition to the two major human resource programs of education and medicine, the Trust Territory Government provides some utility and other services directly to individuals. Government provided services include water, electric power, some sewage facilities, communications, equipment rentals, various kinds of contract work for land clearing and other purposes, carpentry, plumbing, electrical and mechanical installation and repair services, legal and advisory services, and others. Charges, sometimes token and sometimes substantial, are made for most of these services provided to or for individuals, but the total revenues collected from the users fall far short of the total cost of providing the services.

The size of the government subsidy to these services is nowhere near as large as the Government's expenditures for educational

04-427041

and medical programs, yet the expenditure is sufficiently large to justify the classification of this "program" or function as one of the major human resource or individual service programs.

The need for some kinds of government services has tended to decrease as some development has occurred. Stevedoring and freight handling and forwarding which were government responsibilities for many years, have now been turned over to private businesses. In the past (and to some extent, now) building supplies and other commodities acquired for government use have been sold to the public because both limited markets and transportation difficulties have not supported the orderly flow of supplies through commercial channels. Most districts now have wholesalers and retailers who maintain sufficient inventories to meet most of the merchandise needs of the public. Nevertheless, the small size and isolation of some communities still require that the Trust Territory Government provide these kinds of services.

#### Other Human Resource and Individual Service Programs

From time to time the Trust Territory Government undertakes special programs to directly improve the welfare and/or to relieve the suffering of specific individuals and groups. Disaster (usually typhoon) relief activities include the distribution

of foodstuffs and the rehabilitation of the devastated villages, coconut groves, and farms. Several divisions of the Government are usually involved whenever relief and rehabilitation efforts are required. Direct relief distributions are usually administered by the Division of Community Development, which, at present, is a very small unit located within the Department of Community Services, along with the huge Divisions of Education and Health.

#### Planned Peace Corps Assistance for Human Resource Programs

In early May, 1966, a formal commitment was made by the Peace Corps to dispatch several hundred Peace Corps Volunteers to the Trust Territory. Preliminary plans called for 200 volunteer elementary school teachers and 25 secondary teachers to arrive in the Trust Territory by October, 1966. An offer by the Peace Corps to send vocational teachers was rejected, apparently because of a lack of the facilities necessary to support a vocational education program, and the lack of personnel to plan, design, and implement such a program.

At the time of this writing, Peace Corps Volunteers (PCV's) are beginning to replace many of the American teachers stationed in outlying areas. The regular American staff will

eventually be concentrated at the district centers. Emphasis will continue to be placed on the teaching of English language skills. While the Peace Corps will have its own administrative organization in the Trust Territory, teacher supervision will be provided by the Trust Territory Division of Education.

It is planned to utilize 100 Peace Corps Volunteers as health auxiliaries. These volunteers will work in villages and outlying areas assisting the local communities on sanitation and general public health problems.

The involvement of the Peace Corps in Trust Territory introduces a dynamic new element. Because of the scale of proposed Peace Corps activities, an immediate and sizeable economic impact may be expected. The mere presence of the additional 500 to 700 Americans in Trust Territory, needing housing, transportation, foodstuffs, utilities, and consumer services, no matter how modest, will provide considerable stimulation for the local economies. It is anticipated, for instance, that the expenditures of the Peace Corps Volunteers, and the resultant multiplier effects, will produce on the order of \$1 million in new retail business during the first year the Peace Corps is in the Trust

Territory. Few of the commodities required by the volunteers will be produced locally. Most of the needs must be met with imported goods. Thus, a larger than normal portion of personal expenditures will flow directly out of the Territory. Traders will, however, provide importing and distribution services for which they will receive income to be spent in the territory on some mix of imported and locally supplied goods and services. Also, needed expansions in transportation and communications facilities, formerly regarded to be infeasible because of limited demand, will likely be introduced and will produce a significant expansionary effect on commerce in general. Meeting minimum housing needs will call for a significant increase in construction. All told, the Peace Corps activities will produce many of the same economic forces as would a large and viable new industry in Trust Territory.

The immediate economic impact of the Peace Corps spending, of course, will be an important side effect. Main attention must be directed to the long-term impact of Peace Corps activities in the Territory. The total number of American employees of the Trust Territory Government (including contract teachers) was approximately 500 at the end of fiscal year 1965. Programs discussed in this report are expected substantially to

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increase this number. The proposed Peace Corps program alone will more than double the number of Americans now in the Trust Territory. The Peace Corps program will probably influence Micronesian attitudes, desires and aspirations to a greater degree, and in a shorter time, than any past or other present program.

The wider range of direct contacts by this new group of Americans may be expected to create new wants, new standards and new attitudes on many aspects of life. There will be conflicts between traditional and new attitudes. Demands for kinds and quality of goods and services that are presently not available, especially in outlying areas, will be created. Problems of meeting newly created expectations are likely to arise. Most of the problems and difficulties can be foreseen and adequately dealt with beforehand. If this is done, the Peace Corps program in the Trust Territory can have a highly significant and highly desirable total impact.

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GOVERNMENT SUPPORTED INFRASTRUCTURE AND PUBLIC SERVICES

Most of the infrastructure developed in the Trust Territory by the Japanese was destroyed during the course of World War II, but a sizeable infrastructure was developed in some places by the United States during the period of military occupation. However, the roads, docks and harbors, airfields and other facilities were designed and located in accordance with military and not economic requirements. The limited Trust Territory budgets of the post-war era made virtually impossible the maintenance of more than a small fraction of the facilities.

Plant and Equipment

A lenient policy was established in regard to allowing salvageable scrap to be collected by commercial companies after World War II. Scrap collectors, operating with little supervision, were not always required to distinguish between portions of the plant which had only wartime utility and portions which could be used as a basis for peacetime economic activities. The present boatyard in Palau, for instance, is built on the foundations of a former Japanese boatyard which had remained intact until it was destroyed by scrap collectors.

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In recent years, capital improvement programs, particularly school and hospital construction, have accounted for an important part of the total United States expenditure in the Trust Territory. On the whole, however, the programs have suffered from the lack of planning and balance. Insufficient attention has been paid to maintenance needs of the existing plant as compared with spending for the construction of new facilities. Understandably, due to the paucity of funds for so many years, both maintenance efforts and new construction efforts have tended to be directed toward meeting the immediate social, political and administrative needs rather than the longer range (and more easily postponable) needs for economic development.

TABLE IX

Fixed Assets (excluding land) of the Trust Territory  
Government as of April 30, 1966

<u>Class of Assets</u>	<u>Value of Assets</u>
Buildings	\$ 24,226,000
Docks, Airfields, Roads	6,294,500
Heavy Equipment	2,221,400
Automotive Equipment	2,243,300
Communications Equipment	891,300
Ships	5,257,000
Miscellaneous Equipment	<u>3,520,100</u>
Total	\$ 44,653,600

Source: Derived from figures supplied by the Trust Territory  
Office of Property and Supply

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Maintenance allowances for the existing plant and equipment have been far from sufficient. On fixed assets of approximately \$45 million, expenditures made wholly for maintenance for fiscal year 1966 are estimated to be less than half a million dollars or less than one percent of the total plant and equipment value. Maintenance expenditures account for approximately 25 percent of the total amount budgeted for operations and maintenance. Given the rapid deterioration of equipment in tropical areas, the age of most of the plant, and the extraordinary costs associated with maintenance programs in remote areas, it is not surprising that the existing plant is in very poor repair.

TABLE X

Trust Territory Government Operation  
and Maintenance Expenditures

FY 1960 - 1966

<u>Fiscal Year</u>	<u>Operations and Maintenance Expenditures</u>
1960	\$ 1,955,800
1961	1,937,300
1962	1,462,700
1963	1,998,700
1964	2,728,900
1965	3,304,900
1966 (Est.)	2,165,000

Source: Eighteenth Annual Report to the United Nations.

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With the exception of a few remaining Japanese buildings, the headquarters facility on Saipan (inherited from the United States Navy) and the newly constructed schools and teachers' houses, most government buildings in the Territory are temporary structures. Many Trust Territory employees still live in quonsets erected during and following World War II.

Much of the equipment of the Trust Territory Government was inherited from the United States Navy Administration. It has been supplemented from time to time, by surplus and obsolete equipment supplied by other United States Government agencies. Such equipment is expensive to maintain because of age and spare parts problems which arise because of the lack of standardization.

Almost all of the communications equipment is obsolete; much of it dates back to World War II. The limitations of such equipment prevents the establishment of the kind of communications system essential to support economic development in the Territory. The present communications system, for example, would not meet the needs of a commercial airline operation in the Trust Territory.

Because construction equipment has been obtained from surplus stockpiles, often on a haphazard basis, much of the equipment is ill-suited for the job to be performed in the Territory. The only dredge in Trust Territory, for instance, is a river dredge

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which was never designed to cut the coral which predominates around the islands. The lack of maintenance facilities, spare parts, and capable mechanics in the districts results in excessive time losses because of equipment breakdowns. For major repairs, heavy equipment must be sent to Saipan -- almost 2,000 miles from the most remote district center.

All of the Trust Territory logistic vessels and all of the aircraft are more than 20 years old. The vessels were designed for wartime use and are expensive to operate. Maintenance costs are high and increasing. While there is some question about the economics of using the most modern aircraft in Trust Territory, there is little question about the desirability of acquiring more suitable surface vessels, and of gradually updating the aircraft.

In recent years, particularly since the Trust Territory Government has been able to acquire less costly Japanese equipment, the equipment situation has somewhat improved, particularly as to motor vehicles. Rather than to purchase the limited number of new American vehicles which the restricted budget would allow, or attempting to rehabilitate the surplus vehicles possibly available from United States Government agencies, the Trust Territory Government has been able economically to acquire new Japanese vehicles -- primarily automobiles and light trucks.

Docks, Harbors, Airfields, and Roads

While the Trust Territory was the beneficiary of the military development of some superb facilities, many of these facilities have proved of small use in serving the development of the economy. The spectacular airfields of Tinian could easily accommodate large numbers of modern jets, but the island's population of approximately 400 persons hardly calls for such service. On the other hand, Ponape, with a population of several thousand, has no airfield at all. Saipan and Tinian have elaborate networks of well constructed roads (many of which now serve no purpose and are being reclaimed by the tangen-tangen jungle) whereas only a few other islands in the Territory have anything approaching all-weather roads.

The old military facilities, aside from poor location, were not generally built on a scale appropriate for present economic operations or maintenance. Furthermore, most of the facilities have suffered deterioration during the past twenty years. Most of the existing docks, roads, and airfields can only give minimal support to economic development. In short, the Trust Territory generally does not possess the amounts and kinds of infrastructure required to facilitate rapid economic development.

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Docks and Harbors. In the Mariana Islands, both Tinian and Saipan have had excellent harbors in the past. The harbor at Saipan is a lagoon formed by a coral reef. Tinian has a large breakwater-enclosed harbor, and several large concrete docks built during World War II. Both harbors may still be used but lack of attention has resulted in deterioration. On Tinian the breakwater has deteriorated to such an extent that the harbor may be destroyed by sea action within the next few years.

Huge docks were built at Saipan and Tinian to meet military requirements. While all of the docking facilities at Tinian are in a fair state of repair, only one major dock, 400 feet long, remains at Saipan. A former dock at Saipan, which could accommodate most deep water vessels, could be rehabilitated at a cost estimated to be between \$500,000 and \$1 million.

In the Yap District, the Yap Islands are surrounded by a large, but shallow and largely unnavigable, lagoon. A narrow and treacherous channel provides passage from the ocean to a shallow water dock. The dock is inadequate and is in a very poor state of repair.

Palau District, in many respects, has the most satisfactory harbor and docking facilities in the Trust Territory. While the most convenient channel in Palau lagoon can only accommodate

vessels of limited size (5,000 G/T or less), Koror has several docks capable of taking deep water vessels. Relatively small expenditures would be required in the Palau District for dock and harbor rehabilitation.

The Truk lagoon has many islands with small boat docks. Although the Japanese used the lagoon as a naval anchorage, apparently no deep water docks were constructed. In 1962, at a time when there were plans to move the Trust Territory headquarters to Truk, a major docking facility was constructed there. This facility, costing approximately \$2 million, was built on the island of Moen. At the present time, this facility appears to be adequate. If a commercial fishing industry is developed at Truk however, additional facilities may be required.

Ponape, like Yap, has an extremely treacherous lagoon. The present dock is accessible from the district center only by small boat -- there is no road from the dock to the district center. A new dock is planned in connection with the new airstrip, and is planned to be constructed within the next two years.

Kusaie Island, in the Ponape District, is the most populous outer island, with approximately 3,500 persons. It has a fairly large, easily accessible, well protected deep water harbor, but few navigational aids, and no dock.

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In the Marshalls District, the atolls, with their large lagoons, have fine sheltered anchorages. Majuro Island has an adequate but poorly maintained dock, and Ebeye and Jaluit have docks which could be put into good order at modest costs.

Airfields. At the present time, all districts except Ponape have airstrips capable of accommodating the DC-4 aircraft which serve the Territory. An airstrip is now being constructed at Ponape. Government officials estimate that the Ponape strip will be operational within two years. None of the Trust Territory airfields has landing lights, and several are relatively short and poorly surfaced. None of the strips has adequate terminal or fuel storage facilities. The latter deficiency will be remedied when new storage tanks are constructed by Mobil Oil Company of Micronesia within the next several months. This company has been awarded a contract to provide petroleum, oil, and lubricants to the Trust Territory Government.

During World War II, several airstrips were built on Saipan and Tinian. These strips are all well surfaced and may still be used. A small unpaved strip is located on Rota.

A relatively short, but well paved, concrete strip was recently constructed at Yap, but it has no terminal and limited fuel storage facilities.

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The Palau District has two operational airstrips, located at Peleliu and Angaur, remote from the district center. Their inconvenient locations have rendered them practically useless. A new strip has been constructed on the large island of Babelthuap, adjacent to Koror, the district center. The field has not been paved, and is suffering from serious erosion caused by the torrential rains of the area.

Truk has a relatively short, coral surfaced airstrip. Like Yap, Truk is a fueling stop for Trust Territory aircraft. Because there are no bulk storage tanks, aviation gas is shipped in and stored in fuel drums.

In the Marshall Islands, airports are located at Eniwetok, Kwajalein, and Majuro. The United States military forces maintain the airfields at Eniwetok and Kwajalein in excellent repair. These fields are not generally open to commercial traffic, however. Trust Territory aircraft, as a result of a special agreement between the Trust Territory Government and the United States Army, do utilize the Kwajalein facility. The Trust Territory strip at Majuro is short and is badly in need of resurfacing.

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Roads. Virtually all the approximately 90 miles of paved roads in the Trust Territory are located in the Marianas District. For the most part, districts other than the Marianas have unimproved roads, and several districts have no all-weather roads. There are about 350 miles of unpaved roads in the Territory.

Yap Island has a road system, dating back to German times, which covers the major parts of the island. The roads are unimproved, and the heavy rainfall of the area limits their usefulness. Copra and trade goods move from one point to another on the Island primarily by means of outboard motorboats and canoes. It is estimated that copra production could be considerably increased (perhaps doubled) if it were possible to move the copra by trucks instead of by boats.

Causeways once connected Yap Island with nearby islands in the Yap lagoon. The causeways were destroyed during World War II, and now it is only possible to visit nearby islands by boat.

In the Palau District, only the island of Koror has a road system in fairly good repair. The roads on Koror gradually are being paved. The 150 square mile island of Babelthuap is

largest island in Trust Territory, and has a population of about 4,000. This island is separated from Koror by a deep channel 300 yards wide. The Japanese never built a bridge between the two islands, but maintained a ferry service instead. The ferry slips were destroyed during the war and were never rebuilt. The Trust Territory Government now provides ferry service with a World War II "M" boat (LCM landing craft) which can carry two cars at a time. The remains of the old Japanese landings are used as landing slips. The airfield is located on Babelthuap, and traffic congestion at the ferry on "plane days" is sometimes so bad that several hours may be required to travel the six or eight miles between the district center and the airport.

The only useable road remaining on Babelthuap is a four mile unimproved road connecting the airfield with the ferry landing. The old Japanese road system is unusable because it was never designed for modern motor vehicle traffic, and because of deterioration resulting from the heavy rains of the area and the lack of any maintenance. Plans have been made to construct a road down the center of the island. But with presently planned Fund allotments, this project is expected to require several years for completion.

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In the Truk District, roads constructed by the Japanese on Dublon, and other major islands, have been destroyed by lush tropical growth. Only on the Island of Moen, the district center, have roads been maintained since World War II. Even on Moen, however, much of the present road system is almost impassable for motor vehicles, and some villages are not accessible by road. Further, the road system is not designed to withstand the heavy rains which are characteristic of the District during parts of each year.

Ponape District is virtually without roads. It is impossible to travel outside the district center area by motor vehicle. Ponape Island is large and relatively fertile and has one of the best potentials for agricultural development, but the lack of roads inhibits the effective marketing of produce.

Because the Marshalls District consists of many very small strip islands fringing each of the large lagoons, roads on any given island would be of relatively little importance. On the other hand, the need for central distribution points on the various atolls might, in some cases, be met economically by constructing causeways along the reef between some of the closely located islands. Copra could be loaded on the ships and trade goods unloaded at the central point. At the present time, ships must visit

many points within an atoll, where copra is carried to the ships and trade goods carried ashore in canoes and small boats.

In 1962, 35 miles of roads and causeways were constructed so as to join many of the islands of Majuro Atoll, the district center of the Marshalls District. This road now provides most of the people of the atoll with easy access to the markets at the district center.

#### General Utilities

The power, water, and sewage systems in the Trust Territory have generally been designed to serve the needs of the Trust Territory Government. No attempt has been made to provide utilities to support the needs of development. It has generally been assumed that new industries which may enter the Territory, such as the Van Camp fishing project in Palau, would provide their own power and water. Also, it has generally been assumed that the service requirements of the general public are limited because of low per capita incomes.

Policy makers have tended to view the cost of utility services as a part of the expense of administration. Concern has always been directed toward outlays which an expansion of utility

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services would require, rather than toward the increase of (economic and social) benefits which could result from such an expansion. The growth of the district centers, the increasing Micronesian incomes, the development of investment opportunities and the increasing interest in the area by outside investors have resulted in and will continue to result in significant changes in utility requirements.

Electric Power. Electric power in the Trust Territory is provided entirely by diesel generators. The cost of operation for such power units is high, but the investment cost is relatively low. Thermal power plants have been considered to be too large for the existing needs. With very few exceptions electric power in the Trust Territory is available only in the district centers. All districts ration power and sometimes refuse or delay requests for extensions of power by new (prospective) users. Even at the current stage of development, the effective demand for power at the high prevailing rates is not fully met.

The power distribution systems in the various districts are generally in a poor state of repair. On Saipan, for instance, the sizeable distribution system inherited from the United States

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Navy has not been effectively maintained. The replacement and expansion necessary to provide adequate and reliable power supplies in all district centers will require considerable investment

TABLE XI

Electric Power Generating Capacity  
in the Trust Territory

FY 1965

<u>District</u>	<u>Total Kilowatts</u>
Marianas	3,767
Yap	1,350
Palau	886
Truk	1,000
Ponape	824
Marshalls	<u>1,050</u>
Total	8,877

Source: Eighteenth Annual Report to the United Nations

Water. Most of the islands of the Trust Territory have heavy rainfall, ranging up to more than 200 inches annually.

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But inadequate water distribution and/or storage facilities result in water shortages in all districts from time to time. Some districts, Yap and Truk in particular, face chronic and severe water shortages.

For the most part, water service is provided only in district centers as a support utility for the Trust Territory Government programs and administration. Although the indigenous population does have access to water services in areas where storage and distribution facilities are more than adequate for administrative needs, no plans have been made to provide water for industrial purposes or to make the water utility generally available to the indigenous population. The scattered indigenous population probably must continue to use traditional methods of obtaining water but tourist and travel-oriented enterprises and most other enterprises will require sizeable and dependable supplies of good water.

Sewage. The Trust Territory Department of Public Health conducts programs to educate the general population in regard to sanitation, but only government installations in the district centers have sewage systems. With growing populations in the district centers, pollution problems are beginning to appear in some of the populous areas. Certainly the existing sewage systems are

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inadequate to meet the industrial and tourist needs which will result as the Trust Territory makes progress in economic development

#### Capital Improvement Planning

The allocations of funds for capital improvements in the Trust Territory have been largely determined by the estimations of social and administrative requirements made by each of the various departments of the Trust Territory Government. In general, the highest priorities have been assigned to capital improvements directly related to social programs (health and education). Only the minimum requirements for administration have been met, and very few capital improvements have been made for the direct support of economic development programs.

In assessing the capital improvement requirements for the Trust Territory, each department has usually set its own standards. Some departments, for instance, regard the standards for facilities in the average American community to be the minimum standards for facilities in the Trust Territory. Other departments, recognizing unique features of geography and resources, try to adapt their standards more to the conditions of other areas comparable to the Trust Territory. As a result, quality of services is highly variable.



Because of the sense of urgency in meeting the immediate educational and health needs; because of general pessimism regarding economic development possibilities; because the need for schools and hospitals has been more obvious than the need for transportation, communications, power, water and sewage disposal; and because of the lack of adequate professional assistance in the planning process, the capital improvements to support social and economic programs have been neglected.

High priority capital improvements have not been coordinated so as to achieve maximum benefits. The responsibilities for planning and overseeing the construction of general support infrastructure and for the construction of schools, hospitals, and other specific functional purpose infrastructure facilities are scattered among the various divisions and departments of the Trust Territory Government. As a result, service facilities have been dispersed when they might better have been consolidated. Projects have been generally planned and undertaken without careful engineering and economic studies to determine feasibilities. Projects have been planned and justified in terms of the specific function of the division or department immediately concerned; neither the multiple use or impact benefits, nor the multiple

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demands on infrastructure support facilities and services have generally received major consideration in the capital improvements planning process. Recommendations for improved capital improvements planning are included in Chapter XII.

#### DIRECT DEVELOPMENT PROGRAMS AND ACTIVITIES

The direct development programs and activities which are currently being undertaken by the Trust Territory Government can be generally grouped under three headings: economic development, political development, and community development.

All three of these direct development programs are now very small, both relative to the total size of the Government budget, and relative to the vital need for the benefits which these programs, if well directed and vigorously pursued, could produce for Micronesia and Micronesians. These are the programs which must spearhead the breakthroughs in the movement toward internal strength and viability in Micronesia.

At the present time each of these programs is located in a department separate from the others. Direct political development activities are undertaken by the Division of Political Affairs, located in the Department of Public Affairs; direct economic

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development is undertaken by the Division of Economic Development, and to some extent by the Division of Agriculture, both in the Department of Resources and Development; direct community development is undertaken by the Division of Community Development, within the Department of Community Services.

The functions and objectives of each of these direct development programs need to be closely related, yet each program is distinctly different from the others in some ways. Political development activities consist of providing direct guidance and assistance in developing strong, viable, responsible, and effective democratic political organizations, institutions, and leadership at all levels of government; economic development activities consist of providing guidance and technical and financial assistance in establishing new economic enterprises and activities, and in strengthening and expanding existing ones; community development activities consist of direct political, economic and social development efforts with the focus on stimulating cooperative efforts and maximum individual participation at the community level. It would be possible for the properly designed coordinated and financed efforts of these three programs to provide the major direct stimulus for economic development in the Trust Territory.

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### Political Development

The present political development program of the Trust Territory Government operates on an annual budget, including overhead, of about \$100,000. The efforts of this program have been concentrated almost entirely on stimulating the creation of democratic legislative organizations in each of the six districts (the district legislatures) and on stimulating the creation of and then providing assistance to the Congress of Micronesia.

The Political Affairs Department attempts to maintain contact with the laws being passed, taxes and other revenues being collected, and other activities of all units of Micronesian government. The small program has not allowed for the careful and continuing analysis of Micronesian governmental activities. Much more serious, it has not allowed for the careful planning, explanation, and constant assistance which are and will be required to enable the new legislatures and legislators to develop most rapidly, and to function most wisely, responsibly, and effectively in establishing sound and dependable institutions and precedents, and a favorable framework for development.

### Economic Development

The Trust Territory Government's program for direct economic development has been very small. The largest direct

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development program, several times the size of the industrial and commercial development program, is in agriculture. This program was discussed in Chapters Four and Five of this report. The fisheries expansion program amounts to about \$120,000 (including overhead) and was discussed in Chapter Six. The only other direct economic development activities (other than the present contract for economic development planning and implementation services) are the activities undertaken by the Economic Development Division of the Department of Resources and Development. This division is concerned primarily with commerce and industry. Less than \$200,000 (including overhead) are now being spent for the direct economic development of commercial and industrial enterprises. Of this sum, about three-fourths goes for the support of the cooperative program.

Qualified economic development personnel are essential to formulate and implement fruitful economic development programs; yet most of the Trust Territory personnel charged with economic development responsibilities have lacked both training and experience in this field.

Personnel. The personnel authorization for the Economic Development Department includes a Staff Economist, a secretary,

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a Micronesian Economic Development Officer, a Headquarters Co-operative Officer, and three District Cooperative Officers stationed at Ponape, Truk, and Palau. The district economic development personnel are all Micronesians who work under the direction of the district administrators.

The position of Staff Economist has never been held by an experienced and well trained economist. In the past, the Staff Economist also served as the Trust Territory Fisheries Officer. Most of his time was spent serving as Chairman of the Copra Stabilization Board, reviewing loan applications to the Economic Development Loan Fund, handling routine problems and correspondence associated with the Van Camp fishing operation in Palau, and handling the occasional general correspondence and inquiries of private individuals and firms interested in the possibility of business opportunities in the Trust Territory. The Staff Economist position has been vacant since January 1966.

For the most part, the Micronesian Economic Development Officer stationed at the Trust Territory Headquarters has been responsible for the accounts of the Copra Stabilization Board and the Economic Development Loan Fund and for performing routine bookkeeping and accounting duties. At the present time, the position of Economic Development Officer is also vacant. The former

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Economic Development Officer has been appointed to the post of Deputy Assistant Commissioner for Resources and Development.

District Economic Development Officers, or "Economic Affairs Advisors" are charged with the responsibility for providing advisory and research services related to district business and mercantile developments. All these positions are now held by Micronesians, none of whom have sufficient training, experience, direction or supervision to enable them to function effectively in this role.

Assistance to Cooperatives. Under the policy of the Trust Territory Government for the encouragement of consumer and producer cooperatives, many credit unions and other cooperative enterprises have been established during the past several years. All of the problems which cooperative enterprises have faced elsewhere are present in the Trust Territory. In order to maintain Trust Territory cooperatives, an effort has been made to provide accounting and managerial support. The Headquarters Cooperative Officer is responsible for providing such support. Because of the amount of cooperative activity in three districts (Ponape, Truk, and Palau), cooperative officers, working under the direction of the Headquarters Cooperative Officer, are stationed in those districts.

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The Economic Development Loan Fund. A potentially important direct economic development activity carried on by the Trust Territory Government is that of making loans to small businesses. The Economic Development Loan Fund was established for this purpose in fiscal year 1963, when grant funds appropriated for development loan purposes were combined with funds formerly available for loans to chartered trading companies. Total reserves and net worth of the fund now amount to about \$680,000.

For reasons discussed elsewhere in this report, it is difficult for Micronesians to obtain normal bank credit. The EDLF should be a major source of capital for business expansions, both through providing direct loans and through guaranteeing bank loans.

The loan volume of the EDLF has been relatively low, for several reasons. The Trust Territory Government has consciously attempted to build the Fund to a total capitalization of \$1,000,000 from the annual grants of \$100,000 per year from the United States Congress. The Loan Board, which consists largely of Government administrators, has generally pursued conservative policies in making loans and in establishing reserves, because of its desire to protect the funds by making sound loans. A fifty percent

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reserve is maintained against both direct and guaranteed loans. Applications for loans for working capital have generally been denied.

Opportunities to make meaningful development loans have been limited. Most Micronesians who apply for loans have no equity capital. Conservative policies notwithstanding, the EDLF has sometimes made loans to applicants on the sole basis of character and ability of individuals to recognize what might be a business opportunity. Such factors as managerial ability, owner's equity, and business experience have had to be discounted in order to fulfill the economic development objective of the fund.

A major difficulty associated with the administration of the EDLF arises from the organization of the Loan Board. Board members are appointed from the Trust Territory executive staff. Many members have little knowledge of loan problems and can only give limited time to their Loan Board duties. Also, the EDLF has no staff to promote or service loans, or to provide the kind of management assistance necessary to increase the borrower's chances for business success.

There is no question about the need for the EDLF in the development of the Trust Territory economy. As official attitudes toward the economic development of the area change, in regard to

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both the development potential and the means to realize the development potential, and as Micronesians become better educated and more aware of opportunities, the EDLF should become a major tool of the direct economic development programs.

### Community Development

The present community development program of the Trust Territory Government operates on an annual expenditure of about \$150,000, including overhead costs. The program has succeeded in establishing: (1) local economic organizations for the production and sale of handicrafts on a small scale, (2) local recreational organizations for young people, and (3) local training and self-help groups to improve home management, fishing techniques, environmental sanitation, and other aspects of economic life in the community. But the program has been too small to go very far in any of these directions, or to touch many communities. The kind of effective direct development efforts (economic and other) which can be undertaken at the local level by local organizations of business and community leaders, with the assistance of technically competent, development-oriented professionals, have not yet begun on any significant scale in the Trust Territory.

## PART IV

### TOTAL EXPANSION POTENTIAL, RESOURCE NEEDS, AND IMMEDIATE PRIORITIES

The policies and programs recommended in the previous Parts of this report can provide a significant stimulus to economic expansion in the Trust Territory. But for this expansion to be realized the simultaneous increases in demands for resources by both private and government activity expansions will need to be planned for and met. Also, a series of steps will need to be taken to ensure the implementation of the recommendations of this Plan. This final Part of this report is addressed to these issues.

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## CHAPTER TWELVE

### RECOMMENDATIONS FOR IMPROVING THE DEVELOPMENTAL EFFECTIVENESS OF GOVERNMENT PROGRAMS

The purpose of this chapter is to present specific recommendations for designing the government's programs, activities, and emphasis so as to make the most of existing and potential opportunities for increasing indigenous economic strength and viability in Micronesia. Recommended programs and procedures are presented for:

- (1) determining and adjusting total government spending in view of over-all resource availabilities and absorptive capacities;
- (2) developing and maintaining proper balance among and within programs;
- (3) improving, expanding, and supplementing present programs for human resource development, for the development of infrastructure and services, and for direct aids to development. The final section of this chapter presents projections of the labor,

capital, and operating funds which the Government will need for the five-year period, 1967-1972, to achieve the recommended program improvements, expansions, and supplements.

#### ADJUSTING THE TOTAL SIZE OF GOVERNMENT EXPENDITURES

There are two kinds of considerations in assessing or determining the most appropriate over-all size of Government expenditures for any given year:

- (1) the ability of the Government and the time required to plan, tool up for and carry out a coordinated, purposeful total effort toward a unified ultimate objective; and
- (2) the speed with which new private economic undertakings of the Trust Territory can get under way and can derive strength from the direct impact of the government's total spending activities.

#### Policy, Planning, and Administrative Lead-Time

Total government expenditures should not be expanded any more rapidly than the personnel needs for policy, planning, and programming can be met. Also, much time and effort will be

required to formulate and establish the necessary policy guidelines to direct the emphasis of the program expansions. The Trust Territory Government administrators who need to set objectives and formulate policies are occupied with day-to-day operations. The policy decisions must precede the program expansions, lest the increased expenditures serve only the obvious short-run needs with little or no progress toward long-run goals. The choices between qualities and quantities must be faced and answered. If quality is to be as important a criterion as quantity, policy decisions must be made regarding the locations, the functions, and programs which are to receive the concentration of effort. Also, questions regarding numbers of people to be served and quality of personnel to be employed must be decided.

Engineering feasibility studies are needed to determine costs; economic feasibility studies are needed to determine cost/benefit ratios. Even though precise benefit figures are elusive, expenditures should not be undertaken unless substantial benefits can be reasonably expected. Capable staff will be difficult to obtain and will limit the speed with which expenditures can be increased effectively.

Direct Impact Considerations

The increase in money flows and local expenditures which will result from increased government spending will provide an expanded base for the development of varied enterprises. But the development which is stimulated by the expanded market may be prevented by the government's absorption of most of the local resources needed for development.

The Trust Territory Government is already the "preferred customer" for almost everything available for sale in Micronesia. The demands of private businesses generally take second place. Development would be impeded by the diversion of additional resources to government use. Also, the efficient implementation of the government's programs requires that all the necessary resources be planned for and be available, including manpower. Program expansions should not be undertaken until the resource requirements, especially labor requirements, have been assessed, and plans made for meeting the needs so as to prevent draining labor and other essential resources from effective private sector uses. Some programs can be undertaken by contract, and can be designed so as to minimize the drain on local resources--particularly labor. Expenditure patterns which place minimum demands on local resources should be sought.

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In summary, total government expenditures should be adjusted, not to the number and sizes of programs which the Trust Territory Government would like to undertake, nor to the amounts of money which might possibly be forthcoming, but to that level where expenditures can be effective and where they can bring a high level of direct and indirect benefits to the Trust Territory. If the needed inputs cannot be assembled so that the programs can be effectively undertaken or expanded without doing serious harm to a sound and expanding Trust Territory economy, the expansion should not be undertaken, whether or not the money is available.

#### BALANCED EXPENDITURE EMPHASIS AMONG PROGRAMS

For any given level of total expenditure, funds must be allocated among the various programs so as to achieve the most rapid feasible progress toward the adopted ultimate objectives. Care must be taken to weight the total benefits to be derived from the expansion of any given program, against the benefits to be expected from the expansion of other programs. Only in terms of progress toward ultimate objectives can the various program priorities be established.

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The task of assessing the benefits which may be derived from each of the present and potential Trust Territory Government programs, activities, and projects is a difficult one. It will require additional high level expert personnel, vastly improved information and data on program results, as well as clear and explicit statements of ultimate objectives and goals. These needs for the kinds of information and data necessary to make planning possible are most urgent. It is imperative that the Trust Territory Government acquire the services of professionals who can design and implement the necessary information and data gathering and processing procedures.

The emphasis on carefully designed direct and indirect economic development efforts should be intensified as total expenditures expand. The education program particularly needs to be specifically designed to best serve the economic viability objective. Recommendations for priorities in expenditure as between and among the various programs are presented in the final section of this chapter. The breakdown of expenditures between alternative activities and projects within each major program, as well as among programs, needs to be assessed in terms of the relative benefits of each project.

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Each government program, project, and activity relates to all the others. Each program competes with others for resources, administrative time and attention, and support services. Yet each program depends on other programs. They must be phased properly. It is essential that those programs and projects which satisfy first requirements be expanded first. Construction of new facilities must precede operating programs that depend on these facilities. But they should not be built unless the facilities which have already been constructed are efficiently and reasonably fully utilized. Programs and projects which require transportation, communications, and other utility services in order to operate effectively should not be scheduled to begin before at least the most essential supporting services will be available. Buildings and other installations should not be constructed more rapidly than the land management and legal efforts can provide clear title to the needed sites.

#### PROGRAMS TO IMPROVE HUMAN RESOURCES

The major human resource improvement programs of the Trust Territory Government are education and health. These programs contribute both to the development of the human resource

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base and to the general standard of living. Educational programs can provide the economy with basic skills required for development, while simultaneously providing improved personal economic opportunities both within and outside the Territory.

Social program planning should evaluate the effects of the programs both on resource base development and on the standard of living. While social programs which are primarily oriented toward improving the human resource base will surely have a beneficial impact on living standards, programs which go beyond meeting the economy's immediate human resource needs may be detrimental to over-all economic development, provided they increase substantially the demand for higher living standards without generating a compensating increase in the economy's ability to produce. Present standards of living may be increased at the expense of future standards of living if social programs claim the resources which are required to meet other more productive development needs.

Recommendations for emphasis of human resource development programs, and suggestions as to how social programs may be made most effective in terms of economic development objectives are presented below.

## Education

The opportunity for all children to go to school, including high school, is a well recognized and generally ideal objective. But the scale of the educational program cannot be determined by considering only the needs of the society for education. These needs must be compared with total resources available, as well as the requirements and potential benefits of other programs. Care must be taken not only to ensure that the educational program meets the needs of economic development, but that the magnitude of the program does not preclude the implementation of other vital programs.

Education Standards. It is recommended that measures to increase the standards of education be assigned a high priority.

As more than 200 Peace Corps Volunteers assume teaching responsibilities, there may be a great temptation to replace American teachers with the Volunteers. The resulting savings in teachers' salaries might tend to be used to extend the educational program, to construct new schools, and to staff them with unqualified teachers. This temptation should be resisted. The future economic interest of Micronesia and Micronesians requires that the major effort now be directed toward placing fully qualified teachers in every classroom. The Peace Corps program

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should be regarded as a windfall supplement which will make possible more rapid increases in education standards rather than just more quantity.

An immediate review should be initiated to designate those of the indigenous educational staff who are professionally qualified and those who can become professionally qualified by advanced training. Training should be provided as rapidly as feasible. Those who cannot become professionally qualified, because of poor training or lack of basic abilities, should be gradually replaced.

School Consolidation. The efficient placement of educational facilities in the Trust Territory is essential. The potential benefits of consolidation are threefold. First, construction and operating costs can be reduced. The construction of numerous small schools, serving only limited numbers of students in remote areas, is more costly than the construction of a limited number of consolidated schools in major population centers. Also, substantial savings can be realized by locating schools in areas where water, power and other facilities are readily available.

Second, the limited number of qualified teachers can be more effectively employed. Instead of placing one or two qualified teachers in each of the widely dispersed small schools to perform

limited teaching services and rely on unqualified teachers to perform most of the teaching, qualified teachers can be concentrated and use their talents effectively.

Third, as a result of the broader associations of children who attend consolidated schools, much of the parochialism which characterizes the small communities of Micronesia can be dissipated and the younger educated generation can develop a more cohesive society, broader views and become more amenable to the kinds of changes which the fulfillment of their expanding desires will require.

Consolidation will require adequate roads for school buses and rapid short-haul water transportation for areas where road construction is not feasible. While most roads in the Trust Territory are not all-weather roads and are in generally poor repair, the small sizes of most islands and the concentrations of population on the islands would justify better road service for school consolidation alone. With proper planning and relatively modest expenditures to improve existing roads, few islands would require more than one or two elementary schools. New elementary school construction should be planned to take maximum advantage of existing and planned road systems.

Secondary schools should be confined to district centers. Not only will the students benefit from better education, but the graduates of the schools will be more readily absorbed into the viable sectors of the economy, many of which are concentrated in the district centers. Few high school graduates will be lost to the subsistence sector after attending boarding schools in the district centers.

Vocational Education. One or more secondary vocational schools capable of offering intensive instruction in the trades should be established for the Trust Territory. The curriculum should be determined by the specific needs of the Trust Territory. Vocational education should be in lieu of other secondary education. Upon the completion of elementary school, students should be given the option of attending the liberal arts high schools or the vocational school.

Instruction emphasis should be directed toward producing graduates who after a very short work experience may achieve journeyman status. Liberal arts courses offered in the school should consist of those courses, such as mathematics and English language, which are prerequisite to acquiring and applying trade skills.

The vocational school should be centralized in order to achieve a scale of operation which will be both economic and efficient. It should be located in a major population area which is sufficiently developed to allow students to observe modern economic activities. The experience might warrant an addition to such school within a reasonably short period of time.

Advanced Education. The Trust Territory Government should not attempt to offer professional or other advanced training in the Trust Territory. Not only is it far more economical to send qualified students abroad, but the attempt to provide advanced educational programs would detract from the major immediate need to raise the standards of elementary and secondary schools and to establish effective vocational education.

Until such time as the elementary and secondary educational systems are capable of adequately preparing most students for advanced education elsewhere, the gap between the number of Micronesians with advanced education and the number of jobs requiring advanced education should be closed by recruiting non-indigenous professionals. The society will not be benefited by establishing advanced schools which graduate students with inferior and inadequate training.



Adult Education and Job Training. As a part of the development effort, programs should be established to upgrade the performance of Micronesians employed in both government and the private sector.

The Personnel Department of the Trust Territory Government should expand the newly established management training program and should institute other programs which will help government employees to acquire and improve occupational skills. Special courses, established in cooperation with the Trust Territory Division of Education, should be offered to government employees. Employee participation in such courses could be encouraged by giving credit toward pay increases and promotions for the successful completion of the courses.

The Economic Development Department should take the initial responsibility for stimulating and coordinating the development of similar programs in the private sector. Special courses should be established in each district to assist business firms in training their managers, supervisors, accountants, and other employees. Incentives for participation could take a variety of forms. Accounting assistance, for instance, could be offered to firms on the condition that some employees attend accounting courses offered in the district center.

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The precise forms of adult education and on-the-job training in the government and private sectors will largely depend on the developing needs of the Trust Territory. These needs will become more obvious as government programs and the general economy expand. Regardless of form, however, adult education and job training must be assigned high priorities to stimulate increased government efficiency and private sector development.

#### Medical Services

The priority of health service programs must be assigned according to the ultimate objectives of the Trust Territory Government, and in view of the alternative demands for limited resources. Questions concerning the degree of consolidation of medical facilities are no less important than the questions concerning the degree of school consolidation.

Medical Standards. As an initial measure to increase medical service standards in the Trust Territory, every effort should be made to speed the replacement of the present medical practitioners with fully qualified medical doctors in all Trust Territory hospitals. The medical practitioners could continue to perform an extremely important function by serving in the infirmaries established in outlying communities, and by working under the direction of the medical doctors in the hospitals.

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Because the educational system in the Trust Territory has not developed sufficiently to prepare many Micronesians to qualify for enrollment in American or other foreign fully qualified medical schools, it is not likely that sufficient indigenous doctors will be available for some time in the future. For the time being, the professional medical staff will have to be composed largely of non-indigenous personnel.

The efficiency of Trust Territory Government medical administration is impaired by certain chronic problems. Humanitarian, political, and other considerations have pressed for a full range of medical services throughout the Territory. But the resources required to supply such services are very great for the very limited number of people served and relative to total available resources.

The relatively small size and professional isolation of the medical administration of the Trust Territory Government presents problems. It is extremely difficult for administrators to recruit medical professional staff in the United States and elsewhere. The Trust Territory Government needs expanded assistance in the United States for recruiting purposes. There is virtually no professional backup organization in the Department of the Interior specifically responsible for the support of the Trust Territory medical service programs.

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In spite of many problems, the Trust Territory Government can, with sufficiently large expenditures and effort, continue to administer general medical services in the Trust Territory. But acceptable alternatives should be investigated. The most efficient means for providing medical services in the Trust Territory might be to contract for the entire responsibility for all medical programs with the United States Public Health Service (USPHS). Not only does the USPHS have the capability to dispense high quality medical services, but its broad experience in establishing similar medical service systems elsewhere would facilitate reviewing the Trust Territory medical service program and making necessary changes.

If it is not feasible to place Trust Territory medical services under the USPHS, an effort should be made by the Trust Territory Government at least to elicit the assistance of the USPHS. It would be desirable to get professional medical personnel and some consultation services from the USPHS, perhaps on a reimbursable basis.

Medical Facilities. It is recommended that medical facilities be consolidated to the greatest practical degree. Since advanced medical service requires highly trained and expensive specialists and elaborate equipment, facilities, and supplies, it would be difficult to justify and probably would be

impossible to maintain high standards in six fully equipped and staffed general hospitals in the Trust Territory--one in each district. Not only would the construction of such facilities be excessive because of the relatively small populations served, but the money and resources required to construct and operate the hospitals would delay or deny other projects which might bring much greater benefits to the Micronesian people than would the wide geographic dispersion of hospital facilities.

With an expanding transportation system, one general hospital located at Truk or Ponape could serve the Eastern Caroline and Marshall Islands, and one general hospital could serve the Mariana, Yap and Palau Islands. A hospital to serve the western chain might be established at Saipan, or some arrangement might be made with the Government of Guam to pool the use of Guam Memorial Hospital.

While one or two general hospitals would probably be adequate for the Territory, small limited service hospitals could be set up and operated in each district center. Serious cases and cases requiring intensive long-term care should be referred to the most convenient general hospital.

Small, well equipped infirmaries should be constructed in the outlying communities which are large enough to justify

the residence of a medical practitioner. For communities with small populations (less than perhaps 300) the services of a full-time medical practitioner are not warranted. These communities are likely to become smaller as the Trust Territory develops and as the concentration policy takes hold. Improvements in the medical services offered to these communities should depend on improving the transportation and communications system to give them better access to the facilities established in the larger communities.

#### Peace Corps Program

Every effort must be made to coordinate the activities of the Peace Corps Volunteers with the activities of the regular staff of the Trust Territory Government. Regardless of the specific assignments of the Volunteers, it is likely that a major impact of the Peace Corps program will be on the attitudes, ideas and aspirations of the local people. These attitudinal changes may be expected to influence greatly the environment within which the future development of the Trust Territory will take place.

To the greatest degree possible, the activities of Volunteer should be influenced by clear statements of the development objectives and policies of the Trust Territory Government and of

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the realistic alternatives for economic development. The work of the Volunteers should be conducted within the framework of the government's programs. It will be necessary for government employees and Volunteers to work under common supervision toward common objectives. Not only would the failure to coordinate Trust Territory Government and Peace Corps efforts result in programs being less effective than they should be, but the pursuit of divergent or contradictory goals could bring results seriously detrimental to the development of the Territory and to the future of the Micronesian people.

#### PROGRAMS TO IMPROVE THE INFRASTRUCTURE FOR DEVELOPMENT

High priority should be assigned to programs for improving the infrastructure of the Trust Territory. There is an urgent need for better roads, airfields, harbors, and utility systems. All infrastructure expansions and improvements should be preceded by adequate planning. Final construction decisions should be based on evaluations of prospective populations, economic trends, administrative demands, and realistic cost estimates.

Infrastructure improvements should be concentrated on the district center islands and the very limited number of other islands with fairly large populations (Kusaie, Ebeye, and two or

three others). Any attempt to build a substantial infrastructure or to provide general utilities on outer islands would be both tremendously costly for capital and maintenance and would tend to perpetuate the Trust Territory problems of small markets and the dispersed and ineffective use of human resources.

### Electric Power

It is recommended that the near-term and longer term private and Government demands for power be projected under the most likely levels and patterns of economic development. Estimates of the private demand should consider the abilities of consumers to pay rates which would cover the operating costs of power produced by the most efficient available system of appropriate size to meet immediate and projected needs.

The immediate capital expenditures for expanded and new power systems will have to be made by the Trust Territory Government. In two districts, however, Marianas and Palau, it is possible that the tourist and commercial potential may be sufficiently large to warrant private investment in the power systems in the near future. It is conceivable that private investors would be willing to make the necessary investments to rehabilitate the power distribution systems and to install larger, more economical (on a power unit basis) plants.

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It is recommended, therefore, that invitations be submitted to interested and qualified private investors to take over the present power systems in the Mariana and Palau Districts on a lease or purchase basis. The private operator would be selected on the basis of his willingness to rehabilitate the existing systems, expand as necessary, and to charge reasonable power rates. Because the Trust Territory Government would be a large customer, a separate contract could be negotiated for the purchase of power by the Government. The Trust Territory Government, by guaranteeing to purchase an amount of power which will make a larger, more economical system feasible, or by paying a negotiated higher rate than the general public, or by direct subsidies or guarantees, could assume some of the risk which the private operator would face.

The successful transfer of the power systems in these two districts to private hands could result in high standards of performance and abundant power for the general public. The Government would be relieved of a large administrative burden at a total cost to the Government only slightly higher (conceivably lower) than the current cost of government power. In the longer run it is likely that the total cost of power, both to the Government and to private buyers, would decrease.

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### Water and Sewage

As in the case of electric power, the expansion of water and sewage services should depend on immediate and projected Government demand, projected private economic development requirements, and the abilities of the consumers to pay for the operating costs associated with providing the services. Charges for water services should be made directly to consumers on a unit rate basis. Sewage service charges can be assessed as a percentage of the water bill, or can be financed from general local taxes or assessments for sewage facilities.

Again, as in the case of electric power, it is probable that the initial capital investment in water and sewage facilities will have to be made by the Trust Territory Government. Economic as well as engineering feasibility studies should precede and influence all expansions of water and sewage facilities, but general health conditions must be given heavy weight in such studies.

### Docks, Harbors, Airfields, and Roads

Major infrastructure construction should be carefully planned in accordance with both economic development and administrative requirements. If either one or the other of these requirements are ignored many needed projects cannot be justified. Further, by considering only one or the other of the requirements,

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facilities may be designed or located so as to have only limited use.

All dock, harbor, airfield and road construction must be planned to conform with over-all Trust Territory Government development policies and with economic and physical land-use plans.

### Communications

It is recommended that the recent Federal Aviation Agency (FAA) recommendations for an improved communications system in the Trust Territory be accepted and implemented. The FAA has broad communications experience and unquestioned technical competence. The recommended communications system is necessary now to serve existing programs and will become increasingly essential as economic development and government program expansions occur.

No single territory-wide service is of greater importance to economic development and efficient administration than communications. The wide scatter of small population centers gives emphasis to the need for improved communication facilities, but also condemns any system to small volumes of traffic over long distances if the services are to be both regular and frequent.

Present communications facilities have been established on a make-shift basis. Many of these facilities are being used for purposes for which they were not designed. A high priority should be assigned to providing an adequate communications system for the Trust Territory.

#### Administrative Facilities

There is an urgent need for the improvement of administrative facilities, particularly administrative buildings and government employee housing. Efficient operations of the Government requires that the essential administrative facilities be available where and when needed. The build-up should be scheduled to coincide with the expanding needs.

It is recommended that the construction of administrative facilities be planned and undertaken over a period of seven to ten years. In order to apportion scarce resources rationally, construction during each year should generally be limited to the immediately projected needs, taking into account economies of scale and building in such manner as to facilitate economic future expansions of facilities. It is not the purpose of this recommendation to encourage a postponement of the program

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for administrative facility improvement, but rather to indicate the desirability of planning and scheduling construction over a longer period than is generally considered for other programs.

It may be possible for the Trust Territory Government to pass part of the burden of providing certain kinds of administrative facilities to the private sector. Government employee housing, for instance, could perhaps be provided by inviting private investors to build houses which could be leased to the Government on a long-term basis. The several hundred additional houses (at least 200) which will be required for government employees by 1972 would allow a scale of construction and a potential market which may well interest housing developers in Hawaii and elsewhere.

Because of the pressing need for employee housing, an immediate attempt should be made to project the requirements and to determine whether private construction of government housing is feasible. Questions must be answered in regard to the availability of land, and to policies which affect foreign investment in the Trust Territory. The latter issue is most important because it is not likely that indigenous investors will soon possess sufficient resources and skills to undertake such projects.

## DIRECT DEVELOPMENT PROGRAMS

The three direct development programs of the Trust Territory Government; political development, community development, and economic development; should be redesigned, expanded, and coordinated to serve as the spearhead of the total development effort. The recommendations for achieving this objective are presented in the following subsections.

### Direct Political Development

The direct political development activities of the Trust Territory Government have major economic development significance. If policies and programs for economic development are to be properly implemented, the support and help of the Micronesian legislative bodies will be needed. The legislators will need to understand the rationale underlying the recommended policies and programs, to agree with the desirability of the recommendations, and to assist in the implementation process. Only if vigorous and direct assistance by the Trust Territory Government is provided to these legislators can they achieve a proper understanding and a general awareness of the economic development significance of their actions.

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The political development activities which are currently being undertaken need to be expanded and strengthened in order to allow for more intensive contact, leadership, direction and assistance. The intensification of the present program should be aimed toward:

- (1) assisting in rapidly broadening the scope and encouraging the proper functioning of the new legislative bodies;
- (2) helping to develop efficient, complete and reliable techniques of record keeping;
- (3) helping to improve their abilities to draft effective legislation; and, most important
- (4) increasing each legislator's awareness of the great importance of the functions which he has been elected to fulfill, and of his dedication to statesmanship, responsibility, wise deliberation, selflessness, and appropriate restraint in all legislative actions.

In addition, a new major thrust should be added to the political development program--that of providing economic education, advice, direction, and assistance to the legislators.

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It would be unrealistic to assume that the legislators and councilmen throughout Micronesia will understand, work with and support the economic development objectives, and the implementation of the recommendations of this Plan without a direct and concerted effort by the Trust Territory Government to explain the policies and the program issues. Although an important part of this work can and should be carried out by local community development efforts, by the educational programs, by the economic development advisors in the local areas, and others, much responsibility for this task will rest with those who have the responsibility for carrying on direct political development activities.

A highly qualified specialist with practical experience in taxation, public regulation, and public administration should be employed as a part of the direct political development effort. The program to provide economic understanding, guidance, and assistance to the emerging democratic political units of Micronesia is of such importance that it should be assigned the very highest priority. It must be undertaken soon and it must be done well.

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### Direct Community Development

The present community development activities of the Trust Territory Government need to be more clearly defined and aimed in the direction of coordinating the economic, political, and social development efforts at the district level throughout the Trust Territory. Experience in other areas has demonstrated that community action organizations at the local level, when provided with adequate professional staffs and assistance, can have a very significant impact on economic and other conditions in their areas. Local organizations which tie together and concentrate the efforts of the active citizens of a community can exert a major force for progress. The community development effort in the Trust Territory should be designed to stimulate and assist in the development and efficient functioning of such organizations in each district center area.

### Direct Economic Enterprise Development

The Trust Territory Government's effort to develop business enterprise should consist of the following programs: 1) small business development, 2) industrial and commercial promotion and development, 3) tourist and travel industry development, 4) commercial agriculture and copra development, and 5) commercial fisheries

development. The recommended functions of government enterprise and public utilities and of local community and political development will play essential supporting roles.

The enterprise development programs required for the expansion of tourism, and the recommended programs in agriculture, copra, fisheries, community and political development, have been presented previously. The following sub-sections present recommendations for the small business and industrial development programs and for the management, supervision, and regulation of government enterprises and public utilities.

The Small Business Development Program. Other than the existing programs in agriculture and fisheries, the only present enterprise development activities of the Trust Territory Government might be called small business development. This consists of assistance in the creation and management of cooperatives, subsidies to the Palau Boatyard, and loans and loan guarantees to local businesses from the Economic Development Loan Fund.

The need for a vigorous, well planned, capably staffed small business development program is clear and urgent. The program should be designed to provide to all existing and prospective businesses, counseling, orientation, training, and assistance

in matters of production, location, supply, markets, accounting, finance, and all other problems of effective management. It should provide management and financial assistance to any promising actual or potential enterprise in every economic sector. It should aid all businesses regardless of the business form or ownership, and it should not discriminate among businesses on the basis of race or national origin. Businesses should be aided in obtaining the human, natural and capital resources needed for feasible expansions.

The small business development program should operate simultaneously in all the districts and because of the multiple roles played by most of the local leaders (in business, politics and community affairs) should be closely coordinated with the direct political and community development and adult education activities in the district center areas. The small business development program should be a "grass roots" effort, with capable professional and adequate financial assistance from the Trust Territory Government.

The small business development program organization should be established to consist of a headquarters Small Business Development Director, a qualified and experienced assistant, a capable secretary,

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trained and experienced small business development advisors assigned to work in the district centers, and the economic development loan fund, headed by a full-time experienced executive.

In general, the small business development program should perform the following continuing functions:

1. It should maintain continual contact with all existing enterprises of all kinds and sizes at or near the district centers in order to be constantly aware of the nature of their operations, the difficulties and the problems which they face, and to assist in promoting opportunities for expansion.

2. It should provide for specific assistance to each small business by the small business advisor in the district and by referrals to headquarters where more highly specialized technicians should be available. Some of these referrals will be made to headquarters specialists outside the small business and economic development programs.

3. The small business development advisor in the districts should be the original point of contact for applications for technical and financial assistance of any kind, primarily loans from the Economic Development Loan Fund. The advisors will assist the businessman in preparing loan applications and in supplying supporting information and data, will then provide their own

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assessment of the advisability of the loan, and will submit the application together with evaluation through central headquarters to the executive of the Economic Development Loan Fund.

4. The program should maintain continual contact with and provide management assistance to Economic Development Loan Fund borrowers. The district small business advisors should provide local service required for economic development loans. They must know when and how to assist borrowers, when to request extensions of loans, and when to recommend foreclosure.

5. The headquarters staff of the small business development program should provide assistance as necessary on business problems or expansion possibilities throughout the Trust Territory, should constantly seek new kinds of opportunities for small business expansion, and should provide advice and direction to the small business development personnel in the districts through the district administrators. Either the director or his assistant should spend about half time in the districts providing direction for district development officers and seeking opportunities for small business expansions.

6. The program should provide loans and loan guarantees from the Economic Development Loan Fund. The size of the Fund,

approximately \$700,000, may presently be adequate to meet the immediate development demands of the Territory, but it is quite inadequate to serve the development needs which will arise as the recommended small business development program gets underway. It has been the intention of the Trust Territory Government to build the Economic Development Loan Fund to a total capitalization of \$1 million. This should be done and it should be further expanded when and as necessary. The loan fund will be a key element in the small business development program. The more aggressively the program is implemented, the more capitalization the Fund will require.

"Supervised loans" made by the Fund should provide not only capital but technical assistance extending to the use of the loan, selection of key personnel, standards of accounting, general management, marketing, and other aspects of the business operation. Such assistance or even supervision where necessary may be set as a condition for obtaining a loan or a loan guarantee. The need for supervision should be carefully assessed and imposed only when found to be necessary. The Executive of the Fund should have primary responsibility for presenting loan applications to the loan board, for recommending the qualifications and supervision

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required, if any, and for servicing loans and providing or arranging for the provision of managerial and technical assistance to borrowers.

It should be emphasized that the Economic Development

Loan Fund should be considered as an integral part of a program

of encouragement and assistance to local business enterprises,

of which financial assistance is only one aspect. It should

not operate as a commercial bank. Loans may be made which would

not ordinarily be considered as bankable. But neither should it

operate as a means to subsidize unsound enterprise or poor

management. Though many loans will be riskier than a private bank

would tolerate, they should be made only in the reasonable expecta-

tion that they would be repaid, and realistic repayment schedules

should be established to assure that they are repaid. Equity

capital should be required to make the businessman assume a

reasonable proportion of the risk.

The additional capital needed by the Fund will probably

have to be provided from the Trust Territory budget and from the

Fund's own earnings. There is no reason why the Congress of

Micronesia cannot and should not contribute to the Fund from their

local tax revenues.

The Industrial and Commercial Development Program. Industrial and commercial development in the Trust Territory should be aimed toward creating and expanding sizeable commercial enterprises, most of which during the next several years will need to be established largely with outside capital and management. The effort should be designed to use Micronesia's people and resources as much as possible, but it must be recognized clearly and emphatically that significant sizeable industrial and commercial expansions during the next several years will require imported resources -- capital, management, and skilled workers and even some unskilled labor.

The approach to the industrial development effort should be through feasibility studies to be presented to large outside firms in order to induce them to establish industrial and commercial operations in the Trust Territory. The presentation will require extensive information on the factors essential to the success of the proposed industrial expansions, including availability and cost of inputs and prospective prices and markets.

An Industrial and Commercial Development section of the Economic Development Division will need to establish and maintain close contact with many major outside firms whose general operations might lead them to establish plants in the Trust Territory.

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The development effort should be concerned with the expansion of commercial fisheries, commercial agriculture, private investment in utilities, major hotel and restaurant or entertainment facility expansions, manufacturing or assembly, food and fiber processing, mineral extraction, and any other potential expansions which appear both feasible and desirable from the point of view of increasing the productivity and self-sufficiency of the economy.

The industrial and commercial development program should include efforts to pinpoint impediments to development and to help to coordinate and expedite programs to remove them, including: research, resource development, infrastructure and service development, education and training, and others.

An industrial and commercial development fund, with a capitalization of about \$5 million, should be established to support and make most effective the industrial and commercial development effort which unlike the Development Loan Fund which is indigenously oriented will focus largely, but not exclusively, on attracting external participation in the economic development effort. This fund will be needed to provide information and inducements to prospective industries. The money should be used to construct facilities for lease or sale to prospective businesses, to prepare industrial sites for lease or sale, to guarantee loans, to make direct loans

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or even to provide some equity capital in special situations. It could properly finance feasibility studies and other research that would be required for development decisions.

The kinds of financial assistance, support, and inducements recommended here are being provided now in almost all countries and areas which are actively seeking to strengthen their local economies. The Trust Territory will need to be able to offer at least similar inducements in order to be able to compete favorably with other areas, to demonstrate its interest in foreign capital, and to overcome resistance to investment.

It may be desirable during the early phases of the development program to operate the Industrial Development Fund and the Economic Development Loan Fund under a common executive administrator for economy of management and operations and for rigorous control of funds. Presently there appears to be no feasible alternative to operating the funds within the structure of the government. In the future it may be desirable to operate the funds as autonomous institutions with public participation on the boards of directors.

Recommended Organization, Activities, and Expenditures for the Department of Resources and Development

The two programs discussed above, small business development and industrial and commercial development, should be located

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within the Department of Resources and Development, along with the other economic and resource development programs recommended elsewhere in this report: tourist and travel industry development, commercial fisheries development, agricultural development, and land management. It is also recommended that the community development program be shifted to this Department.

The Department of Resources and Development should also have responsibility for the management, supervision, and regulation of government enterprises and public utilities. The Government is now involved in the management and supervision of hotels and restaurant services, the Palau Boatyard, transportation services, utilities, and other commercial activities. Some of these activities are operated directly by the Government, others under contract with private individuals or firms. The Government needs a single office to oversee its major commercial operations. As the local economy expands, more commercial activities can be transferred to private enterprise. But the conditions under which the transfers should be made and the requirements regarding pricing and standards of essential public-type services must continue to be the responsibility of the Government, exercised in this office.

Figure 1 presents a proposed organizational chart for the Department of Resources and Development and shows the recommended

structuring of the present and the additional programs which this department should conduct.

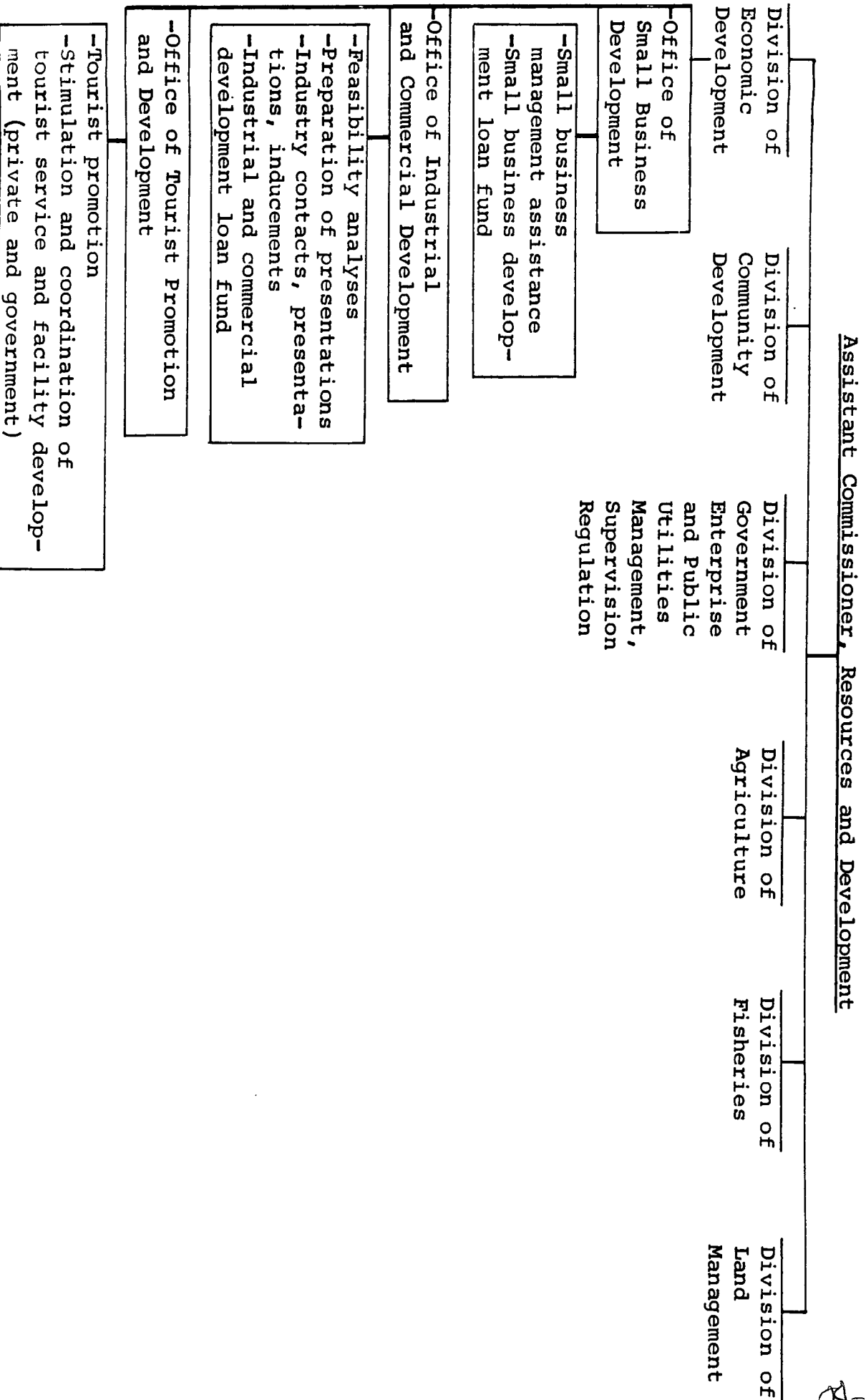
The Economic Development Division should be concerned with actually implementing the programs necessary for the realization of the feasible expansion opportunities. The Division of Community Development should plan and provide direction and technical assistance for organizations of local leaders and citizens in each of the district center areas. A major part of the effort of these local groups will be directed toward stimulating small business development, and toward economic and political and educational and other activities to support the expansion of commercial and industrial enterprises in the local areas.

The Community Development Representative in each district center should operate as "Executive Secretary" of the local action group, and the Economic Development Officer or advisor in the district should function as the technical professional for the community action group in economic development implementation. The Political Development Representative in the district should operate as the political advisor and the political action implementation specialist for this group. These three advisors and technicians should provide stimulation, suggestions, and advice

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Figure I

Recommended Organization of the Department of Resources and Development



and should work to carry out the decisions of each local group, within the framework of policy guidelines provided by Headquarters.

Table 1 presents proposed budget allocations for the recommended programs in the Department of Resources and Development. These are approximate and tentative annual averages for the five-year period, 1967-1972. Each of these proposed allocations should be reassessed annually, in view of the results achieved, and adjustments should be made as necessary.

Each of the newly established programs should begin with a highly qualified director and sufficient secretarial support to enable him to function. Additional people should be added as each program expands and proves its value.

It is not unusual for even a highly effective economic and industrial development effort to be in operation for as long as two or three years or more before any concrete major results are demonstrated. During the early years, therefore, the effectiveness of these new programs will need to be measured on the basis of progress toward objectives rather than in terms of the actual additional investment and income produced. It would be unfortunate if either the program were pushed faster than feasible or if an effective development program were to be curtailed just as the cumulative effect of its effort approaches fruition.

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Table I

Suggested Distribution of Expenditures among Programs and Functions  
within the Department of Resources and Development  
(Recommended Approximate Annual Averages, 1967-1972)

		Percentage of Total Operating <u>Expenditures</u>	Percentage of Total R&D <u>Expenditures</u>
<u>Operating Expenditures</u>			
Economic Development			
Office of the Department			
Heads	\$ 60,000		
Small Business Development	200,000		
Industrial and Commercial	70,000		
Tourist and Travel	<u>70,000</u>		
		13%	
Government Enterprise and Public Utilities Management			
Agriculture		100,000	
Fisheries		1,500,000	
Land Management		200,000	
Community Development		600,000	
		<u>200,000</u>	
Total	\$ 3,000,000	100%	46%
<u>Contributions to Funds</u>			
Small Business Development Fund	100,000		
Industrial and Commercial Development Fund	<u>500,000</u>		
Total	600,000		8
<u>Operating Costs and Subsidies</u> (Transportation, general utilities, other)			
Total		3,000,000	46%
Grand Total		<u>\$6,600,000</u>	<u>100%</u>

RECOMMENDED ALLOCATIONS: 1967-1972

This section presents recommendations for the allocation of funds among the various programs, so as to meet the needs of the objectives and program improvements and expansions as recommended in this plan.

The actual Trust Territory Government budget for fiscal year 1967, the revised budget for fiscal year 1967 (including requested supplemental funds), and the preliminary estimated budget for fiscal year 1968 are shown in Table II. Table II is presented for comparison with Table III, which shows the approximate average expenditure allocations which this report recommends for the five-year period, 1967-1972.

On the basis of the requests made to the United States Congress to support the Trust Territory Government over the next five years, and a realistic estimation of the Government's capability to manage expanded programs during the period, it is assumed that total Trust Territory Government expenditures will average between \$35 and \$40 million annually, and amount to a total of \$175 and \$200 million between 1967 and 1972.

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Table II

Trust Territory Government Budgets, Fiscal Years 1967-1968  
 (As Prepared by the Trust Territory Government Staff)  
 (millions of dollars)

	<u>FY 1967</u>	<u>FY 1967</u> <u>(Revised)</u>	<u>FY 1968</u> <u>(Preliminary)</u>
1. Office of the High Commissioner	.3	.3	.3
2. Judiciary	<u>.2</u>	<u>.2</u>	<u>.2</u>
	.5	.5	.5
3. Programs, Administration, and Operations			
Community Services	6.6	8.5	11.7
Public Affairs	.2	.4	.4
Resources and Development	1.5	2.1	2.7
Protection to Persons and Property	.5	.6	.7
Administration	2.5	3.3	3.2
Operations, Maintenance, Transportation and Communications	<u>4.7</u>	<u>6.7</u>	<u>6.0</u>
	16.0	21.6	24.7
4. Capital Improvements	2.5	10.5	10.4
5. Grand Total	19.0	32.1	35.1

Table III

Recommended Trust Territory Government Expenditure Allocations  
among Programs and Functions, Calendar Years 1967-1972  
(Assumes Average Annual Expenditure of \$35-40 Million)  
(Millions of dollars)

	<u>1967-1972</u>		<u>Average Annual Budget</u>	
	Low	High	Low	High
1. Office of the High Commissioner	1.5	2.5	.3	.5
2. Judiciary	<u>1.5</u>	<u>2.5</u>	<u>.3</u>	<u>.5</u>
3. Programs, Administration, Operations: Community Services (Education, Health, etc.)	3.0	5.0	.6	1.0
Public Affairs	45.0	50.0	9.0	10.0
Resources and Development	3.5	5.0	.7	1.0
Protection to Persons and Property Administration	17.5	20.0	3.5	4.0
Operations and Maintenance	4.0	5.0	.8	1.0
Communications	17.5	22.5	3.5	4.5
Transportation (Trust Territory Gov't Operations & Subsidies to Private Carriers)	25.0	30.0	5.0	6.0
	2.5	5.0	.5	1.0
	<u>10.0</u>	<u>12.5</u>	<u>2.0</u>	<u>2.5</u>
	125.0	150.0	25.0	30.0
4. Capital Improvements: Capital Improvements to Support Programs and Activities: Service Programs (Education, Health, etc.)	10.0	12.0	2.0	2.4
Development Programs (Agr., Fisheries, Hotels, etc.)	5.0	6.5	1.0	1.3
Administration (Administrative Bldgs., Employee Housing, etc.)	<u>5.0</u>	<u>6.5</u>	<u>1.0</u>	<u>1.3</u>
	20.0	25.0	4.0	5.0
Capital Improvements to Support Economic Sectors	15.0	25.0	3.0	5.0
Capital Improvements to Provide General Infrastructure	<u>15.0</u>	<u>25.0</u>	<u>3.0</u>	<u>5.0</u>
	30.0	50.0	6.0	10.0
5. Grand Total	178.0	205.0	35.6	41.0

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Office of the High Commissioner and the Judiciary

Relatively modest sums have been used to date to support the High Commissioner and his staff and the Judiciary. It is estimated that with the flexibility allowed by enlarged appropriations between 1967 and 1972, the High Commissioner and the Judiciary would be able to meet most contingencies resulting from the reorganization or the expansion of the executive and judicial staffs.

Programs, Administration, Operations

If properly allocated, government expenditures of \$125 to \$150 million, or \$25 to \$30 million annually, for Trust Territory Government programs, administration and operations over the five-year planning period should be sufficient to meet the basic requirement for over-all development, assuming a carefully phased and balanced program. An attempt to postpone administrative and direct development programs until all social programs, primarily health and education, are fully implemented at the projected rates of government expenditures could permanently deny the possibility of meaningful development in Trust Territory.

Community Services. The present organizational structure of the Trust Territory Government places health, education and

community development programs in the Department of Community Services. Budgeted operating funds for these programs for fiscal year 1967 amounted to \$6.5 million. The supplementary budget request under recent consideration would have increased the community service budget to \$8.5 million for fiscal year 1967.

The recommended five-year budget for community services, shown in Table III, calls for education, health and other service operating expenditures of \$45 to \$50 million, the annual budgets averaging from \$9 to \$10 million. While allowing for future growth, these recommended budgets represent a decreased relative emphasis on community services as compared with the past. Economic development and other programs must be given much higher priorities if the challenge presented by the impact of the accelerated community service programs is to be met and all the resulting potential advantages realized.

Community services, primarily health and education, have expanded at an extremely rapid rate over the past few years, much faster than other development programs. The latter now require higher priority. At this point, a relatively broad offering of these community services is already being made available. Expansions in the immediate future should be held to modest

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proportions while a reassessment of community service organizations and programs is made with the view of improving the quality rather than increasing the quantity of services.

Improvements in service program quality can occur without large grants of additional funds. Policy changes reflecting the recommendations for health and education presented elsewhere in this report can result in the considerably improved economic efficiency of the programs. The consolidation of facilities can be of particular importance.

Public Affairs. The budget for the Public Affairs Department includes budgets for radio broadcasting, printing, public information, and political development. Budgeted funds for these activities amounted to about \$200,000 for fiscal year 1967. The requested supplemental grant would have brought the 1967 budget for Public Affairs to about \$375,000.

Given the need to create a more sophisticated environment for over-all development and the need to prepare the people of the Trust Territory to meet their increasing political responsibilities, it is not unreasonable to suppose that the expenditures for programs now located within the Public Affairs Department should at least be tripled over the five-year period between

1967 and 1972. The total expenditures for these programs should range from \$3.5 and \$5 million over the period, or from \$700,000 to \$1 million annually.

Resources and Development. Transportation administration, land management, fisheries, agriculture and general economic development are all funded from the budget of the Department of Resources and Development. Specific recommendations pertaining to each of these programs and activities are included elsewhere in this report.

The fiscal year 1967 grant for the operations of the Department of Resources and Development was about \$1.5 million. The requested supplemental grants would have raised this budget to \$2.1 million. As a conservative estimate, at least \$17.5 to \$20.0 million in operating funds will be required to support effective development programs and other activities of this Department over the five-year period, 1967 to 1972.

Protection to Persons and Property. Efficient law enforcement is a prerequisite for economic and other development. As population centers increase in size and economic activity becomes more pronounced, the demands on law enforcement facilities and personnel will increase.

Funds budgeted for law enforcement for fiscal year 1967 amounted to about \$450,000. Supplemental funds raising the total 1967 budget for protection of persons and property to about \$550,000 were requested. As a conservative estimate, between \$4 and \$5 million, or \$800,000 to \$1 million annually, will be required for law enforcement operations during the 1967-1972 period.

Administration. With increased budgets requiring a greater number of non-indigenous personnel, an increased total number of government employees, and more exacting administrative controls, it is anticipated that administrative costs will increase substantially over the five-year planning period. The budget for fiscal year 1967 allocated \$2.5 million for administration. Administrative costs based on the fiscal year 1967 revised budget of \$32 million were estimated to be \$3.3 million. As a conservative estimate, administrative costs will range between \$17.5 and \$22.5 million for the five-year period, or from \$3.5 to \$4.5 million annually.

Plant Operations and Maintenance. The growing physical plant of the Trust Territory Government, and the need to restore that portion of the plant which has been neglected for long periods

in the past will require substantial sums for plant operations and maintenance over the next five years. Budgeted funds for this purpose amounted to \$1.8 million for fiscal year 1967. The revised 1967 budget allocated \$4.4 million to operations and maintenance. It is estimated that between \$25 and \$30 million will be required for plant operations and maintenance between 1967 and 1972. Annual operations and maintenance budgets should average between \$5 and \$6 million.

Communications. With the increased levels of government and economic activity in the Trust Territory, and with the installation of a more adequate communications system, operating expenditures for communications should be at least doubled between 1967 and 1972. The budget for fiscal year 1967 provides about \$300,000 for communications operating expenses. The revised budget for fiscal year 1967 allocated about \$400,000 for communications. Between 1967 and 1972, it is estimated that from \$2.5 to \$5 million will be required. Annual operating budgets should average between \$500,000 and \$1 million.

Transportation. The Trust Territory transportation system is in a state of transition. Some parts of the system should be privately owned and operated while other parts should be owned



and operated by the Trust Territory Government. Subsidies may be required for the privately operated commercial carriers, and operating deficits of government-owned-and-operated carriers must be met from appropriated grants. Because of the variations of transportation organization which are possible, it is difficult to budget over a five-year period.

For fiscal year 1967, \$1.5 million was allocated to air and sea transportation. The revised budget for 1967 allocated \$1.8 million. It is estimated that between \$10 and \$12.5 million will be required from 1967 through 1972. Thus, subsidies to private carriers and operating deficits of Trust Territory Government-owned-and-operated carriers should average between \$2 and \$2.5 million each year.

#### Capital Improvements

There are three general categories of Trust Territory Government capital improvement requirements. First, capital improvements which are required for the direct support of Trust Territory Government programs and activities; second, capital improvements which are required to provide direct and specific support for the various economic sectors; and third, capital

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improvements which are required to provide general infrastructure to support the economy as a whole.

In fiscal year 1967 approximately \$2.5 million was budgeted for capital improvements. The revised fiscal year 1967 budget called for \$10.4 million. Given the need for balance between capital improvements and operations, and the limitations on the Trust Territory Government's capability to manage large-scale construction programs, it is estimated that between \$50 and \$75 million, or from \$10 to \$15 million annually, will be required for capital improvements between 1967 and 1972.

Capital Improvements to Support Government Programs and Activities.

1. Capital outlays for service programs and activities, including health and education, are estimated to require from \$10 to \$12 million between 1967 and 1972. The largest portion of these funds will be required for schools, hospitals and other facilities related to education and health programs. Annual expenditures should average between \$2 and \$2.4 million.

2. Development programs and activities will require from \$5 and \$6 million during the planning period. Facilities should be provided for fisheries research, agriculture research and extension work, tourist development (including some hotels)

and other development programs. Annual expenditures are anticipated to average between \$1 and \$1.3 million.

3. Capital improvements for administration will include public buildings, employee housing, communications facilities and other administrative facilities. Required expenditures will probably amount to between \$5 and \$6 million over the five-year period. From \$1 to \$1.3 million will be required annually.

Capital Improvements to Support the Economic Sectors.

In order to fully exploit economic growth opportunities, it will be necessary for the Trust Territory Government to provide specific capital improvements for the various economic sectors. Airfields will be required for air transportation; large docks and warehouses will be required for sea transportation; small boat docks and freezers will be required for commercial fishing, and numerous other facilities which will not be provided by private investors will be required in most sectors before any significant amounts of private investment can be attracted, and before any significant amounts of production can be realized.

It is estimated that between \$15 and \$25 million will be required to provide an infrastructure for the economic sectors

over the five-year period. Annual expenditures should probably average between \$3 and \$5 million.

Capital Improvements to Provide a General Infrastructure.

In addition to expenditures to be made to provide an infrastructure for the specific economic sectors as well as education and health, an effort must be made to provide a general infrastructure for the whole economy. Roads, electric power, water systems, sewage systems and other facilities must be developed to support all private economic and government activities.

Between \$15 and \$25 million may be expended for the purpose of building a general infrastructure between 1967 and 1972. This represents annual average expenditures of between \$3 and \$5 million over the five-year period.

TRUST TERRITORY GOVERNMENT LABOR REQUIREMENTS: 1967-1972

An increase in the operations budgets of the Trust Territory Government of the magnitudes indicated above will create an additional 1,000 to 2,000 government jobs. Total government employment can be expected to increase from approximately 4,000 employees currently to between 5,000 and 6,000 employees by 1972.

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Because of the specialized skills required in government operations, and because of the need to have a relatively large non-indigenous staff in order to have an adequate cadre to train Micronesians, it is estimated that between 1,500 and 2,000 non-indigenous government workers will be required. By deploying Peace Corps Volunteers in place of additional regular Trust Territory Government employees as teachers and in some field project supervisory positions, it is estimated that the direct employment of non-indigenous government workers will only increase from the present 500 non-indigenous employees to between 750 and 1,000 non-indigenous employees between 1967 and 1972. Total Micronesian employment in the Government operations will range between 3,800 and 4,500 persons.

In addition to employees in government operations, from 2,500 to 3,600 government construction workers will be needed over the five-year period as the result of the implementation of the large capital improvements program. It is estimated that because of the skills required, at least 50 percent of these construction workers will need to be non-indigenous workers. This will result in the importation of between 1,250 and 1,800 government construction workers.

A summary of Trust Territory Government labor requirements, assuming annual budgets ranging from \$35 to \$40 million, is presented in Table IV.

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Table IV

Total Trust Territory Government  
Labor Requirements, 1967-1972  
(Estimated Annual Averages)

	<u>Indigenous</u>	<u>Non-Indigenous</u>
Trust Territory Government Operations	3,800 - 4,500	750 - 1,000 <sup>1/</sup>
Capital Improvements	<u>850 - 1,200</u>	<u>850 - 1,200</u> <sup>2/</sup>
Total	4,650 - 6,700	1,600 - 2,200

<sup>1/</sup> Does not include an estimated 700 Peace Corps Volunteers who are needed for teaching and field project supervisory positions.

<sup>2/</sup> Does not include construction workers required for specific capital improvements to support the economic sectors. These workers have been tabulated in the previous chapters which deal with specific sectors.

## PART IV

### TOTAL EXPANSION POTENTIAL, RESOURCE NEEDS, AND IMMEDIATE PRIORITIES

The policies and programs recommended in the previous Parts of this report can provide a significant stimulus to economic expansion in the Trust Territory. But for this expansion to be realized the simultaneous increases in demands for resources by both private and government activity expansions will need to be planned for and met. Also, a series of steps will need to be taken to ensure the implementation of the recommendations of this Plan. This final Part of this report is addressed to these issues.

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## CHAPTER THIRTEEN

### REALIZING THE TOTAL EXPANSION POTENTIAL: MOBILIZING THE BASIC RESOURCE NEEDS

The preceding chapters of this report have described the conditions, the problems, and the possibilities for economic development, both in general and for each of the major economic sectors, and have presented both general and specific recommendations for taking maximum advantage of the development opportunities. Estimates of the extent of the potential expansion during the next five years have been presented for each sector, and the resource needs to support the potential expansion in each sector have been estimated.

This chapter sums up the expansion potential and resource needs of each of the individual sectors including the government sector, analyzes the existing supply conditions in each of the basic resource markets (capital, labor, land), and presents specific recommendations for ensuring the adequate availability of each of these needed resources.

#### MEETING THE CAPITAL REQUIREMENTS

The total amount of capital required for new and expanded capital equipment, buildings, infrastructure, and other fixed capital investments will probably be in the neighborhood of

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\$150 million over the five-year period ending in 1972. Of this total, roughly one-half will be required Government investment. The remaining one-half represents capital investments needed in the private sectors of the economy. This is indicated in Table I. The figures for private capital investment do not include the requirements for working capital which will be needed for expanded inventories, supplies, and materials, payrolls, and the like, especially in the expanding trade, tourist, construction, and commercial agricultural enterprises. Only fixed capital needs are included.

The needs for government capital expenditures can be met largely by additional grants from the United States, but as economic activity and incomes expand, an increasing share of this capital outlay can be provided by local tax revenues.

It is not likely that total private investment will expand rapidly enough to take advantage of all the apparently feasible opportunities for private sector economic expansion unless the Government undertakes a vigorous program to bring about this expansion. Even then some Government investment in economic sectors where private investment is slow to materialize may be desirable.

Table I

Estimated Total New Fixed Capital Investment  
Required, 1967-1972

	<u>Range of Investment Required (dollars)</u>
Private (and/or Government) Direct Investment in Economic Sectors	
Commercial Agriculture	\$ 8,000,000 - \$10,000,000
Copra	1,000,000 - 2,000,000
Commercial Fishing	5,000,000 - 7,000,000
Manufacturing	1,000,000 - 2,000,000
Construction	5,000,000 - 10,000,000
Trade and Services	5,000,000 - 11,000,000
Tourist, Travel, and Recreation	10,000,000 - 15,000,000
Transportation (sea and air)	<u>20,000,000</u> - <u>27,000,000</u>
Totals	\$55,000,000 - \$84,000,000
Government Investment in Both General and Specific Infrastructure and Facilities	
Totals	\$ 50,000,000 - \$ 75,000,000
Estimated Total Capital Investment Required, 1967-1972	\$110,000,000 - \$170,000,000

Today, almost all of the hotels, transportation, communications, utilities, and many other services, some of which are now in private hands, would not have become available if the Government had not undertaken the original investment and developed them to the point at which their feasibility for private operation was beyond question. Unless the Government is willing to continue and expand this role, many otherwise feasible expansion opportunities will fail to materialize during the next five years.

The amounts of "seed capital" which the Government will need to provide will be only a small percentage of the total which can be forthcoming from private investors if the Government undertakes vigorous efforts to attract investment from outside the Territory. The three major determinants of the Government's success in inducing the needed private capital to enter will be 1) the Government's success in providing the kinds of infrastructure and services essential to establish the feasibility of the potential private enterprise expansions, 2) the vigor and effectiveness of the Government's direct efforts to attract outside investors, and 3) the Government's willingness to provide "seed capital" investments as required to establish enterprise feasibilities.

The needs for government investment in infrastructure and other government facilities were presented in the previous chapter; the money necessary to make these expansions possible will need to be provided from government funds. The following sub-sections describe and evaluate the present sources of capital for private enterprise expansions in the Trust Territory, and present recommendations for improving and expanding the supply of private enterprise capital to meet the economic development needs and to enable the potential expansions to occur.

#### Sources of Supply of Loanable or Investable Funds

Money to meet the investment needs of private enterprise expansions in the Trust Territory can come from the savings of local individuals, businesses, corporations, cooperatives, and credit unions; from outside sources which will lend to Trust Territory borrowers; from loanable funds supplied by the Government; or from outside firms which might make investments in the Trust Territory. This section briefly assesses each of these sources of capital supply.

Local Capital Sources. The local sources of capital for the support of private enterprise expansions in Micronesia are very limited. As discussed previously in this report, individual savings are very difficult to accumulate, since most people

who receive money incomes either from employment, or from the sale of copra or other goods, or from trade and service activities are usually honor bound to share their income with their many relatives. For this reason, virtually all of the money income received in Micronesia is broadly spread among the people, and is almost entirely spent for goods for immediate consumption. Almost none is left for investment. The credit unions which have been established at several places throughout the Trust Territory, and which have resulted in total accumulated savings of a few thousand dollars, make loans almost entirely for consumption purposes, rather than for capital investments in productive enterprises. It is not likely that any great sum will be generated by local private individual savings during the next five years.

Savings from the profits of private businesses and cooperatives, although somewhat limited by the same traditional factors which limit individual savings, offer somewhat more promise for capital accumulation. As business activities, particularly trade, expand during the next two or three years, very sizable profits will be made by those major trading companies which are reasonably well managed and which follow reasonably efficient business practices. It is likely that small, but nevertheless significant amounts will be saved and invested by these firms during the next

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five years. But these funds will not go far toward meeting the total needs for investment in the private sectors. Little meaningful expansion will occur without funds from outside.

Outside Capital Sources for Trust Territory Borrowers.

Loanable funds are available to Trust Territory businesses to the extent that these businesses can provide the required collateral, and/or provide adequate guarantees of their repayment abilities. However, almost none of the Micronesian businesses can meet these requirements. The major present impediments to borrowing from outside by Trust Territory businesses and other borrowers are that land and fixed assets located thereon cannot be used as collateral (only Micronesians can own land), and because of the generally low level of managerial efficiency. Inefficient management practices result partly from lack of management experience, and partly from the family relationships of the business owners which require that employment, purchasing, and other practices be determined by family and class considerations rather than by sound business principles.

A very small number of businesses which have exhibited good management and sound financial practices have no difficulty maintaining lines of credit for the purchase of trade goods, but for fixed capital investment even the few well managed businesses are generally precluded from bank borrowing. The financial and

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asset structure of most of the businesses in Micronesia does not present a sufficiently favorable picture to justify commercial loans. As management practices improve, as greater asset values are built by some of the local businesses, and as people from outside come in and mix their financial resources and management abilities with those already existing in the Micronesian economy, a larger flow of borrowed funds from normal commercial channels will become available to support Micronesian enterprise expansions. But not until land and other fixed capital facilities can be used as collateral for loans is it likely that any major portion of the capital requirements for private enterprise expansion in the Trust Territory will become available, unassisted, through normal commercial financing channels.

Government Loans and Loan Guarantees. During recent years the Government has provided small but nevertheless highly significant loans and loan guarantees to support expansions of local businesses through the vehicle of the Economic Development Loan Fund. By providing loan guarantees, the Fund has made it possible for businesses to borrow through commercial channels. The technique of loan guarantees has enabled the Fund to support greater quantities of capital expansion than the amounts represented by the volume of its direct loans.



The expansion of this Fund to \$1 million, as recommended in the previous chapter, and maximum use of loan guarantees rather than direct loans, can enable this Fund to support the introduction of perhaps as much as \$5 million over the next five years. The limiting factor in this capital expansion is likely to be the lack of owner's equity and adequate management rather than the limited assets of the Fund.

The small business development program, recommended in the previous chapter, can give considerable help toward achieving the objective of improved management, but truly adequate management generally will not be available during the next five years without imported management talents, and the owner's equity capital necessary for expansion generally will not be available without partial ownership investments in Micronesian businesses by outsiders.

The limited ability of the Economic Development Loan Fund, working alone to stimulate business expansion, provides a good illustration of the necessity of working for economic development by putting together the entire package required for the creation or expansion of an enterprise. Capital, management, skilled and unskilled labor, infrastructure, facilities, transportation, and other services, and marketing channels are all essential. Attempts to meet any one or two of these needs while ignoring

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any one of the other needs can be expected to meet with only very limited economic development success.

The Trust Territory Government manages several trust funds for various citizens of Micronesia. The total assets of these funds amount to more than \$2 million. These assets have generally been invested in United States Government bonds or placed in time deposits. Income from the investments is usually distributed annually to the beneficiaries of these trusts.

These funds could be used to provide capital for Trust Territory development with Government guarantees. The precise utilization of trust funds could be determined by selecting projects for which they are to be used on the basis of criteria which rank the projects according to economic development needs and the relationship to the basic purposes for which the trusts were established. Or the monies could be loaned, with EDLF guarantees, to any developing business, and could provide returns for the funds higher than those received in the past.

The copra stabilization fund, now holding assets of about \$400,000, consists of the accumulated surpluses of the copra stabilization board. The surpluses in the Fund, above and beyond immediate stabilization needs which experts estimate at about

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\$400,000 suggest a means by which the copra industry could obtain funds for copra plantation improvement and other investments without prejudice to the basic purpose of the fund. The idle money in the Fund could logically be put to work to provide loan capital to strengthen and improve the copra industry, or for other purposes.

It is anticipated that the judicious but aggressive use of the expanded Government loan funds and of the surplus trust and copra fund assets can provide for between \$3 and \$5 million for direct investment during the next five years, can support the additional inflow of between \$3 and \$5 million in commercial loans to Trust Territory businesses, and can stimulate the inflow of equity capital from outside for the establishment of local enterprises by outside individuals and businesses.

Equity Investments by Outside Firms. Significant economic expansion in the Trust Territory during the next five years should be largely provided by equity investments made by outside firms. The only other possible course would be for the Government to make the required investments and operate the enterprises. The latter course would be inefficient and very difficult to justify. Sizable equity investments by outside firms will produce rapidly growing opportunities for indigenous enterprise expansions and for general economic development.

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Recommendations for Meeting the Capital Needs  
for Private Enterprise Expansions

The most important actions to guarantee the availability of the some \$75 million in investment capital required for the expansion of private enterprises have already been recommended in Part III of this report. The Government must provide the necessary infrastructure and services and must also ensure the availability of the other resource needs, particularly labor, as recommended in the following section of this chapter.

The kinds of research and information necessary to establish more clearly the feasibilities of each potential enterprise expansion must be undertaken. The Government must work to improve the framework for development from the legal and political point of view, and to increase the protection and safety of private property to adequately protect the investments of businessmen.

The Government should take action to free the frozen assets of the Micronesians by allowing them to use lands as collateral for loans, and by allowing them to sell their lands to the highest bidder, whether he be Micronesian or not. This will break the present monopolies held by Micronesian land buyers and will give to the small holders who wish to sell their land, opportunities for better prices.

There are many opportunities in Micronesia in which capital, properly placed and properly managed, stands to produce high rates of return. With the limited amounts of capital

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currently available, it is not likely that any loans in the Trust Territory should require subsidies through lower than market interest rates. The interest rate should reflect the productivity of capital in its most efficient and productive uses. The limited amounts of Government loan funds should not be allowed to move into investments in which the productivity is so low that the return cannot adequately cover the current market rates of interest. A situation may some day develop in the Trust Territory where low, "subsidy" rates of interest will be needed to enable small businesses to begin to compete with their larger and more efficient competitors. But this situation does not yet generally exist in the Trust Territory. Lower than market rates of interest should be recognized as subsidies and should only be used in circumstances in which the general public interest would justify the granting of subsidies from public funds to private individuals or businesses.

One new and important source of small business equity capital can be developed as actions are taken to overcome the serious shortage of management and supervisory talent. If experienced businessmen can be induced to move into and become permanent residents of the Trust Territory they will bring with them some investment capital. Many of the people who enter the Trust Territory to meet the personnel needs both of private enterprise and of government expansions will have some assets

which, under favorable circumstances, could be used to meet some of the equity capital needs for the economic development of Micronesia. Government policy should aim toward the realization of this potential new source of equity capital for Micronesian development.

#### MEETING THE LABOR REQUIREMENTS

Rough estimates of the labor requirements associated with the development of each of the individual sectors and industries have been presented in the previous chapters of this report. The estimates indicate that the economy is capable of supporting an average of between 20,000 and 30,000 wage paying jobs annually over the five-year planning period, 1967 to 1972.

Because of the high levels of skills and standards which will be required in key jobs, some 25 percent of the jobs in the economy must be filled by skilled and experienced non-indigenous workers and managers. Assuming well conceived programs to mobilize and train indigenous workers, most of the remaining 75 percent of the jobs could be filled by Micronesians. But the limited numbers and the geographic dispersion of the people, the numbers of young adults attending public schools, and the existing attitudes toward work and relocation will limit the success of the mobilization and training effort. It would not be realistic to assume that

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more than two out of every three of the jobs available to Micronesians will actually be filled by Micronesians. The remaining jobs will have to be filled by workers brought in from outside. The estimated labor requirements, by economic sector, are presented in Table II.

### The Trust Territory Labor Force

Major difficulties in defining a Trust Territory labor force are presented by the diverse cultures and the unique geography of the Territory. In order to account for cultural and geographic characteristics, the indigenous labor force of the Trust Territory is defined to be comprised of all persons between 14 and 64 years of age who are not students and who do not live on the small, remote islands. The excluded people are those who live on islands which have less than 25 square miles in land area and which are inhabited by less than 1,000 persons.

It should be recognized that this age bracket, 14 through 64, presents an over-statement of available labor because it includes the disabled, the infirm and others who would ordinarily be omitted if a detailed survey could be conducted. Available data only allow for the exclusion of students.

Table II

Estimated Average Annual Labor Requirements  
1967 - 1972

<u>Sector or Industry</u>	<u>Requirements for Indigenous Labor</u>	<u>Requirements for Non-Indigenous Labor</u>	<u>Total</u>
Construction	1,750 - 2,250	1,750 - 2,250	3,500 - 4,500
General Agriculture (Commercial)	900 - 1,000	300 - 400	1,200 - 1,400
Copra	2,500 - 2,600	- - - -	2,500 - 2,600
Commercial Fishing	775 - 900	100 - 175	875 - 1,075
Manufacturing	150 - 200	25 - 50	175 - 250
Retail/Wholesale Trade	3,500 - 6,000	1,500 - 2,000	5,000 - 8,000
Individual Services	350 - 600	150 - 200	500 - 800
Institutional Services	75 - 100	25 - 50	100 - 150
Tourism	750 - 1,200	250 - 300	1,000 - 1,500
Transportation	475 - 575	200 - 325	675 - 900
Trust Territory Government	3,800 - 4,500	1,200 - 1,500 <sup>1/</sup>	5,000 - 6,000
United States Government Agencies <sup>2/</sup>	<u>1,500 - 2,000</u>	<u>- - - -</u>	<u>1,500 - 2,000</u>
Totals	16,525 - 21,925	5,500 - 7,250	22,025 - 29,175

<sup>1/</sup> Includes 500 - 700 Peace Corps Volunteers

<sup>2/</sup> Major capital improvements scheduled for Kwajalein are projected to result in a 100 per-  
cent increase in the number of Micronesians employed at the military base.

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There are few opportunities for creating wage paying jobs on the small remote islands. Generally, the inhabitants of these islands may only enter the money economy by migrating to the district centers and other population centers. Most likely, the movement to population centers will occur slowly as young people leave these small islands to attend high schools in the district centers and do not return.

At the present time, approximately 30 percent of the Territory's population is located on these small islands. Because of the process of attrition resulting from high school students attending school in the population centers, however, no more than 20 percent of persons in the labor force age bracket are currently living on the remote islands. It is estimated that by 1972 only 10 percent of the total number of persons of working age will live on the small islands.

The estimated geographic distribution of the Trust Territory population is presented in Table III. Table IV shows the computations for estimating the indigenous labor force of the Trust Territory in 1965 and for estimating the indigenous labor force for 1972. Because all secondary schools are located on major islands, it is assumed that all students of age 14 and above reside on major islands.

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TABLE III

Geographic Distribution of Trust Territory Population  
Estimates of June 30, 1965

<u>District</u>	<u>Major Islands</u>			<u>Small Remote Islands</u>			<u>M&amp;F</u>
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Totals</u>
<u>Marianas</u> Rota Saipan Tinian	5,100	5,000	10,100	200	200	400	10,500
<u>Marshalls</u> Ailing- laplap Arne Jaluit Kwajalein Majuro	5,600	5,600	11,200	3,400	3,400	6,800	18,000
<u>Palau</u> Babel- thaup Koror	4,800	4,600	9,400	700	700	1,400	10,800
<u>Ponape</u> Kusaie Ponape Islands	8,400	7,800	16,200	1,500	1,300	2,800	19,000
<u>Truk</u> Dublon Fefan Moen Tol Uman	6,700	6,800	13,500	6,300	6,000	12,300	25,800
<u>Yap</u> Yap Islands	<u>2,100</u>	<u>1,900</u>	<u>4,000</u>	<u>1,300</u>	<u>1,200</u>	<u>2,500</u>	<u>6,500</u>
<b>Totals</b>	32,700	31,700	64,400	13,400	12,800	26,200	90,600

Source: Derived from estimates reported in the Eighteenth Annual Report to the United Nations.

Table IVEstimated Trust Territory Labor Force, 1965  
and Projected Labor Force, 1972

	<u>FY 1965</u>	<u>FY 1972</u>
Males in Age Bracket	24,083	33,000
Less: Students	4,000	8,000
Less: Outer Island Residents	<u>4,816</u>	<u>3,300</u>
Males in Labor Force	15,269	21,700
Females in Age Bracket	23,596	32,000
Less: Students	2,000	4,000
Less: Outer Island Residents	<u>4,720</u>	<u>3,200</u>
Females in Labor Force	16,876	24,800
Total Labor Force:		
Male	15,269	21,700
Female	<u>16,876</u>	<u>24,800</u>
Totals	32,145	46,500

Source: Derived from estimates reported in the Eighteenth Annual Report to the United Nations.

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TABLE V  
 Estimated Labor Force Deployment, Fiscal Year 1965  
 (18 Major Island Accounting for 71.2 Per Cent of Total Population and  
 80 Per Cent of Total Working Age Population)

	Total Employment			T.T. Government			Other Wage Employment			Self-Employment			Agriculture and Subsistence Employment		
	M	F	Total	M	F	Total	M	F	Total	M	F	Total	M	F	Total
Marianas	2,600	2,500	5,100	600	100	700	400	200	600	100	100	200	1,300	2,100	3,400
Marshalls	2,800	2,700	5,500	500	100	600	800	600	1,400	50	50	100	1,500	1,900	3,400
Palau	2,500	2,400	4,800	500	100	600	600	100	800	100	100	200	1,200	2,000	3,200
Ponape	4,100	4,000	8,100	500	100	600	500	100	600	200	100	300	2,900	3,700	6,600
Truk	3,400	3,300	6,800	600	100	700	400	100	500	100	100	200	2,400	3,000	5,400
Yap	1,000	900	1,900	400	100	400	200	100	300	50	50	100	300	800	1,100
<b>Totals</b>	<b>16,400</b>	<b>15,800</b>	<b>32,200</b>	<b>3,100</b>	<b>600</b>	<b>3,700</b>	<b>3,000</b>	<b>1,200</b>	<b>4,200</b>	<b>600</b>	<b>500</b>	<b>1,100</b>	<b>9,600</b>	<b>13,500</b>	<b>23,100</b>

Source: Trust Territory Government Department of Public Information

### Labor Force Deployment

At the end of fiscal year 1965 almost 8,000 Micronesians were employed for wages in the Trust Territory. Approximately 3,500 Micronesians were employed by the Trust Territory Government. However, the great majority of Micronesians relied on the agriculture and subsistence sector for their livelihood. Table V shows the deployment of the labor force on the 18 major islands at the end of the fiscal year.

Because virtually all Micronesians have traditional rights to land and may always engage in agricultural activities there is no unemployment in Trust Territory. But as is usually the case in societies where small scale agriculture predominates, there is considerable underemployment. It is estimated that of the some 23,000 persons (10,000 men and 13,000 women) of working age in the agricultural sector, at least 10,000 (5,000 men and 5,000 women) could be employed elsewhere without causing agricultural production (commercial and subsistence) to decrease (see Table VI), if the agricultural sector could be reorganized to fully employ the entire working age population which remained. Such a result is not likely to be achieved.

It must be understood that even though only major islands are considered in computing the labor force, many of these islands are remote from the district centers, and many villages are separated from the centers of activity on these islands. These dispersion and immobility factors preclude the possibility of employing much of the excess agricultural labor on jobs which are not local, and most of the developing employment opportunities will be located at or near the district centers.

Another factor which makes the employment of excess agricultural labor difficult is related to the levels of skills which subsistence agricultural workers possess. Generally, such workers in Trust Territory are not literate and have had little or no experience with modern tools or more sophisticated production processes. Generally they have not been exposed to any form of wage employment discipline.

Finally, cultural factors which characterize the agricultural labor force will impede the shifting of workers to new jobs. It is unlikely, for instance, that it would be socially acceptable for any large number of women to engage in wage employment. Also the relative ease with which traditional subsistence living standards can be met holds many Micronesians in the agri-

cultural sector. The desire for manufactured material goods is not yet strong enough to induce any great numbers of people to leave their way of life in the agricultural sector to accept wage employment.

As the Trust Territory economy develops, and as the influence of modern education programs become more widespread, the aspirations and desires of all the people of the Trust Territory will increase. Nevertheless, cultural changes will occur at a relatively slow pace. It would be unrealistic to assume that the redundant labor concentrated in the agricultural sector on the 18 major islands can be decreased by more than 25 to 50 percent in five years. A maximum estimate of indigenous labor available for wage employment by 1972 would be 15,000 to 25,000 workers, including from 10,000 to 15,000 men and 5,000 to 10,000 women.

#### Labor Policy Recommendations

Trust Territory Government labor policies should be aimed toward mobilizing the Territory's labor resources by encouraging population concentration, upgrading indigenous worker skills to improve the quality of the domestic labor force, and supplementing

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Table VI

Estimated Excess Agricultural Labor on 18 Major  
Islands, by District, Fiscal Year 1965\*

	<u>Male</u>	<u>Female</u>	<u>Total</u>
Marianas	800	1,100	1,900
Marshalls	600	800	1,400
Palau	700	700	1,400
Ponape	1,400	1,300	2,700
Truk	1,200	1,000	2,200
Yap	<u>200</u>	<u>300</u>	<u>500</u>
Totals	4,900	5,200	10,100

\*Estimates have been made by subtracting labor required to produce estimated agricultural product from agricultural population of working age.

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the domestic labor force by encouraging the importation of foreign skilled labor (including managers and entrepreneurs). Recommendations pertaining to the mobilization of the labor force and the upgrading of indigenous worker skills have been presented elsewhere in this report and need not be discussed at this point. The following sub-sections present recommendations for supplementing the indigenous labor force as will be required to support economic expansion.

Policies to Encourage United States Citizens to Become Permanent Residents of Trust Territory. As the administering authority, the United States is the most likely source of the skills to which the Trust Territory must have access if development is to occur. A program should be instituted to encourage United States citizens to make their skills available to the private sector of the Trust Territory economy. Such a program may include, but should not be limited to the following provisions.

1. Freedom of Entry and Exit. Citizens of the United States should be allowed complete freedom of movement into, within, and out of the Trust Territory, for legitimate reasons of business and pleasure. With the exception of sensitive areas, such as Kwajalein, entry permits, if required at all, should not restrict the duration of residence by United States citizens.

2. Non-discriminations. Business licenses, government contracts and government technical and financial assistance should be granted to United States citizens and firms on the same basis as they are granted to Trust Territory citizens and firms.

3. Property Rights. A complete re-evaluation should be made of the policy which denies land ownership to non-Micronesians. Further, a realistic, enforceable and non-discriminatory set of statutes should insure the protection of the legally acquired tangible and intangible property of both Micronesians and non-Micronesians.

Policies to Allow the Entrance of non-United States Citizens into Trust Territory. Because of regional competition, distance from markets, and sources of raw material supplies, and because of the relatively small, dispersed domestic markets, most private sector industries will not be able to pay wages sufficiently high to attract adequate amounts of supplemental labor from the United States or its Territories.

A controlled and highly selective immigration policy and implementation program should be instituted. Desirable immigrants, capable of making great contributions to both the economy and the society of the Trust Territory could be solicited from the Philippines, Okinawa, and other countries of the region. These immigrants should be given an opportunity to bring in their

families and become permanent residents and, ultimately, bona fide citizens of the Trust Territory.

#### MEETING THE LAND REQUIREMENTS

In addition to the labor and capital requirements, economic development will also require more intensive use of the land resources of the Territory. This section describes and analyzes the present land availability conditions, and presents recommendations for actions needed to provide the land availability conditions necessary to support the economic development of the Trust Territory.

#### Present Utilization and Projected Needs

Economic opportunities as envisaged in earlier chapters of this report have highlighted the importance and need for soundly conceived policies and practices in regard to the utilization and exploitation of the land resource base. Table VII below summarizes the current land uses and projected land needs in the various economic sectors.

Trust Territory Government. The Trust Territory Government presently controls more than 250,000 acres. United Nations reports indicate that some 24,000 acres are in use by the administering authority. Administrative uses include land required for

educational, health, airport, seaport and storage facilities, road transportation, etc; almost one-third of the total 24,000 acres is held under military retention. The public domain includes some 230,000 acres of undeveloped sites for recreation, historic and wilderness areas, homesteads and some lease holds, and productive and unproductive land held in trust for future needs.

Although Government land requirements will increase with expanding programs, most of the increased needs can be met through more intensified use of presently under-utilized Government land holdings. The projected decline of some 40,000 acres in government land holdings over the next five-year period represents the transfer of some 20,000 acres which are presently in homestead and the lease or sale of other land for commercial development.

Commercial Agriculture and Livestock. The 14,700 acres now being used for commercial agriculture and livestock production shown listed for 1966 include the 7,000 acre area leased for commercial livestock production to the Micronesian Development Corporation plus 7,000 acres of additional grazing and of the holds leased in the Marianas District. It is expected that 18,000 acres of the projected 23,000 acres required for commercial agricultural

Table VII

## Estimate of Land Utilization and Projected Needs

<u>Economic Sectors and Activities</u>	<u>1966</u> Acres	<u>1972</u> Acres
<u>Trust Territory Government</u>	257,436	217,836
In use by Administering Authority	23,948 <sup>1/</sup>	23,348
Public Domain (including recreation, forest, homesteads, some leaseholds and other)	233,488 <sup>2/</sup>	194,488
<u>Agriculture (excluding subsistence)</u>	92,700	123,700
General Commercial and Livestock	14,700 <sup>3/</sup>	37,700
Copra	78,000	86,000
<u>Commercial</u>		600
Trade and Services	n.d.a.	300
Tourism	n.d.a.	150
Fisheries	n.d.a.	150
<u>Private Land Holdings-</u>		
Subsistence, forest, and other use	86,614 <sup>4/</sup>	92,114
Residential requirements	<u>11,250</u>	<u>13,750</u>
<b>Totals</b>	<b>448,000</b>	<b>448,000</b>

- <sup>1/</sup> Includes areas used for administration, education, public utilities, military retention and others.
- <sup>2/</sup> Excludes leaseholds in the Marianas District. Includes 23,157 acres of homesteads throughout Trust Territory.
- <sup>3/</sup> Includes 14,500 acres leased for commercial agriculture and grazing in the Marianas District.
- <sup>4/</sup> Includes land held by indigenous and non-indigenous persons and religious missions. Excludes 78,000 acres of coconut groves, and residential requirements.

n.d.a.; no data available

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development will be obtained from public domain or military retention areas. The additional 5,000 acres should be obtained through the development of private lands.

Most of the 78,000 acres of copra groves in the Territory listed for 1966 are held in private ownership. Coconut grove expansion will result from both new plantings and the re-planting of privately held lands. The total amount of land which will be required for the projected expansion in agriculture amounts to more than 30,000 acres.

Commercial. No recorded or estimated data exist to indicate the amounts of land presently utilized for commercial purposes. Trade and service facilities can be expected to utilize an additional 300 acres of land, most of which will be located at or near the district centers. Development of tourist and hotel facilities can be expected to utilize up to 150 acres throughout the Territory; fisheries expansions may also require up to 150 acres. The total requirement for commercial services will amount to about 600 acres and will most likely be provided by the Government since many of the most desirable sites are now either held, used by, or leased from the administering authority.

Private Land Holdings. The private land holdings as shown for 1966 include land held by indigenous and non-indigenous persons, and religious missions. However, the reported figure (86,000 acres) excludes land which is presently used to meet residential requirements and the 78,000 acres of land used for copra production.

Private land holdings will contribute some 14,500 acres to the projected expansion in copra, residential, and commercial agricultural activities over the next five years. This will be offset by the transfer of the approximately 20,000 acres of homesteads from the public domain into private ownership and will result in a net increase of 5,500 acres of privately held land, excluding copra and residential uses.

Residential. Requirements for residential land for 1966 are estimated on the basis of an allowance of one-eighth of an acre per capita. Additional land needs for residential housing and services will amount to an increase of some 2,500 acres based on a projected indigenous population of approximately 110,000 in 1972. No allowances have been made for either inward or outward migrations. It is expected that two-fifths of the requirement will be met from land presently held in the public domain with the remainder coming from land held in private ownership.

### The Present Land Supply Situation

Trust Territory-wide analysis points to an excess of land above that which the indigenous population is physically or technologically equipped to develop to its optimum potential. This is true in part because of the relatively small available labor force. Although many privately held areas are underutilized and undeveloped, there are many localized situations where land is scarce. These generally occur at or around the district centers where there are increasing numbers of job opportunities and on some of the islands in the Truk and Marshalls Districts where the population density is high.

Physical Availability. Although there is more than enough land in the Territory, it is generally not available to those who would be in a position to develop it to its full potential. Some of the lands which have agricultural development potential are isolated from district centers or other centers of communication and transportation. Furthermore, even on some district center islands, developable land is isolated, due to lack of roads and other transportation facilities. Micronesians often find that the acquisition of specific tracts of land on any other than their home islands or in their home districts is impeded by island and district prejudices. The Trust Territory code restricts both non-indigenous persons and firms, and indigenous persons who have



relinquished their Trust Territory citizenship status, from acquiring title to land in the Territory. The present interpretation of the Trust Territory Code plus traditional prejudices and practices which limit acquisition of land will be an impediment to programs aimed toward developing the land resource base, and to over-all economic expansion.

Existing Land Ownership and Tenure Problems. Basically there are three distinct classes of ownership of land within the Trust Territory. First, there is land which is in government custody. This is made up of all lands which were held by previous administrations, their expatriate personnel and/or colonists. Many of the claims which have been made against the government or public domain land have been determined and settled. However, some claims are yet to be determined and additional claims are being submitted.

The second category of land ownership is that of traditional or clan ownership. Clan lands are lands which either were not alienated by a previous administration or lands which have been returned to the traditional owners according to land claims determinations. The third and final category of land ownership is private ownership, patterned after the western systems and introduced by the German, Japanese, and American administrations.

Problems of ownership and transferability of land throughout the Territory vary in degree from district to district. These problems result from:

1. A continuation of traditional tenure patterns which do not guarantee equitable use or ownership within the traditional societies and impede transfer of ownership use and development to and by those outside the society;
2. The difficulties which are associated with the transfer of traditional or clan lands to private ownership;
3. The lack of a single consistent system of land title and registration through which use and/or ownership rights can be speedily and equitably transferred from one individual to another and which would allow the use of land as collateral;
4. The lack of determination and settlement of all claims against government land which gives rise to legitimate doubt as to the certainty of title granted for lands alienated from the public domain;
5. The problems which have arisen or have been aggravated during the past twenty years by the lack of attention, the lack of planning and direction, and the capitulations to political pressures which have characterized the Government's land programs during this period. These problems include: questionable title on almost all of the government lands which

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have been transferred from Government custody; issuance of homestead tracts which overlap each other and, in some instances overlap private properties; issuance of title for lands or portions of lands which are not part of government or public domain; and alienation of tracts of lands which are or will be needed by the government for administrative program, infrastructure, and development purposes.

Land-Use Patterns and Land Development Activities. The present and developing land-use patterns in the Trust Territory are haphazard. This is true of both private and government land use, and of the use patterns developing on public domain lands. Land-use planning has completely escaped the attention of almost everyone in Micronesia.

Some land development activities have been undertaken in Micronesia, but the sum of the results of all these activities is small. With the exception of the Micronesian Development Corporation ranch and a few other livestock producers, there has been negligible development of land for agricultural purposes--especially for intensified commercial crop production. The development of land for trade and services, tourism, and private recreation has been minimal. No significant attempt has been made to develop public domain lands for recreational, wilderness forest, water shed or other public uses.

There has been little or no government activity directed toward land reclamation or rehabilitation. Little effort has been directed toward removing -- or determining the feasibility of removing -- remnants of the war, such as concrete foundations, collapsed and/or bombed out buildings, and unexploded ammunition.

Land use and development in the Trust Territory has been largely concentrated in areas which were not touched by war. In some areas, limited efforts have been made to build upon the wartime base which has economic value (roads, etc.). Most recent activity has taken place in and around the district centers. However, even in these areas, uncertain tenure, as in Koror, Palau, where 30-day revocable village lease sites are common, has inhibited private and commercial construction of permanent structures.

Government development of land and location of facilities for education, medical and other public services has generally been based on political expediency and assessments of what constitute the lowest immediate cost, rather than on a step-by-step plan to achieve a desirable over-all pattern of land development and use.

#### Recommendations for Meeting the Land Resource Needs for Economic Development

The foregoing sections have presented the land resource needs, and the major problems. The following sub-sections specify

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the legislation, programs and actions needed to resolve the problems.

Legal and Policy Framework Changes and Actions. The Trust Territory Government should assume the responsibility for development, utilization and conservation of the public domain lands which are not in immediate use. Management and utilization of these resources should be directed in such a manner as to provide the greatest benefits to present and future residents of the Trust Territory. The Government should also provide the direction, leadership, guidance and coordination for similar utilization of private lands.

The High Commissioner should direct the legal Department together with the Land and Claims Administrator to draft the necessary legislation to establish a cutoff date for filing all existing land claims. This act should include a provision for final certification of titles in all cases in which land claims have been investigated and determinations made and/or settlements achieved.

Implementation of such an act should be accomplished by a special land claims panel to consist of two or three judges and a staff. It is estimated that determination for all claims can be made in three years or less. The successful conclusion of this program will allow the government to issue warranty deeds which

are unchallengeable and guaranteed.

The High Commissioner should direct the Attorney General and the Assistant Commissioner for Resources and Development to work together with the heads of the divisions of Agriculture, Land Management, and Economic Development to design a proposal for changing the existing codified restrictions on land ownership. The new proposal should, preferably, include provisions to make it possible for non-Micronesians to hold title to land, while the minimum acceptable provision would be to allow them to acquire long-term leaseholds. A provision should be included to provide adequate protection to the present land holders. This proposal should be prepared in draft form, then discussed with Micronesian leaders and others, altered as desirable, and then presented to the Congress of Micronesia for consideration during the next regular session of the Congress (July, 1967).

The High Commissioner should direct the Land Management administrator to suspend issuance of all homestead permits for agriculture and/or village homestead sites with the exception of those which are part of a governmental master plan or an approved agriculture or village community development program. The suspension should be for a period of at least six months during which time the Land Management Division will together with the Legal

and other departments concerned review all sections of the Code, and prepare legislative amendments as necessary to implement a system of land policies, programs, laws and practices which will expedite the economic, social, and political development of the Territory. During this homestead suspension period, consideration should be given to developing a more efficient system of homesteading and to other alternative methods of transferring public domain land to private ownership.

Physical Survey and Determination of Ownership, Use and Potential Productivity. A cadastral (land) survey of the major islands should be undertaken in accordance with standards which approximate those in use in the United States. Such a program will require the development of up-to-date aerial photographs, aerial controlled mosaics and index sheets of the major islands, to be used as follows:

1. To establish control points, public and private land boundaries, road and utility rights-of-way.
2. To provide the base for classifying the soil and forest potential and to develop an inventory along the lines of the United States National Inventory of Soil and Water Conservation Needs; and

3. To provide the basic information and materials required for planning community, rural, agricultural, forestry, and capital improvements programs and island development projects.

The program should include interviews with present land owners and other knowledgeable persons to demarcate property boundaries and, as a final step, should complete a cadastral map to show the boundaries of both government and private lands. This along with necessary legislation will provide the basis for issuance of titles for public and private lands and for the development of a uniform base for land tax assessments. This program should take advantage of the latest techniques in land mapping that are applicable to the Territory. Mechanical methods should be substituted for ground surveying as far as economically feasible. Qualified experts in such matters should be consulted.

Area priorities should be established for carrying out detailed agricultural, forest and watershed surveys. Such surveys should be limited to the projects and/or areas in which such activity is likely to occur during the next ten-year period, with the surveys of the rest of the major islands being much less detailed.

Establishing Sound Ownership Arrangements. The pattern of land ownership by clan or chief, with use rights by many, was justifiable and served its purpose under the feudal system which



existed throughout Micronesia in the past. However, these lingering anachronisms of land ownership and tenure combined with some of the uncertain aspects of private tenure arrangements currently in practice now impede investment in land development and prevent the maximization of the productivity of the land resource base. Implementation of the above recommendations will establish the necessary base upon which a single system of land tenure can eventually be implemented.

The High Commissioner should direct the Land Management Administrator, together with the Attorney General's Office, to prepare the necessary legislation for implementing a Territory-wide land registration and guaranteed title program patterned after the "Torren's Land Title System." This system of registration and title would encompass all lands in the Territory and would be superimposed over traditional systems of tenure.

Finally the High Commissioner should appoint a committee to be composed of members from the Legal Department, Land Management Division of the Department of Resources and Development and members of the Congress of Micronesia to:

1. Investigate the various methods of land reform and tenure conversion which have been successfully implemented elsewhere.

## CHAPTER FOURTEEN

### PRIORITIES, ORGANIZATION, AND IMPLEMENTATION

No plan, however well conceived, will accelerate development unless it is operable and implemented. This chapter proposes a series of measures designed to help in the execution by the Trust Territory Government of the various policy and program recommendations included in the Plan.

### REVIEW, DECISIONS, AND STATEMENTS BY THE HIGH COMMISSIONER

The responsibility for the actual execution of the Plan lies ultimately with the High Commissioner. It is expected that the High Commissioner will review carefully and will consider all the elements of this proposed Plan with the Assistant Commissioners and other key officials of the Trust Territory Government, including leaders of the Congress of Micronesia and in consultation with the Economic Development Team. Decisions will need to be made as to what action to take on each of the recommendations contained in the Plan.

2. Choose, or develop a modification of one of the methods investigated, and prepare a program and legislation for initiating such a program throughout the Territory.

This final phase of the program would eventually eliminate traditional forms of tenure and would bring about a more equitable form of individual ownership. Action should be started at this time to determine the manner in which the conversion could be most equitably and most readily accomplished. Political implications, current vested interests and other impediments are such that the necessary land reforms will require at least ten years (probably longer) for completion. But beginning steps should be taken as soon as possible.

Initial Action to Improve Land Use Patterns. A professional approach to land-use planning needs to be instituted now, especially where government programs are concerned and where non-government land improvement activity is likely to occur. Immediate action should be taken to engage a firm of professional land and urban (village) planners on a contract basis to prepare plans for at least two district center islands -- Saipan (Marianas) and Koror (Palau). Complete land use plans should be developed for all district centers during the next few years. Such plans should include consideration of projected needs of the expected population

and expansion of government, industrial and agricultural activity over a ten to twenty year period. Provisions for the power, water, sewage, communications, and transportation systems and services required by the projected increase in population and expansion of government and commercial activities, should be included.

It is recommended that the High Commissioner authorize the Assistant Commissioner for Resources and Development to investigate, contact, and enter into preliminary negotiations with one or more consulting firms which specialize in land use analysis and planning, looking to the possibility of contracting with one of these firms to undertake the urgently needed island and village land use analysis and planning. This total task will require use of the fly-over photographs covering the islands involved, the analysis of the assembled photo-maps, and the analysis and planning of the future land uses. Simultaneously, the analysis of present land uses in the major villages at or near the district centers, together with total land use planning and the preparation of zoning procedures and practices in each of these areas will need to be undertaken. The land-use planning effort should be undertaken in close coordination with engineering and architectural planning for the public facilities in each of the district centers.

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Effective land management and land-use planning are essential to support the maximum economic development of Micronesia. The implementation of the recommendations presented here will go far to overcome the lack of attention devoted to these matters in the past, and to provide the kind of land resource development essential to the realization of the expansion potential.

As soon as the necessary decisions have been made, the High Commissioner should set forth clearly the development objectives which the Government seeks to achieve in both the short and the long run. Where possible, these objectives and goals should be quantified. Also, priorities should be indicated. Further, the relationship of short-run and long-run objectives should be made clear in the phasing of development programs. The objectives should be in a form to provide clear and specific guidelines for future actions.

The High Commissioner should assure that appropriate policies are formulated and enforced, consistent with the established goals and objectives. Policies essential for the implementation of this Plan will range from those which assure that economic considerations will play an appropriate role in the Government's decision-making process, to those which will clarify the Government's position on the entry of foreign visitors and the undertaking of economic activity by foreigners; from those required to develop economic discipline and self-reliance among Micronesians, individually and collectively, to those which project the territorial government more actively into the development process; from those which deal with the problems of

population concentration, to those which seek to reconcile large increases in Government spending with sound development of the private sector; from those which seek to establish a sound fiscal structure, to those which guide the development and use of manpower into the most desirable channels. Specific policy recommendations related to specific programs appear throughout this report.

Policy decisions on the size, composition and standards of education and health programs will need to be made and disseminated; the rules, procedures, and regulations governing private enterprise, both domestic and foreign will need to be formulated; and the extent of supporting services to be made available by the Government must be clearly articulated.

The effectiveness of the Development Plan will depend in considerable degree on general understanding of the realistic alternatives for economic development in the Trust Territory. The Government should establish an educational and informational program to secure the widest possible understanding of essential parts of the Development Plan among all Government administrators, the members of the Congress of Micronesia, all groups of the population, the various local government organizations, the

educators and the Peace Corps Volunteers. It is recommended that a formal procedure be established for gathering, summarizing and analyzing the comments and responses of the many individuals and groups who participate in the review and discussion of various parts of this report. These comments and responses will aid the High Commissioner in making more acceptable and more feasible policy decisions and in establishing program priorities.

#### ADMINISTRATIVE TOOL-UP

Following the establishment of clear objectives, goals, and policies, important changes will need to be made in administrative organization, personnel, and in operating methods and procedures to assure central and coordinated direction as well as effective operational control. Failure to recognize the significance and magnitude of this administrative task, or failure to make the difficult organizational and personnel changes required will render largely ineffective any attempts to speed the pace or improve the pattern of economic progress in the Trust Territory.

It may be difficult to find the kind of expertise required to implement these recommendations at the pace implied,

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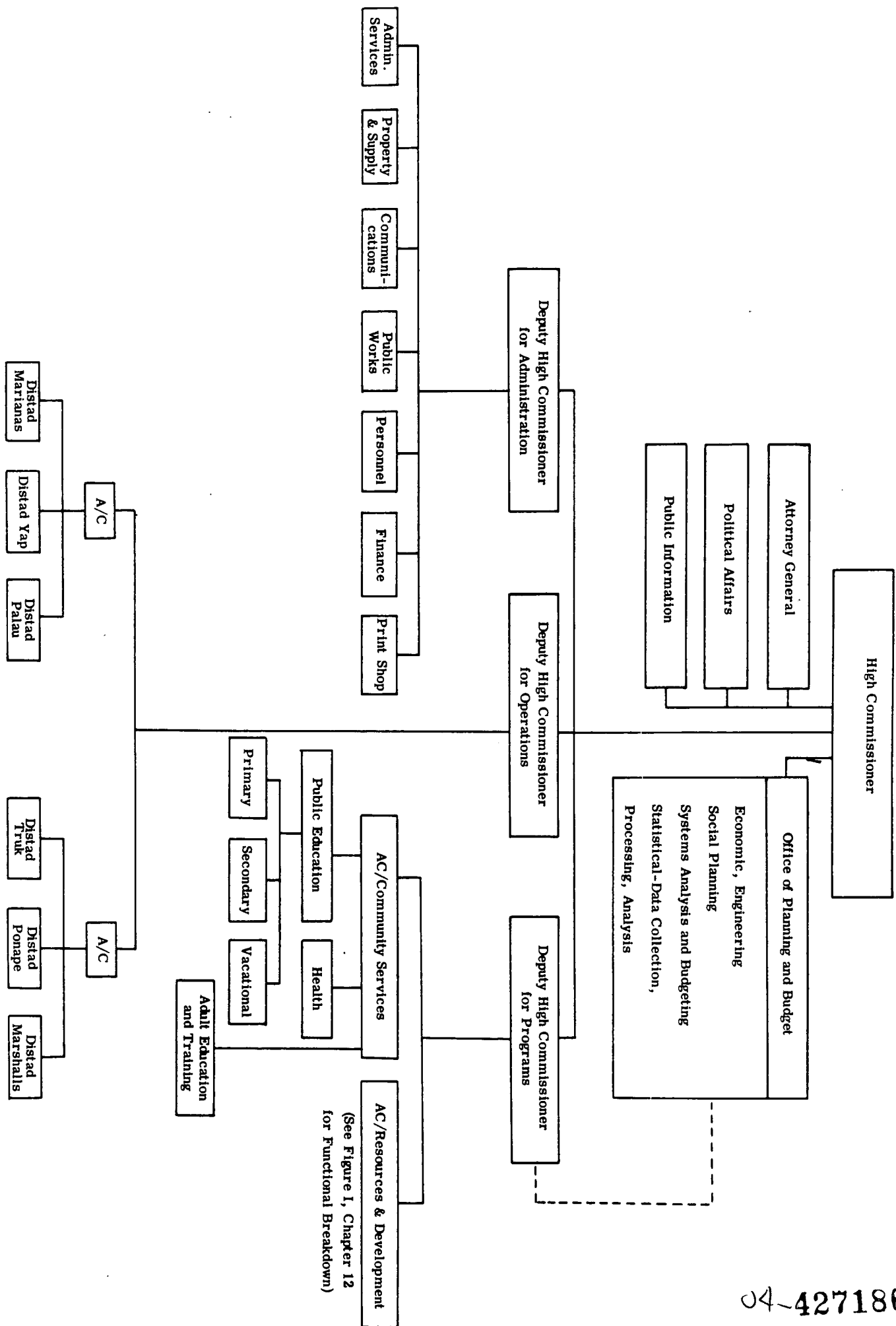
but none of these programs should be initiated until qualified personnel with demonstrated abilities in the specific functions required, have been hired to head each program.

RECOMMENDED ADMINISTRATIVE ORGANIZATION AND PROCEDURES FOR THE TRUST TERRITORY GOVERNMENT

It is recommended that a new Office of Planning and Budget should be created in the Office of the High Commissioner to provide him with a competent planning and budgeting staff as an instrument of programming and coordinating all activities of the Government. Figure I presents a recommended overall organization structure, showing the location of such an office and also the organizational structure for handling resource and development programs and community services. For the sake of completeness, the chart suggests the organizational lines of operation of the district offices and of administrative services, as well as the functions and programs more immediately related to development.

The suggested organizational scheme is a conventional line-and-staff organization, with a direct operating line from the High Commissioner through a Deputy for Operations to the

RECOMMENDED ORGANIZATION OF THE TRUST TERRITORY ADMINISTRATION



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District Administrators, emphasizing clear lines of direction, communication, and responsibility. The administrative services are grouped under another Deputy.

The Office of Planning and Budget, attached to the High Commissioner, should serve as an important instrument for his decision-making. This Office must have the authority and resources necessary for overall physical, economic, and social planning, for budgeting and control of financial resources, and for the production of data for planning, progress reporting, and evaluation. The new Office of Planning and Budget should be responsible for coordinating the budget and program planning of the present departments in the Trust Territory administrative structure.

The head of this Office should maintain constant contact with those responsible for the activities and progress and direction of all Trust Territory Government programs. To do this effectively he will need a professional staff including: (1) a chief statistician who should formulate statistical collection programs and analyze the statistics generated by the operations of the various departments as well as data on economic and other conditions in the Trust Territory and (2) a budget officer to prepare and coordinate and administer the overall budget and

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(3) a development specialist who will provide expert assistance on continuing long-range economic development planning, on policy formulation and coordination and on maximizing the economic development impact of all Trust Territory Government programs. A major function of the entire staff of this new Office should be that of assisting the High Commissioner to implement the approved recommendations of this Economic Development Plan.

The formulation and operation of programs of all kinds should be grouped under one Deputy High Commissioner, because of the essential interrelationships between community service programs of education and health and the resource and development programs already described. (See Figure I, above.)

The recommended shift of the Community Development program to the Department of Resources and Development will facilitate and assure the needed emphasis and expansion in Community Development activities as related to small business development and other economic development programs in each of the district center areas. Closer coordination between these programs can thus be achieved and duplication and overlap between small business development and community development efforts in the districts can be avoided.

The proposed changes will result in two Departments (Community Services, and Resources and Development), each headed by an Assistant Commissioner who will report directly to a Deputy High Commissioner for Programs. Each of these Departments should undertake the formulation of both headquarters and district programs, and should be responsible for the direct implementation of headquarters programs and for technical assistance on programs undertaken in the districts. The programming provided by each of these Departments and by each division or office within each Department should be coordinated and redesigned as necessary by the Deputy High Commissioner for Programs and submitted to the High Commissioner for final determination. He will be assisted by the Office of Planning and Budget.

Another vital function which must be performed is that of programming for, supervision over, assistance to, and coordination of all the activities of the six district administrations. The District Administrators have generally been given inadequate direction and assistance from headquarters. Many aspects of their authority and responsibility have been unclear, both as to their own relationships with headquarters and as to their responsibilities regarding operations in their districts of various headquarters programs, such as education, agriculture and health. High quality policy making and program and project planning by headquarters

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will have limited influence unless effective means are devised for carrying out these policies, plans and programs in the districts.

Effective implementation of plans and programs requires that each District Administrator become an effective arm of the High Commissioner in directing all line activities of the Government in his district. The achievement of this essential objective will require (1) the establishment of effective management communications between the District Administrators and headquarters (2) clear policy interpretation and program directions from headquarters to each District Administrator and (3) continual and effective assistance from headquarters to each District Administrator to ensure the effective performance of all the functions and duties of his office.

Figure I indicates a recommended new Office of Deputy High Commissioner for Operations. This new Deputy should establish and maintain effective control and extend assistance to each District Administrator in effectively executing all Trust Territory Government programs in his district. The District Administrator should be held directly responsible for the effective functioning of all programs and activities and for the implementation of all

headquarters directives in his district. He should work under the continuing supervision and direction of headquarters, and he should be able to depend on fast and effective assistance from headquarters.

In order to overcome the problems of great distances and past confusion and inertia, the new Deputy for Operations will need at least two highly capable assistants, recommended to be at the Assistant Commissioner level. Each of these new Assistant Commissioners should spend most of his time traveling in the districts and working with the district administrators, and should be empowered to speak with the authority of headquarters in his relationships with the District Administrators.

The High Commissioner should hold the new Deputy for Operations entirely responsible for the effective performance of all programs operating in the districts. He, in turn, should assign each of the new Assistant Commissioners to three districts and hold each responsible for the effective implementation of programs in the districts under his jurisdiction. They should spend most of their time helping the District Administrators.

Other Administrative Changes. Figure I also indicates that in addition to the two major changes already discussed, it is recommended that the Attorney General and the Political

Affairs and Public Information offices be attached directly to the Office of the High Commissioner. The Attorney General should work directly with the High Commissioner as his legal advisor. The Political Development and Public Information programs will be of vital importance during the next few years and these functions should be located in the Office of the High Commissioner so that close relations and supervision can be assured.

Figure I indicates a recommendation that the Trust Territory printing shop, the only remaining function in the present Department of Public Affairs, be shifted into the Department of Administration, and that the Department of Public Affairs be abolished as a unit in the administrative structure.

#### Key Personnel

The Trust Territory Government should be staffed with the most capable and the most development-oriented officials who can be recruited. A larger staff will be needed as programs expand, but there is far more need for proper quality and orientation than for large numbers of persons. The tasks ahead call for new skills and different experiences and changed attitudes as compared with the past. Competence in many key positions will need to be upgraded by the employment of professionals, trained and experienced in the specific jobs which will need to be performed.



Perhaps of even greater immediate importance than the upgrading of key personnel, staff morale needs to be lifted. Clear objectives plus strong and effective leadership will go far toward achieving this purpose and stimulating present employees to take more effective action toward reaching the defined goals. In fact, explaining and publicizing the development Plan, and spelling out objectives and policies by the High Commissioner will provide a prompt and marked boost in morale throughout the Trust Territory.

To succeed in attracting the needed highly qualified specialists, the Trust Territory Government must be prepared to provide these specialists with the degree and quality support necessary to enable them to function at maximum efficiency. Efficient offices, office equipment, supplies, secretarial and administrative assistance, messenger services, and other kinds of support beyond what is now generally available will need to be provided. Otherwise there will be waste and staff talents and morale will soon deteriorate.

Many of the specific skills required to implement economic development in Micronesia do not now exist in the Trust Territory. In order that the larger budgets and more complex development

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policies and programs can be effectively administered, it will be necessary to deviate from existing personnel procedures of the Trust Territory Government in order to obtain some of the needed key people. The competitive recruiting processes of United States Civil Service will not fully accommodate the peculiar isolation and work circumstances of the Trust Territory. They have in the past not served adequately in the recruitment of a high quality professional staff. Also, the rules of employment which apply to the civil servants assigned in the Trust Territory often make it difficult to displace unsatisfactory or uncooperative employees.

In order to correct the problems imposed by present procedures, it is recommended that new approaches be undertaken whereby staff may be selected who more readily meet the peculiar and increasingly more exacting needs of the Trust Territory Government. The following approaches are recommended:

1. Review and, where necessary, set higher grades for selected administrative and specialized personnel.
2. Extend the system which now allows the Trust Territory Government to contract directly with individuals to provide certain professional services as is now the case with most primary and

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many secondary school teachers. If this system is extended, it should call for high standards and careful selection, and it should provide for both short and long term contracts.

3. Implement key activities by contracting with U.S. firms which specialize in those functions, whenever the needed specialists are not otherwise available.

4. Arrange for Federal appointments to be made for two year tours extendable only at the option of the High Commissioner but without infringement on the employee's right for relocation elsewhere in the Civil Service.

5. Incorporate Trust Territory personnel into a larger foreign service system so that Trust Territory personnel, after a period in the Trust Territory, might be offered the same opportunities for employment by AID or other Federal agencies engaged in overseas work as are available to regular employees of those agencies.

6. Establish and maintain a continuing key personnel recruiting function, including continuing relationships with professional societies and employment services in all fields from which specialists will need to be attracted.

In addition to the difficult task of recruiting specialized personnel, the Government should exert a major effort to hold the capable specialists it now has and those whom it acquires. All employees and their families from abroad, especially the key people, should be provided the housing, community facilities, educational and hospital services, recreational programs and facilities, and all the other conditions necessary to induce them to remain in the Trust Territory for extended periods of time. Such amenities normally attend foreign positions offered by agencies and institutions with which the Trust Territory must compete for personnel. The kind of highly qualified, specialized and productive people who are needed to speed economic progress in Micronesia are not likely to be enticed into and remain within the Trust Territory if the services provided for their families are held to those levels which the Trust Territory Government can afford to give to the Micronesian communities.

The experienced, capable people needed will not be easy to acquire even under the best of circumstances. But the unique professional challenge and the many natural attractions of the Trust Territory islands, when supported by favorable employment

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conditions, can provide adequate inducement to attract and hold the highly competent people needed to implement the recommendations of this Plan.

#### RESOURCE USE AND AUTHORITY-RESPONSIBILITY RELATIONSHIPS

There should be a careful review of the relationship between the Trust Territory Government and the United States Government in Washington. The roles of the United States Congress, the Bureau of the Budget, and the Department of the Interior in determining the amount and kind of financial resources to be allocated to the Trust Territory Government will importantly shape and control the execution of the Economic Development Plan.

Presently, the procedures for implementing the budget allocation for the Trust Territory are similar to those for Federal programs in the continental United States. But the conditions in the Trust Territory are clearly different from those involved in any domestic Federal program. For this reason, it is recommended that when the general intent of Congress has been reflected in legislation and the direction of the President and the Secretary of the Interior has been expressed in executive

orders, the High Commissioner should be permitted wider latitude in interpreting and refining broad policies and in the use of the appropriated resources in achieving the agreed upon objectives than is usually allowed to Federal agencies or officials.

Precedent for such an approach can be found in the manner in which the United States often maintains surveillance over but not detailed control over uses of grants to the various states for the financing of specific programs. In such cases the state government is granted considerable autonomy and flexibility in the expenditure and, if necessary, in the reprogramming of funds so long as certain prescribed Federal standards are met. Because of the remoteness of the Trust Territory, its unique problems and its trusteeship status, the adherence to such an "intergovernmental relations" concept seems to be especially appropriate.

The upper echelon administrative improvements recommended previously will provide the High Commissioner with a much more efficient and responsive administrative machine with which to tackle the economic development task. As these administrative improvements are made, as certain key positions are upgraded and procedures improved, and as the legislative influence of the Congress of Micronesia expands, increased flexibility and greater decision-making authority and responsibility can and will be needed by the High Commissioner. The potential efficiency of

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the improved Government organization, procedures, and personnel cannot be fully realized if every issue must be explained and justified to and decided on by officials in Washington before the High Commissioner can take action. Washington officials should participate in the choice of the ultimate objectives. The High Commissioner should then be charged with the responsibility of achieving maximum progress toward these objectives within the boundaries of prescribed policies and procedures.

#### STATISTICAL ANALYSIS AND PROGRAM CONTROLS

The successive refinements of the Plan and specifications of projects and programs will require many kinds of data which have never been collected by the Trust Territory Government. Also, irrespective of the clarity with which objectives are stated, it would be unrealistic to assume that all Trust Territory efforts and activities will immediately and automatically alter their directions so as to relate themselves rationally to the new objectives. Data will be required to assess the activities and results of each program within the context of stated objectives and policies, and to guide the High Commissioner in determining changes in emphasis or direction as needed. The successful

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performance of these functions will require an effective system of statistical reporting and analysis. Presently available data provide very little basis either for sound programming and planning or for effective program controls by headquarters.

Several different kinds of statistics will need to be compiled and analyzed on a regular basis.

1. Statistics on the kinds and availability of natural and human resources need to be gathered, analyzed and updated on a regular basis. Population and labor force statistics will be especially important. The size, quality and distribution of the labor force will constitute both the major limiting factor and the best hope for economic development. Labor force characteristics should be well documented and carefully assessed at regular intervals.

A carefully structured and thorough census should be taken in 1970. The United States Bureau of the Census has tentatively agreed to consider the inclusion of the Trust Territory in the U.S. census of 1970. It is not likely that reliable measures of the total population and labor force in the Trust Territory could be developed prior to that time. Following the 1970 census, sampling techniques should be used for updating



the census information on an annual basis. This is particularly essential in view of the rapid changes in population and labor force characteristics which promise to occur during the decade of the 1970's.

2. Knowledge about other resource conditions, such as available quantities of fish, forest resources, land and site patterns and present uses, minerals and other resources is essential to the determination of development feasibilities, and to the planning of government programs.

Specific reports on labor force use, on agricultural and industrial production, trade and commerce, incomes by source, and the various other private and government economic and commercial activities need to be prepared and assessed regularly. At least the groundwork should be laid for the development of a system of economic statistics, including national accounts, income flows, imports and exports and international payments.

3. Quantified measures of the accomplishment of each government program should be designed to yield results which can be reported at regular intervals. Effective planning and programming require the compilation of accurate information on what is being achieved, and the analysis and assessment of those

achievements in relation to objectives, specific goals, and policies of the Government.

Arrangements should be made to gather and process immediately the more readily obtainable kinds of statistics while devising and initiating those data collection procedures on economic activities which are most difficult to measure. For example, statistics on transportation and communication flows, by various classes of traffic, could be compiled, organized, and analyzed while meaningful measures of agricultural, educational, public health, political development, and other programs are being designed and effective data collection procedures are being established.

4. For each government program or activity data must be gathered and organized to indicate the kinds and quantities of resources being used, the ways in which these resources are being used, the costs of each program or project, both in monetary terms and in use of economic resources, and the benefits. These real and money costs must be compared with the real and money values of the results achieved and progress made toward stated objectives if meaningful cost-benefit analyses are to be available.

5. Precise and accurate reports on the activities and progress of each of the governmental units in Micronesia should

be regularly compiled and analyzed. Information on laws passed, regulations enforced, taxes collected, funds spent and other activities undertaken are essential to enable the Trust Territory Administration to provide effective advice, direction, and assistance to the Micronesian governmental units. The design and implementation of an effective direct political development program will require the careful collection and analysis of these kinds of information and data. The present interest of the Trust Territory Government in assisting the development of strong and responsible democratic political organizations and institutions would seem to require that a high priority be assigned to this area of data gathering and analysis.

Many of the kinds of statistics which must be compiled could flow directly from the various documents which are produced as a result of regular administrative transactions and governmental activities. Statistics on many aspects of government programs can be processed almost automatically. Kinds and quantities of imports and exports, transportation and communications activities, resource inputs in each of the various programs, Trust Territory finance activities, and some other kinds of flow statistics be measured by metering the transactions, once the reporting systems and techniques have been designed and instituted. But the

statistics on natural resources, population and labor force, agricultural and industrial production, local trade and commerce, and employment and incomes will require a greater effort. The kinds of statistics required to provide meaningful measures of the progress, or outputs of many government programs may be difficult to design, compile, and analyze so as to produce precise quantitative results but this should not preclude efforts to develop needed data.

The difficulties which will be confronted in developing a comprehensive statistical system for the Trust Territory are formidable. Nevertheless, a beginning should be made now, looking forward to a gradual build-up over time as data sources and techniques of collection, analysis and evaluation are developed and perfected. The objective should be to develop a comprehensive system of statistics of acceptable quality and reliability during the next five years.

#### PRIORITIES FOR PROGRAM IMPLEMENTATION

The implementation recommendations presented above should receive top priority and the major immediate effort. But as soon as objectives and policies have been clearly defined by the High Commissioner and the necessary organizational changes and key

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personnel additions made, the new organization should begin to function.

Proper staffing for each program will need top priority. No program additions or expansions should begin until the kinds of people necessary to their success are acquired. The expansion of many of the programs, particularly the programs for direct economic and political development, is already long overdue and will be difficult to delay. But to delay the expansions will do less harm than to begin or expand the programs without the experienced professional people necessary to their success.

Simultaneous with major efforts to staff the direct development programs, emphasis of the Government should be (1) on redirecting and improving the effectiveness of the on-going programs, (2) on strengthening assistance to and direct operational control over the districts, (3) on providing essential infrastructure, (4) on upgrading personnel, establishing adequate supervision and controls at all levels and in all operations, and (5) on generally improving the standards of quality and efficiency of performance in all the activities of the Government. As soon as these prerequisite steps have been taken, the recommended program expansions should be undertaken. By the time these basic steps have been taken, sufficient

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planning can have been completed so that clear priorities and policies can have been established and the desired expansions can proceed in an efficient and orderly manner and in accordance with the stated objectives.

Many of the ancient and more recent conditions and events in Micronesia still prevailing will for sometime in the future continue to impede progress toward economic viability for Micronesia. But since these impediments, difficulties, and tendencies are now largely identified, it should be possible to assess them and to begin to remove many of the impediments. The recent expansions in infrastructure, services and facilities, and the beginning results of the expanded programs of the Trust Territory Government are providing an improving base on which significant economic development can be built.

The implementation of many of the recommendations of this report will require substantial United States Government commitment, a rare combination of strength, courage, and determination by top administrators of the Trust Territory Government and by Micronesian leaders, and will require much hard work by all government employees and many others. But the potential ultimate benefits which will accrue to future generations of Micronesians far more than justify all the dedication and effort required.

The faithful implementation of the recommendations of this Plan can produce a marked change in the entire attitude and economic development climate in Micronesia during the next five years and can lay the groundwork for increasingly self-generating and more rapid progress of the Trust Territory and its people toward economic self-reliance and viability.

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