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ECONOMIC DEVELOPMENT PLAN FOR MICRONESIA:

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

PART I

December 1966

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

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ECONOMIC DEVELOPMENT PLAN
for the
TRUST TERRITORY OF THE PACIFIC ISLANDS

Submitted
to the
HIGH COMMISSIONER

Prepared by

Robert R. Nathan Associates
Trust Territory Economic Development Team

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Saipan, Mariana Islands
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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

Selected Bibliography

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PREFACE

During the past few years, as government programs have been expanded rapidly, the need for economic development planning in the Trust Territory of the Pacific Islands has become increasingly apparent. In 1963 a study commission established by the President of the United States recommended that a long-range plan for the economic development of the Trust Territory be prepared. Following this recommendation, and after several months of investigation and deliberation by the High Commissioner and the Office of Territories of the United States Department of the Interior, the Trust Territory Government, on April 1, 1965, entered into a contract with Robert R. Nathan Associates, Inc., for economic consulting services to the Trust Territory Government, and for the preparation of an economic development plan for the Territory. This report presents the recommended plan.

To carry out these functions an Economic Development Team was established in the Trust Territory in June 1965, and consisted of: Chief of Mission, Mr. Ivan Bloch, who previously had operated an economic planning and consulting firm in Portland, Oregon;

Development Economist, Mr. James R. Leonard, who had been working in the Home Office of Nathan Associates after having had considerable training and teaching experience in the economics departments of several American universities; and Agricultural Economist, Mr. J. Raymond Carpenter, who previously had worked for AID in Ghana. Mr. David L. Chewning, Senior Associate of Robert R. Nathan Associates, Inc., was assigned the role of providing Washington liaison services and Home Office guidance for the Trust Territory economic development project. During December, 1965, Mr. Bloch resigned for health reasons, and was replaced by Dr. E. V. Bowden, formerly executive director of a regional economic development program in upper Michigan and, earlier, a college professor of economics.

Throughout the first few months of the contract, most of the effort of the Economic Development Team was directed toward providing economic assistance rather than toward the preparation of this Plan. While the Team's attention has been primarily devoted to the preparation of the Plan in recent months, some technical assistance on immediate problems has continued to be provided. The Team has provided continuing assistance on: improving air and sea transportation; expanding commercial fishing,

tourist, and agricultural industries; budget planning and preparation; government wage rate determination; local government finance planning and procedures; meeting professional personnel requirements; local business enterprise expansions; and on many other kinds of specific decisions and actions involving economic matters. Much of the information, data, and insight essential to the preparation of this Plan have been gained as a result of these technical assistance activities of the Team.

In providing technical assistance and in preparing this report, the members of the Team have had the unique and essential advantage of not being too involved in any one day-to-day activity. They have attempted to stand "outside" and see each program, each activity, each project, and each problem as a part of the larger total picture in the present, and as a determining factor in the even larger picture of the future of the Trust Territory.

Because of the need for on-the-spot investigations and analyses of conditions, problems, and possibilities, Team members have spent more than 7 man-months traveling in the districts (outside Saipan). All district center islands, and at least ten other islands in the Trust Territory have been visited one or more times by one or more members of the Team. These travels and

investigations have proved to be a most essential part of economic development planning for the Trust Territory.

This report in its present form represents the combined effort of all members of the Team, and of Mr. Robert R. Nathan, Mr. David L. Chewning, Dr. R. H. Allen, and several other senior members of Robert R. Nathan Associates' Home Office in Washington.

Any report of this length and depth which relies in such large measure on unpublished information and data, owes a major debt of gratitude to the many people who have supplied the information, data and insight necessary to the preparation of the report. Without the willing cooperation and assistance of more than 100 people, this report could not have been produced. Many kinds of indispensable information and assistance have been provided by: Trust Territory Government administrators and employees in all programs and at all levels both in headquarters and in each of the districts; members of the Congress of Micronesia and of the district legislators and several of the municipal councils; business, community, and religious leaders throughout the Trust Territory, and some on Guam; American, Japanese, and other businessmen, bankers, travel agents, writers, professors, researchers, and others who have some interest in the Trust

Territory; many people in the Department of the Interior and in several other departments and agencies of the United States Government including the Congress. The help which so many have given has been invaluable and is deeply appreciated by all who have taken part in the preparation of this Plan.

INFORMATION NOTE

The Trust Territory of the Pacific Islands is not precisely geographically coterminous with the area known as Micronesia. Two atolls, Kapingamarangi and Nukuro, are Polynesian islands and are inhabited by Polynesian people. Some of the citizens of Ponape Island are Polynesian. The Gilbert Islands are Micronesian islands and are inhabited by Micronesian people, yet these islands are not included in the Trust Territory of the Pacific Islands.

Throughout this report and in most other writings the words "Micronesia" and "Micronesian" are used to refer to the Trust Territory and all the peoples of the Trust Territory. This convention is convenient and useful and not undesirable so long as the readers understand that a few of the Trust Territory citizens are not Micronesians, and a few Micronesians are not Trust Territory citizens.

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INTRODUCTION

In an economy which already enjoys an advanced stage of development, the decisions and actions of the many experienced and knowledgeable entrepreneurs--as they seek out and move to exploit new feasible business opportunities and profit possibilities--tend to stimulate and provide the impetus for continued economic growth and development of that economy. But in an economically underdeveloped area such as the Trust Territory of the Pacific Islands, accelerated economic development depends on direct, concerted, and continuous efforts by government to produce the necessary conditions and to motivate the private sector to invest and produce consistent with long-run development objectives. The effort, to be most successful, must be carefully planned, specifically aimed toward this objective, and vigorously implemented.

Within the context of a well-conceived long-range economic development plan the necessary policy, program and action decisions can best be adjusted so as to maximize development. Legislative decisions and governmental actions

will be most fruitful if made within the context of a soundly conceived development plan. Further, the attainment of optimum timing, priorities, phasing, and balance within and among all government programs will be best achieved within the framework of a plan.

Almost every kind of government activity or program will have some positive or negative influence on economic development. Although not all programs are or should be undertaken for the explicit purpose of economic development, all programs ought to at least take into account the effect of each on actual or potential economic development so that the developmental influence can be maximized. This is particularly true of the Trust Territory where expanding government expenditures will have unique and pervasive consequences because of the narrow economic base of the islands. These expenditures and their direct and indirect impact are the dominant features of this economy. The kind of economic future Micronesia will experience will be determined more by the magnitude and the ways, purposes and locations in which the government monies are spent than by any other single factor or combination of factors.

Purpose of this Plan

This Economic Development Plan is based on an investigation of realistic development opportunities which exist for the Trust Territory and for its various parts, and is designed to propose policies and actions needed to speed the realization of as many as possible of the development potentials of Micronesia. The ultimate aim of this effort is to provide policies, programs, and implementing measures for the intermediate and long-range which will provide to the residents of Micronesia expanded opportunities to participate more fully in modern economic life--as employees and employers, as farmers and consumers, as investors and owners, as contributors and beneficiaries.

Scope and Limitations of this Plan

This Development Plan is, as with all first such efforts a framework and a program for policies and actions which will need to be revised and adjusted as time passes. It is not a precise, fixed blueprint to be rigidly pursued over the coming years. Economic development planning is a continuing task.

Many detailed projects and specific actions must be formulated and continually refined to give full body and meaning to many of the directional proposals included herein. This Plan seeks to present recommendations which are sufficiently specific to provide a clear and useful guide, both for establishing the long-range programs, and for taking the immediate steps required to facilitate and induce economic progress in Micronesia.

This over-all Plan, of necessity, encounters and deals with virtually every aspect and activity of the Trust Territory Government as well as with private economic activities. But the investigation and analysis of each is directed toward, guided by, and limited to the economic development objective. The Plan concerns the short run as well as longer run considerations. It involves external forces and impacts as well as internal considerations. It takes into consideration institutional factors as well as direct policies and programs. In essence, it seeks to take into account all factors which influence the directions and rate of economic progress, and to present plans and programs for the short-and long-run improvement of the economy of Micronesia.

Statistics of the kinds usually available to the economic development planner regarding such basic and essential characteristics as population size, characteristics, and distribution; the labor force and its industrial and occupational composition; wages and incomes; kinds and sizes of economic activities by major sectors; availability, location and present use patterns of various kinds of resources; and other such basic elements are largely unavailable for the Trust Territory. The lack of these basic data severely limits the precision with which conclusions and projections can be made.

Time Horizons

The serious limitations of information and data, and the rapid rate of change which now characterizes political, economic, and social conditions in Micronesia preclude accurate projections and forecasts for any extended future time period. In fact, it is impossible to know precisely what situations exist even today rendering projections into the realm of tomorrow even more treacherous. This Plan will not attempt any projection of economic activity and conditions beyond a period of five years. Even five-year projections can only be presented in general terms or with full recognition

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of wide margins for error to prevent the illusion of accuracy. However, the difficulties of forecasting do not lessen the vital need for estimates of long-range possibilities and probabilities. Many potential achievements, attainable in Micronesia in perhaps twenty years, will not occur unless someone today is prepared to foresee the possibilities and to recommend the beginning steps.

Many desirable economic objectives cannot be achieved when the time horizon is limited to a relatively short period. However, the beginnings can be made even though the goals will continue to be far beyond reach as of the end of the planning period. For instance, Micronesian entrepreneurs and capital cannot be adequately developed to support sizeable economic expansion in the next few years, but steps can be taken now which can ultimately result in the achievement of this objective. Also, the programs and approaches in education and training should not be designed exclusively within a short time horizon; ingredients which will best serve the interests of Micronesia and Micronesians for decades into the future need to be included. Further, the many decisions regarding size, design, priority, and phasing of all government programs,

facilities, services, and activities must be made on the basis of assumptions (either explicit or implicit) of the long term possibilities of Micronesia.

In short, many if not most of the decisions which need to be made and implemented in the coming years must be planned with an eye to the longer-range objectives. Specific projects will be developed, specific policies will be formulated and specific institutions established as progress is made and annual budgets are prepared. In each case consideration must be given to the way in which these specific undertakings serve the long-range objectives of the economy of Micronesia.

Basic Assumptions

The term "economic development", within the context of the Trust Territory, means the expansion of opportunities for Micronesians to contribute to, participate in, and reap the subsequent income and other benefits of a modern productive economy.

The over-all Economic Development Plan is built on the basis of the following assumptions:

1. There will be a steadily increasing population and labor force in Micronesia.

2. Population will continue to become concentrated more and more on the major islands and at an accelerating pace.

3. There will be greater mobility of people among the various islands and between the districts within the Trust Territory.

4. There will be relatively free access to the outside capital, management, and labor resources necessary for economic expansion.

5. There will be increasing expenditures by the United States both to provide for more government services in general, and to undertake direct infrastructure investment, financing of development lending institutions, and other economic development activities.

6. There will be an increasing level of efficiency of the administrative structure and functioning of Trust Territory Government.

7. The Micronesian governments will carry an increasing part of the cost of providing government programs and services as economic expansion in the Trust Territory proceeds.

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8. The United States, the Trust Territory Government, and the Micronesians, all have a serious desire to bring about economic expansion and greater economic opportunities for the residents of Micronesia, and will give serious attention and effort to the implementation of the recommendations of this Plan.

Expected Results

It is expected that implementation of this long-range over-all Economic Development Plan will assure that available energies and monies will be channeled more meaningfully and more effectively than heretofore, and that the many basic steps taken over the coming years and decades will bring to Micronesia and her residents greatly expanded economic opportunities. In addition to providing improved and coordinated direction for major programs, this Plan will also help to develop understanding and awareness of realistic alternatives, and will stimulate the development of more enlightened attitudes and more effective and meaningful approaches by United States and Trust Territory Government officials, by local political, economic, social, religious and other leaders, by teachers and Peace Corps volunteers,

and by others in positions of influence.

This Plan may be expected to engender a strong awareness that economic development in Micronesia is possible, and that each individual decision and action can help achieve it. The sum total of these many individual efforts can and will add up to a significant force for speeding the expansion of economic opportunity for Micronesians.

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PART I

CONDITIONS, PROBLEMS, POSSIBILITIES, POLICIES, DIRECTIONS, AND GOALS

The effective planning and implementation of economic development in the Trust Territory requires: first, an understanding of the general nature and conditions of the Territory and its people; second, an assessment of the general problems and possibilities for economic development; and third, a determination of the general objectives and policies necessary to support economic development. The three chapters included in Part I are designed to meet these three requirements.

CHAPTER ONE

ECONOMIC GEOGRAPHY AND HISTORY OF MICRONESIA

The geography and history of an area and its people exert important influences on economic conditions and on the economic development potential. In the Trust Territory, where both the geography and the history are almost completely unique, the influence of these factors is paramount.

Realistic economic development planning must begin with the conditions which actually exist, not with the conditions which one might wish for or like to assume. Neither geography nor history has been good to Micronesia from the point of view of building economic development potential. Yet economic planning and implementation within a realistic awareness of and with proper allowances for the many geographical and historical difficulties and impediments can certainly lead to economic progress in Micronesia. The purpose of this chapter is to present a summary sketch of the most relevant geographic and historical conditions and influences.

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DESCRIPTION OF THE AREA

The Trust Territory of the Pacific Islands consists of less than 1,000 square miles of land area broken into more than 2,000 pieces and scattered in clusters over an expanse of ocean approximately as large as the area of the continental United States. (Fold-out map, inside back cover).

Most of the Trust Territory Islands (the West Carolines, the East Carolines, and the Marshalls) lie in a band about 3,000 miles long running east and west and centered at about 8° north latitude (some 500 miles north of the equator). This band, or imaginary ribbon, begins at a point about 500 miles east of the Philippine Islands and stretches about halfway to Hawaii.

The Palau Islands are located at the western end of this band, nearest the Philippines. A few hundred miles east of Palau and along the northern edge of the band are the islands of Yap, Ulithi, and the other scattered islands which make up the Yap District. These two districts, Palau and Yap (the Western Carolines) make up the western one-third of the band.

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Moving on to the east, the Truk District and to the east of that the Ponape District, make up the Eastern Caroline Islands. The Caroline Islands, in total, consisting of the Palau, Yap, Truk, and Ponape Districts, make up about three-fourths of the 3,000 mile-long band. The eastern one-fourth of the band is made up of the Marshall Islands.

The only other group of islands in the Trust Territory (the Marianas) begins at Guam (about 250 miles north of Yap) and stretches about 500 miles due north in an almost straight line to about 20° north latitude.

If all the land area of all the islands in the Trust Territory were lumped together, the total area would be only about ten times the size of the District of Columbia or a little more than half the size of the State of Rhode Island. All these islands could easily fit into the Chesapeake Bay, or into Lake Erie, or into Long Island Sound; yet the Carolines and the Marshalls are scattered over an area longer than from Seattle to Boston, and the Marianas stretch northward over a distance equal to that from Atlanta to Chicago.

The distances between the major islands in each district and the major islands in other districts is frequently greater

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than the distances to other points outside the Trust Territory. For example, Palau is only about 500 miles from the closest point in the Philippines to the west, and about the same distance to New Guinea to the south. The distance from Palau to Saipan (location of the Headquarters of the Trust Territory Government) is some 900 miles.

From Majuro, the District Center of the Marshall Islands, the distance to Tarawa in the Gilbert Islands to the southeast is only 300 miles; the distance from Majuro to the nearest district center in the Trust Territory (Ponape) is about 800 miles, and to Saipan, more than 1,700 miles--almost equal to the distance from Majuro to Hawaii to the northeast, and greater than the distance from Majuro to American Samoa to the southeast. Several of the southernmost islands in the Trust Territory are about as close to Australia as they are to the Trust Territory Headquarters in Saipan.

The islands of Micronesia range in size from the many small strip islands, some of less than one acre, which lie along the coral reefs of the atolls, to a few large, high islands with up to 100 square miles or more of land area and mountain peaks sometimes reaching up to 3,000 feet above the

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sea. Less than twenty of the islands are large enough to support sizeable population concentrations; only about 100 islands are of sufficient size to support any permanent population.

The islands of Micronesia can be classified as high islands, atolls, and combinations of the two. The high islands are the peaks of submerged mountains which rise thousands of feet from the ocean floor and jut fairly abruptly above the ocean surface. The atolls are submerged plateaus which form the tops of submerged mountains, around the fringes of which encircling coral reefs have grown up to form lagoons. Sometimes high islands rise within the lagoon area, but the normal atoll formation consists of low-lying islands scattered along the reef which fringes the lagoon.

Some of the lagoons are large enough to be classified as huge mid-ocean seas. The Truk lagoon, for example, is approximately equal in size to the State of Rhode Island, and is larger than the total land area of all of Micronesia.

With very minor exceptions, all the Marshall Islands are atolls, all the Marianas are high islands, and throughout the Carolines there are atolls, high islands, and combinations of the two.

Most of the soils found on the islands of Micronesia are not highly suitable for intensive agriculture, but on all the islands several kinds of tropical plants grow well. Coconut palms, breadfruit trees, pandanas, taro, bananas, and several other kinds of vegetables and fruits have grown on these islands since before recorded history. Only in the few valleys and low-lying flat areas of the high islands is the soil reasonably deep and fertile. Generally the soils are either rocky, sandy, or very thinly spread over the rock or coral base.

The climate is tropical, with temperatures ranging from the low 70's to the low 90's, rarely reaching either of these extremes and having very little seasonal or daily variation. The trade winds provide cooling breezes most of the time for most of the islands except during some parts of the summer and fall.

The amount of annual rainfall varies greatly among the islands, ranging from as high as 200 inches in some places on Ponape to as low as 10 or 15 inches in some of the northernmost Marshalls. But for most of the islands the average annual rainfall is moderate. Almost all of the islands experience definite wet and dry seasons. During some years, near-drought

conditions exist on several of the islands during the winter and early spring months.

The geographic and natural conditions of Micronesia are interesting, attractive, and unique. Some of the other Pacific Islands or island groups, such as Samoa, the Gilberts, Tahiti, in several respects even Hawaii, and many others, are similar to one or another of the islands or island clusters of Micronesia. But looked at carefully and considered as a unit, with its almost incomprehensibly large area, scatter, and diversity, the Trust Territory shows up as a geographic entity without parallel anywhere in the world.

HISTORY OF ECONOMIC AND RELATED CONDITIONS AND EVENTS

Many conditions, which in the modern economies are so "natural" that they are implicitly assumed, do not exist in the Trust Territory. The "mental re-orientation" necessary to think and plan intelligently in the existing Micronesian setting is not easy for the outsider to achieve. Careful and thoughtful study of the evolution and present patterns of economic and related conditions and institutions is essential. The purpose of this section is to stimulate an awareness of the framework within which economic development in Micronesia must proceed.

Conditions Before Contact by Outsiders (Before 1500)

The islands of Micronesia prior to contact by Europeans were populated by several hundred thousand people--several times as many as the some 90,000 people who now inhabit them. These people lived self-sufficient lives in their highly stratified and feudal societies. Their world was limited to their home islands plus the few neighboring islands which they could reach in their outrigger canoes. They lived on the relatively abundant vegetables, fruits, and fish; conducted their primitive religious practices; made war on their neighbors to extend their land holdings and to kidnap women for wives. In general, they followed the same social, economic, political, and cultural pattern century after century.

The economic system was one of almost complete communal interdependence and inter-responsibility. No one had the right to call anything exclusively his own, not even his own time. Each person had the right to some claim on the product of the group. Neither the concept of individual economic and political freedom nor the concept of individual responsibility, as these terms are used today, existed in Micronesia.

Exchange was conducted on the basis of gift-giving through an elaborate system in which everyone seemed to know how much and what he should give to whom and under what circumstances. The heads of families, the clan chiefs, and the high chiefs always received their appropriate shares, as did the many relatives. Always the total harvest or catch was distributed, leaving the "original owner" with enough for his immediate needs.

The only material wealth or material savings consisted of such things as houses, war canoes, improved lands, implements, clothing and the like. Almost all of the material wealth was under the control of the heads of extended families, and of the chiefs of clans, villages, and/or islands. Personal wealth or savings except by chiefs was unknown. There were no metals, and all tools and implements were made of local materials such as stone, wood, shell, bone and local fibers.

Ownership of all land was held by the heads of extended families and by the chiefs--usually clan chiefs, but sometimes, especially in the Marshalls, by high chiefs who ruled over several islands. Individuals and immediate families inherited "use rights" to certain parcels of land, and these rights

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traditionally could not be terminated so long as the user shared the produce properly and followed all the other traditional rules of the society.

Positions of authority accrued to people on the basis of birthright, age, exhibited wisdom or strength, military power, and other considerations, but always included a requirement for noble birth, and usually involved some process of selection in which a few elder members of highest royalty participated.

The tightly structured interdependent social, economic, and political system of pre-contact Micronesia did not encourage the development of individual freedom or responsibility, but it did maintain stability and, generally, provided adequately for the basic economic needs of the people. As will be seen later, this rigidly interdependent system was based on principles and concepts, many of which continue to exist today, but which do not well serve the aspirations and needs of Micronesians as they now seek to participate more fully in the expanded horizons and economic opportunities of the modern world.

Discovery and Expanding Influence of Outsiders (1500's-1800's)

The first contacts with the islands of Micronesia by

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Europeans occurred during the same exploration period which included the discovery of America. First Magellan, and then other occasional explorers contacted several of the Micronesian islands during the 1500's. In the centuries following, there was no additional contact except in the Marianas, until the mid-1700's.

In the Marianas the Spanish maintained continual contact and increasing influence until the end of the Spanish-American War in 1899. During the 1500's a Spanish fort was established on Guam; during the mid-1600's Spanish missionaries and soldiers were permanently established in the Marianas; and by 1700 Spanish sovereignty was clearly established. In the decades that followed, the native (Chamorro) population was almost completely wiped out by disease, violence, and other causes. The population of the Marianas was rebuilt with a strong admixture of Spanish, Mexican, Philippine, and other foreign blood. The Chamorro language became a mixture of original Chamorro and Spanish. The economic, social and cultural patterns throughout the Marianas changed to imitate much more closely the Spanish heritage than the heritage of the original Chamorro race and culture. Thus the "new" Chamorros were Europeanized long before most of the

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Caroline and Marshall Island people had any more than legends to remind them that white-skinned people had once visited a few of the islands in huge, strange canoes.

It was not until the early and middle 1800's that intensive contact began on some of the Caroline Islands. On many of the islands, notably the Palaus but also several other islands throughout the Carolines, intensive contact did not occur until the first decade of the present century, some sixty years ago.

About the mid-1850's, missionaries settled on several of the Caroline and Marshall Islands, and whaling vessels were in the area constantly. During this period many of the island peoples felt the heavy impact of change with the introduction of white man's pulmonary, venereal, and other diseases, introduction of new attitudes, ideas, beliefs, and the introduction of imported goods and metal tools by whalers, missionaries, and a few traders.

It was during this period that the populations of the Caroline and Marshall Islands declined rapidly under the impact of the new diseases, and changed somewhat by the introduction of European blood.

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During the 1800's the copra trade expanded from a very small scale during the first quarter-century, to become a major activity with strong competition developing among the traders of different nations during the last twenty-five years of the century. Whaling activity dwindled during the latter 1800's as the whales were depleted and as petroleum substitutes for whale oil were becoming available.

The Period of Rising German Influence (1880-1899)
and German Administration (1899-1914)

German, Portuguese, British, and American vessels entered the competition as the buying of copra and the sale of trade goods expanded in Micronesia. During the last two decades of the nineteenth century, the German traders achieved a position of relative dominance throughout the Carolines and Marshalls.

During this period, the Caroline Islands were under the nominal control of Spain. The Spanish tried to administer Ponape and a few of the other islands, and introduced missionaries in several places. Their control or influence in the Carolines generally was not great.

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In 1885 the Germans entered an agreement with the nineteen high chiefs of the Marshall Islands giving Germany a protectorate over all the Marshalls. In 1899, immediately following the Spanish-American War, the Germans bought from Spain control of all the Micronesian Islands except Guam, which became a territory of the United States.

The Germans established strong civil control and instituted a vigorous program of coconut planting and copra production. Generally, the Germans did not attempt to make great changes in the customs, traditions, and behavior of the Micronesians, except that the German administrator became a new "high-high chief" with the power to preserve the peace and to prevent the other high chiefs and lesser chiefs from engaging in wars and raids and to prevent any civil disturbance which might interrupt the orderly operation of trading activities and copra production.

The fifteen years of German Administration were generally characterized by economic growth and political stability, expanding output and export of copra, expanding availability of Western goods, and general social, economic, and political harmony. The Germans had some success in formalizing land ownership, and in

some places, notably Truk, succeeded in moving land ownership somewhat closer to the individual family and away from the clan. New tools, food products, clothing, and other goods were introduced; more mission schools were established; and there was more teaching of and learning about the outside world.

During the latter years of the German Administration, competition from the Japanese traders, who originally had entered the copra trade on a small scale during the 1880's, became significant. In 1907, several independent Japanese traders joined together to form Nanyo Boeki Kaisha (NBK--the South Seas Trading Company). This Company was destined to be of significant commercial importance in the future of Micronesia, not only in the remainder of the German period and throughout the Japanese period, but again under the period of United States Trusteeship.

Conditions and Changes Under Japanese Administration (1914-1944)

Japan entered World War I against Germany, and immediately proceeded to occupy the islands of Micronesia. In 1920, Japan was given a mandate over these Islands by the League of Nations. The Islands remained under Japanese control until they were occupied by American forces during 1944 and 1945.

During the 1920's and early 1930's, Japan followed the policy of expanding colonization and resource exploitation in Micronesia. Many agricultural, fisheries, manufacturing and processing industries were established with Japanese capital and management, and with imported Japanese, Okinawan, and some Korean labor.

During the later 1930's the Japanese war with China and the military build-up in preparation for World War II further intensified economic and military activities in Micronesia. By the time of the Pearl Harbor attack in December, 1941, Japanese, Okinawan, and other immigrants in Micronesia outnumbered the local people on some islands from three or four to one; on other islands, by as much as ten or more to one.

The Micronesian people who lived on the larger islands where most activity was centralized, were completely submersed in the Japanese-financed, Japanese-managed, and Japanese and Okinawan-manned activities. The Micronesians participated at the fringes, taking advantage of the opportunity to sell produce, fish, and other goods to the busy immigrant population. Some Micronesians learned enough about the operations of these economic activities to begin to participate directly. But the

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people living on the outlying islands were hardly touched by the effects of the Japanese economic expansion.

Regardless of the self-interest of the Japanese motives, many Micronesians benefited considerably. They enjoyed wider varieties of goods and services, greater sources of income, and greater opportunities to develop abilities, and to get jobs than they ever experienced before or, in many instances, since. During the latter part of the period of Japanese Administration and particularly during the three-year period between the time of the Pearl Harbor attack in 1941 and the occupation of the islands by the American forces in 1944 and 1945, the Japanese considerably intensified their activities in Micronesia. They considerably reduced the amount of freedom allowed to the Micronesians, and in several places resorted to forced labor to serve the Japanese interest. This forced labor aspect of the Japanese experience in Micronesia was not especially abhorrent to Micronesians, in view of the fact that most Micronesians had never been accustomed to much individual freedom.

Major changes occurred in Micronesia during the period of Japanese Administration. In all the major trading centers,

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the money economy replaced the traditional barter and gift exchanges for imported goods. Most of the people on the major islands became accustomed to manufactured and processed goods, including tools, chemicals, foods, utensils, equipment, materials, machinery, fuels, power, toiletries and cosmetics, and many kinds of services, including medical and health, education, sanitation, transportation, communications, and restaurants, retail stores, and movies. In fact, the Micronesians located near the centers of activity generally had access to most of the kinds of goods and services available to the small-town farmer or fisherman in the industrialized nations of the world during the 1930's.

Under the Japanese, the importance of the chief was somewhat further diminished. The Japanese administrators, in several instances, influenced the choices of chiefs. Work habits were changed. Some Micronesians became accustomed to the eight-hour day. There were further moves toward private property and away from the communal property systems of traditional Micronesia. Land tenure and the ease of land transfer were changed somewhat to make it easier for the Japanese to acquire land. The Japanese Government and the

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Japanese immigrants acquired large amounts of land through purchase, lease, rent, eminent domain, and in a few instances, confiscation. Some land surveys were made, but most of the records were lost or destroyed during World War II.

The Japanese set up schools in all areas of population concentration, both for children of the Japanese immigrants and for the Micronesians. The Micronesians were taught the Japanese language and the geography of Micronesia as well as the geography, history, greatness and invincibility of Japan. A vocational school was established on the Japanese headquarters island of Koror (Palau). Some Micronesians were enrolled there to learn the skills of carpentry, blueprint reading, drafting, surveying, and various kinds of mechanical and electrical skills.

Much modernization occurred in Micronesia during the 30 years of Japanese Administration, but in many ways, in many places, and for many people, the changes were relatively minor. The deeply ingrained traditions of mutual interdependence and the lack of individual freedom and responsibility were not greatly modified. The close ties within the family, clan, and island groups continued strong, and the responsibilities of each member of the group to the other members continued to characterize attitudes toward exchange of goods, ownership rights, and other

practices. But many people, in varying degree, became dependent on a growing variety of imported goods and many kinds of organized services, especially transportation, communications, medicine, and education. As a result, the people developed a greater desire to take advantage of the opportunities in the outside world.

Conditions and Changes During American Occupation (1944-1946)

In 1944 the U.S. Armed Forces began bombarding Japanese concentrations on the islands and then occupying the islands of Micronesia as bases for attacks on other Japanese strongholds. Before the War ended all the major islands had been occupied.

Military Government teams were established by the Navy to administer each island group. These teams immediately began to establish security, to round up all the Japanese and other aliens, both military and civilian, and deport them, to remove unexploded ammunition, and to handle many other urgent matters. The rehabilitation of the civilian populations in Micronesia was not under prevailing circumstances given high priority or attention.

By mid-1946, almost all the Japanese and other immigrants had been deported from Micronesia and returned to their native countries. Most of the villages and most of the islands where the major Japanese economic and military activity had been concentrated had been largely demolished and became ghost towns. Almost all the equipment and buildings had been destroyed, and most of the people had been deported. The only continuing activity other than U.S. military operations on some of the islands, notably Saipan, was that of traditional food gathering. Even this was severely curtailed by the destruction of war, uncertainties of property rights, disruption of families by deportation of Japanese and Okinawan immigrant husbands, and the general disruption of the economy and social structure developed by the Japanese. The goods and services and sources of income which many Micronesians had enjoyed during the Japanese period ceased to exist.

Conditions in the Marianas during the immediate post-war period, as in so many instances in their whole history, differed greatly from the other islands of Micronesia. All the Marianas civilians were transported to Saipan and concentrated in temporary quarters. They were severely restricted, poorly fed, and assigned jobs by the military commanders. These people did

not know the status of their real property and owned little other than the old clothes which they wore. They had no way of fully supporting themselves. Their pre-war sources of income and goods had vanished, and although they were paid for their work as laborers and domestics, the wages were low and many goods were either not available or were priced beyond their power to buy. Most foodstuffs were "issued" and consisted mainly of rice, flour, sugar, salt, and canned meats. Clothing, utensils, tools, livestock were unobtainable. Mariana Islanders had no choice but to look to the American administrators for their rehabilitation and future development.

Throughout most of Micronesia the people were more on their own than in the Marianas, where the extensive scope of military activity resulted in restrictions, but provided jobs. In the Marianas the people complained that the only items of clothing available were discarded G.I. uniforms, but in most other places not even this source of clothing was available.

In most of the major centers of Micronesia the shock of change from the pre-war condition was great. In Palau the Japanese had constructed a modern city as the headquarters for their administration over Micronesia. All of this, and most of the people who had lived there, were gone. In Truk, the Japanese had established a major naval base, commercial fishing, fish

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freezing and processing, and many other kinds of activities, all of which were now gone. On the "garden island" of Ponape the Japanese had greatly expanded agricultural activities and processing activities based on agricultural produce, this too had largely disappeared. The thriving and prosperous agricultural and industrial enterprises on Saipan, including the major sugar industry, commercial fishing, and many other enterprises, and most of the people, were gone. The same kinds of changes occurred on most of the major islands and on some of the smaller ones. Not only the businesses and the people, but most of the infrastructure--the roads and causeways, community facilities, electric and water systems, harbor and other facilities--were gone.

There was little prospect that any economic rebirth would begin soon. The physical structure of the former economy had been destroyed. Worse still, the entrepreneurs, capital, managers, supervisors, technicians and almost all of the labor were no longer available. Thus, all of the elements which had conceived, financed, and operated the economic units suddenly disappeared. Gone too was the pre-war and wartime demand which had stimulated and shaped much of the Japanese development in Micronesia.

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The world economy in 1946 and in the years following was vastly different from the depression and military build-up years of the 1930's. Techniques, processes, goods, prices, and relative demands and supplies had undergone great change. Many of the economic activities operated by the Japanese in Micronesia in the pre-war era may not have been feasible and viable in the post-war world, even if the destruction and deportations of people had not occurred.

Following American occupation, the U.S. Commercial Company, which had been previously established as a subsidiary of the Reconstruction Finance Corporation, was assigned the role of supplying trade goods and reviving production and trade of copra, handicrafts, and other local products. Progress in overcoming shortages and meeting needs was very slow. Inter-island transportation was infrequent or nonexistent. Supplies of goods expanded very slowly. The military government teams generally concentrated their efforts on maintaining security and solving pressing current problems, lacking decisions, plans and directions regarding long-range objectives for Micronesia.

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In 1946, the U.S. Commercial Company employed several coordinated teams of economists and anthropologists to study conditions and needs in Micronesia and to propose guidelines and programs for rehabilitation. The several volumes of reports produced by these teams provided descriptions of the history and prevailing conditions of the islands. They emphasized the great shortage of and need for imported goods and for inter-island transportation. In general, these reports suggested programs to re-create some of the kinds of industries which had existed under the Japanese. They emphasized that economic rebirth would be difficult to accomplish following wartime destruction and the deportations of the former business operators.

Conditions and Changes Under U.S. Trusteeship (1947-1966)

In 1947 the islands of Micronesia were established as a Trusteeship under the United Nations Trusteeship Council, and the United States was made Trustee. A civilian administration was set up under the United States Navy Department to administer the Trusteeship.

Navy Administration (1947-1951). Under the four years of Navy Administration, progress was made in overcoming the most

serious conditions existing immediately following the war. Some transportation services were established between the islands. Micronesians who had been relocated by the Japanese Administration were returned to their home islands. People who had been removed from their lands were allowed to return and resettle. Some of the shortages of supplies of imported goods were relieved. The copra trade was re-established, and provided a source of cash income. Some small initial progress was made in the provision of public services such as health and education, and some needed public facilities were established or rehabilitated. Some clearance of harbors and of live ammunition was accomplished.

The first decade of Trust Territory Government Administration (1951-1962). In 1951 the Trust Territory Government was established, attached to the Office of Territories of the United States Department of the Interior. Since 1951 this administrative arrangement has continued, except that most of the Mariana Islands were almost immediately transferred back under Navy Administration where they remained for about eleven years (1951-1962). Throughout this period, Navy activities provided much greater job and income opportunities and more public services for the people of the Marianas, particularly the Saipanese than

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were available in other parts of the Trust Territory.

The Trust Territory Government was operating its part of the Trust Territory (the Carolines, Marshalls, and outlying islands of the Marianas) with a total expenditure ceiling of \$6.5 million--an amount barely adequate to "keep house". Minimum facilities and services existed for transportation, communications, education, hospitals, health, sanitation, and public works. The activities of the Trust Territory Government during this period can best be described as an operation of holding where possible, and, as prices and costs increased over this period, slow retreat.

The limited resources of the Trust Territory Government had to be spread very thin, yet some progress was made. The copra trade was further expanded; there was some success in helping local residents to increase their agricultural production for local consumption; some trading cooperatives were established and helped to function acceptably; a few Micronesians were provided with secondary and some college education in Guam, Honolulu, and the United States; and motivation and assistance were provided in all the districts in developing embryonic democratic political institutions at the municipal, district, and Micronesia-wide

levels. In general there was a settling down and adjustment of the Micronesian people to their new economic and political environment under the American Administration.

Throughout this period severe restrictions on entry by outsiders, including entry by U.S. private citizens, were maintained and enforced. Security clearances by the Chief of Naval Operations in Washington, which usually required long periods for processing, were a prior condition of entry. Following security clearance, entry permits were issued by the High Commissioner only if the requested entry was interpreted as likely to serve the interests of Micronesians and only then if housing, water, and other facilities and services in the area were considered adequate to serve the needs of the prospective entrant. All entry permits were issued on a short-term basis, and entry was generally discouraged.

Permanent immigration into Micronesia was not allowed under any circumstances. Almost the only way a person could become a citizen of Micronesia or obtain the right to own land in Micronesia was to be a Micronesian by birth. With almost no exceptions, the only entrants into Micronesia other than Armed Forces personnel, were the American employees of the Trust Territory Government, many of whom were held over from the period of Navy Administration.

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Throughout the 1951-1962 period, as in the early post-war period of Navy Administration, the levels of economic activity economic opportunity and incomes of Micronesians, excluding their subsistence farming and fishing activities, were determined by (1) the amounts of income paid to Micronesians employed on the Trust Territory Government payroll, (2) the respending effect of the money paid to both Micronesian and American employees of the Government, (3) the amounts of goods and services provided to Micronesians directly by the Government, and (4) the supplementary money incomes derived from the sale of copra, scrap metals, trochus shells, and a few handicraft items.

Many Micronesians were employed in positions for which they did not qualify, and neither funds nor personnel were available to provide the necessary training or supervision to enable them to learn to do the assigned jobs. Productivity and performance on many programs were low, and costs, in terms of accomplishments, high. Short-run palliatives were provided to lessen the discomfoting effects of economic and other problems. Given the limitations of the budget and the magnitude of the job, it is doubtful that any approach other than a holding action would have met with much success. Even had there been

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a well designed long-range plan for Trust Territory development, without the number and calibre of people and the amounts of money required for implementation, the plan would only have resulted in increased frustrations.

Recent Trust Territory Government Administration (1962-1966). In 1962 all the islands of the Marianas (excluding Guam, of course) were returned to the jurisdiction of the Trust Territory Government. In 1962, the budget ceiling for the Trust Territory Government's annual expenditure was increased from \$6.5 million to \$15 million and in 1963, the ceiling was further increased to \$17.5 million. Immediately there emerged a new surge of Government under the impetus of the build-up of schools, hospitals, new houses for teachers, and other buildings. Some funds were expended for airfield construction and other public works. Transportation services were expanded. There were also small to moderate expenditure increases in most of the continuing activities of the Trust Territory Government.

From 1962 to 1965 the basic policies and programs of the previous decade were generally continued. The requirement of Navy security clearance for entrance of United States citizens was dropped, but the general policy of the Trust Territory

Government regarding entry was not changed. Previous personnel and performance standards were largely unchanged, and there was no new effort to integrate, coordinate and direct Trust Territory Government programs toward a unified objective. The three-fold increase in the budget was generally used for doing about three times as much of the same kinds of things, in the same general ways in which they had been done during the previous decade.

The increased expenditures inevitably resulted in increased incomes to Micronesians and increased money flows and goods throughout most of Micronesia. Public services of every kind, especially health and education, were expanded; more Micronesians were employed by the Government, and more opportunities were provided for the creation and expansion of small trade and service enterprises, based on increased money flows. But it was not until 1965 that serious attention was given to planning and programming for the economic development of Micronesia.

CHAPTER TWO

EVALUATION OF PROBLEMS AND OPPORTUNITIES OF THE INSTITUTIONAL, POLITICAL, AND ECONOMIC BASE

The economic development potential of Micronesia is affected and determined by everything which is Micronesia--the islands and the sea, and all the natural and man-made assets they hold, and all the potentials they possess, and, most importantly, the human resource--the people.

The purpose of this chapter is to undertake a general assessment of the possibilities and limitations for economic development in Micronesia. Much of the emphasis of this chapter is on problems, difficulties, and impediments. This chapter undertakes the kind of diagnosis necessary to the design and implementation of a workable plan built within the realistic framework of existing obstacles. The issues are raised and considered here, but this chapter does not attempt to suggest solutions. The entire remainder of the report is concerned with the necessary additional detailed analyses, and

with the general and the specific decisions and actions needed to overcome the problems and to achieve the maximum potential rate of economic expansion in Micronesia.

ATTITUDES, TRADITIONS AND INSTITUTIONS

In ancient Micronesia, economic, political, and social systems and institutions were designed to provide adequately for the people within the limits of their aspirations and available resources. However, these systems of aristocratic feudalism did not provide a favorable environment for developing the individual freedom, responsibility and productivity necessary to generate the range of economic opportunities and wide ranges of consumer choice desired by the people in the world today--including the Micronesians.

Lingering Effects of Ancient Traditions

In most places in Micronesia the major economic, political and social traditions and institutions from ancient times still live on in modified form. Since the time of the first contacts from outside, these traditions and institutions have been under pressure to change. Yet the extent of the change has been, in many respects, surprisingly slight for most of the people. Only

in the Marianas has there been an almost complete abandonment of many of the early institutions and traditions, and an espousal of more modern social and economic institutions. Everywhere else in Micronesia the change has been one of degree, rather than kind.

Most of the people throughout Micronesia still feel little personal freedom and individual responsibility. They maintain close ties with their families and clans. Most Micronesians continue to hold attitudes of economic fatalism. They feel that someone else has major control over and responsibility for their economic future. There is general acceptance of and reliance on authority from the chiefs and from the foreign administrators. Joint property holding, responsibility and deference to heads of families or chiefs of clans, and in some cases high chiefs, and exchanges of gifts between and among these people and groups, continue in most places. But today, the gifts and the "requests for shares" from family members are likely to be in terms of imported goods, or money. In most parts of Micronesia the wage earner who tries to accumulate some assets is likely to find his savings rapidly dissipated by other members of the family who claim their "rightful share of his good fortune."

Strong class distinctions based on the clan and family continue to exist, and there is often strong feeling against anyone who becomes too important or successful, relative to his class. There are a wide variety of racial mixtures resulting from interbreeding with both Europeans and Orientals. On several islands there are people who are considered outsiders because they, or their ancestors, moved to that island from other islands. These class and racial distinctions restrict individual freedom, limit opportunities and form the basis for discriminatory practices.

These general patterns create serious obstacles to economic development. Many of the newly educated leaders of Micronesia recognize the existence of these impediments and wish to work toward their removal. Yet, they do not wish to destroy the old traditions and institutions until they are reasonably sure that development will occur rapidly enough to replace the old ways without serious political and economic insecurity and instability in the interim. Some of the leaders realize that the recent expansion in mass "American-type" ~~educa~~tion will rapidly erode the ancient traditions and institutions, and they voice concern about the kind of economic and

social system which will replace the one now being rapidly destroyed. They wonder if a new system for providing social, economic and political harmony will emerge rapidly enough to fill the void.

More Recent Influences on Attitudes and Behavior Patterns

Although most of the basic institutions and traditions of ancient Micronesia still live on in modified form in most places, the impact of foreign products, techniques, education, religion, and social, political and economic ideas has been profound. Most Micronesians see foreigners as people who have access to unlimited quantities of goods. They do not know what stroke of good fortune has given the foreigners this great economic power, but they want similar opportunities.

The Micronesians have come to depend on outsiders to provide basic infrastructure (such as harbors, roads, water, sewage, electric power and other facilities) and to provide public services (such as education, medical and health care). In Micronesia, modern public facilities and services, when provided, have almost always been provided by foreigners. Prior to the United States Trusteeship, facilities and services were provided in Micronesia primarily to serve the

economic and military objectives of the foreigners, though local people enjoyed many derived benefits.

Most Micronesians have little awareness of the work and resources required to provide essential public facilities and services. Nor are they aware that such facilities and services demand individual sacrifices, in the form of tax payments and restraints on current consumption. They do not know that even in the most highly developed economies of the world, including the United States, local governmental units are almost always short of funds, and never provide all the public facilities and services that many people want. Many Micronesian leaders seek better facilities and services by looking to the United States Government to provide more money to the Trust Territory Government to be used for this purpose. They could not know that the more than 100,000 local government units in the United States are also trying to get the United States Government to give them more money to provide better facilities and services, and that even the highly developed American economy is not productive enough, nor is the tax base large enough, to grant all of these requests.

All Micronesians either witnessed or have heard about the great power and speed of the United States Armed Forces

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during World War II in occupying the islands, in building airfields, roads, ports and other facilities, and in moving supplies, troops and the machinery of war. These observations convinced them that the Americans could easily do anything they wanted to do. The Micronesians do not know how vast was the task of mobilization and the diversion of resources necessary to concentrate such military and economic power in one place at one time. These wartime observations have led some Micronesians to believe that since no effort approaching this magnitude has been devoted to solving the post-war problems of Micronesia, the Americans must not be very sincerely interested in Micronesia's future.

The delay in supplying goods following the American occupation was interpreted by some Micronesians as an indication of American disinterest. The Micronesians could not have known that shortages and rationing existed almost everywhere in the world, including the United States, during the early post-war period. They did not know about the millions of people on the verge of starvation in war-torn countries, and of the many vital and immediate problems, both at home and abroad, which were demanding the resources and the attention of the United States during this period. In reality,

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when viewed in world-wide perspective, the problems of the Micronesians, who at least had the food and shelter necessary to subsist fairly well, probably did not seem very large to American policymakers.

The major change brought about by foreigners in Micronesia up to the end of World War II was the development of a desire for imported goods, and a dependence on outsiders for public facilities and services, political stability and job opportunities. Foreign contacts also had a profound impact on the ideas, attitudes, and beliefs of Micronesians, especially concerning people and conditions in the outside world. They came to recognize that no nation (Spain, Germany, England, Japan, or the United States) is made up of people who are all good or all bad, all efficient or all inefficient, all honest or all dishonest. They learned this by experience, from the whalers, the traders, the missionaries, the military personnel, the teachers, the administrators, the fishermen, the immigrants, the research scholars and all the others who have visited their islands. Each group of outsiders, each important contact and each significant event has left an impact, not only on the Micronesian view of the outside world, but on their desires, attitudes and behavior patterns,

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and on their assessment of their own rights, privileges and economic possibilities.

The great economic expansion during the last few years of the Japanese Administration left the impression that many kinds of economic enterprises could be started quickly and operated profitably if the Trust Territory Government would only provide the right kinds of help. The vital need and present unavailability in Micronesia of the capital and human resources necessary to such an expansion is not generally recognized, nor is the fact that Japanese expansion was stimulated largely by military needs rather than by economic feasibilities. The Japanese experience makes it difficult for the Micronesians to understand and appreciate the concerted effort which economic expansion in Micronesia will require.

Micronesia, during the past century, has developed a dependence on outsiders for infrastructure and public services and for the organization of economic activity. Many Micronesians in recent years have assumed that the United States Government and the American people enjoy the availability of almost unlimited economic means. Many Micronesians conclude that with little effort the Americans could provide them with good roads and harbors, shipping and airlines, hospitals

and doctors, schools and teachers, jobs and incomes, and a wide variety of profitable economic opportunities. Some of the leaders and the people express the opinion that since their desires and needs for all these facilities, services and opportunities have not been fulfilled, the United States must have had little interest in meeting her responsibilities to Micronesia.

Generally the Micronesians do not have a very accurate picture of the imperfect economic and social conditions which really exist in the outside world. They think that most people have greater opportunities than they really have, that most people live better than they really live, that goods and services are easier to obtain than they really are, and that economic success can be achieved much more quickly and easily than it really can.

EVALUATION OF HISTORY AND PROBLEMS OF UNITED STATES TRUSTEESHIP

The United States Administration of the Trust Territory of the Pacific Islands, from the time of the establishment of the Trusteeship in 1947 until 1962, as analyzed in retrospect, was characterized by two dominant conditions: (1) lack of direction, and (2) lack of money. Since 1962, some programs

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have been greatly expanded, but the recent expansions have generally followed the patterns and practices established during the many lean years of the previous one and one-half decades.

The Trust Territory Government has planned and operated all its programs and activities within a very short time horizon. It has not generally looked very far forward to see and decide where it was going, nor looked backward to assess the impact of what it has done. The major emphasis has been on improving short-run economic conditions for as many Micronesians as possible. Available funds, resources, and personnel have been dispersed so as to do something for as many people as possible. Resources have not been sufficiently concentrated to achieve standards of performance that will really help Micronesians to develop the skills and attitudes required to generate self-sustaining economic growth.

The Trust Territory Government, since 1962, has taken over responsibility for almost all of the functions for which local Micronesian councils and municipal governments had been previously responsible. This assumption of responsibility from the local people has tended to further erode, rather than to strengthen, the economic self-reliance of the Micronesians.

The Trust Territory Government has recently increased its expenditures. Some qualified professionals have been recruited in an effort to provide expanded public services, especially in the fields of health and general education, but the emphasis has continued to be on dispersion of resources in quantity, frequently at the expense of quality. The kinds of education and training necessary to prepare Micronesians for productive lives have not yet begun on a significant scale.

The problems and opportunities of long-run economic development have received little attention. The Trust Territory Government staff has not had the experienced professional talent to plan and implement the kinds of programs and projects which could lead to the significant economic improvement of Micronesia. Past practices of restricting entry (in the name of protecting Micronesian interests) has served to restrict economic expansion by restricting the inflow of the people and capital necessary to support economic development.

The area in Micronesia which has prospered most under United States administration has been that part of the Mariana Islands which was under Navy administration until 1962. Government installations were established and activities were conducted on these islands, not to serve the Micronesians,

but to serve the purposes of the United States. But the Micronesians were clearly better off in the Marianas than in those areas in which fewer outsiders entered, and in which there were fewer sources of employment and income.

The experience of the Marianas under Navy Administration only further supported the earlier lesson of Micronesian history--that the Micronesians enjoyed the most progress when the self-serving interest of someone from outside, either private business or government, led to the establishment of some kind of activity in their area. This, of course, is the same lesson that can be learned from the early history and growth of almost all of the advanced, industrialized nations of the world today, including the United States. Adam Smith, in 1776, in his classic book, An Inquiry into the Nature and Causes of the Wealth of Nations, explained how maximum national wealth results from open doors, free trade, laissez-faire, and competition. Both the last century and the last decade of Micronesian history give strong support to the view that most Micronesians will be best served if the economic policies are designed with an eye to the open-door theories of Adam Smith.

The Trust Territory Government is by far the largest source of Micronesian employment and income. As such, it sets

the conditions of the labor markets of Micronesia. These Government-determined conditions consist generally of relatively low performance standards and relatively high wages. Most of the few Micronesians who could perform important roles in developing private enterprises have been absorbed into Government employment, and they have been frequently over-rated and overpaid relative to wages and productivity in private enterprise in Micronesia or elsewhere in most parts of the world.

In the attempt to provide more employment opportunities to Micronesians, the Trust Territory Government placed some of the most promising young Micronesians in positions for which they were unprepared, where they have had to function without adequate training, supervision, or help. Inefficient and ineffective methods and procedures have been learned and perpetuated. For this and other reasons, government programs in Micronesia have not always operated efficiently or effectively, and have not provided a good training ground to develop highly efficient or productive Micronesian workers.

Many of the American employees of the Trust Territory Government are working diligently on specific programs, and they want very much to see their programs succeed. These

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many dedicated people have faced frustrations from the lack of clearly defined objectives, from working with many untrained and inexperienced employees, and often hopelessly inadequate support services. As a result, feelings of disillusionment, resignation, and bitterness are frequently found among the most capable administrative and professional people in the Trust Territory Government. The few educated, experienced, and capable Micronesian employees of the Trust Territory Government feel similar frustrations, as do some of the political leaders. Sometimes their bitterness, although discreetly concealed from general view, is perhaps even greater than that of the Americans. It is their native land and their people who fail to gain when a program is ill-conceived, poorly implemented, and ineffective. This morale problem among Trust Territory Government employees and Micronesian leaders has been growing and reinforcing itself for many years. Despite the requirements in time and effort this problem must be solved and the underlying causes must be eradicated if any economic development programs are to be implemented effectively.

Until recently the amounts of money provided were insufficient to support any breakthroughs in any areas of

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economic development. There was not enough money to employ the talents necessary to plan for economic development; even if good planning could somehow have been achieved, there would not have been enough money to do much to implement the Plan.

Another major impediment to economic progress has stemmed from the uncertainty as to what kind of economic future would be best for the Micronesians. In fact, only in very recent years has any serious attention been given to economic development as a possible major objective. Even today there is no clearly stated policy as to the weight which should be assigned to economic development as a desirable goal. Generally, the Micronesians have been sheltered and insulated from the economic realities which must be learned by all who are to experience and participate in healthy economic development. Government programs have been aimed more toward increasing their immediate comforts, rather than toward increasing their development potential.

Personnel problems and policies have often been a barrier to progress. Positions have frequently had to be filled, not only by Micronesians, but by Americans as well, on the basis of who happened to be conveniently available and

politically acceptable, rather than on the basis of job qualification. Lack of capability and responsibility among subordinate employees has sapped the time of the leaders and planners so that very little leading or planning has been done and few high standards have been established and maintained.

Failure to recruit highly qualified personnel dates back prior to 1962. During that period, meager financing prohibited significant progress on any Trust Territory program and required the very thin spread of funds. "Local hire" and other money saving practices were adopted in order to perform as many housekeeping functions as possible with the limited funds. In view of the circumstances, it is not the many failures which are surprising, but the many things which have been kept going by the few American and Micronesian employees who have somehow learned "effectively to make do."

Since 1962 the Trust Territory Government has achieved several worthwhile accomplishments. These accomplishments provide considerably improved opportunities for economic development in Micronesia. But the problems and obstacles which have continued to exist and grow pose serious impediments to the realization of this improved potential. The realistic

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pursuit of the economic development objective requires that many problems be solved. The Trust Territory Government will need to provide and maintain clear policy direction, careful planning, strong leadership, and capable instruction and supervision. It must require high standards of performance, personal discipline and reliability, and rigorous adherence to qualification requirements. It must provide expanding opportunities for employment and advancement, and rewards for excellence. Also, it must undertake the careful programming necessary to insure rapid, frequent, and effective management communications throughout its vastly dispersed administration structure, and to insure adequate and responsive support services to all programs and personnel.

Increasingly rigorous adherence to the kinds of standards and requirements suggested here will be necessary to overcome the present morale problems and to insure the effectiveness of all Government programs, including implementation for economic development. Chapter III provides additional recommendations relating to these issues. Specific recommendations for improving the administrative organization and management efficiency of the Trust Territory Government are included in Parts III and IV of this report.

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EVALUATION OF THE ECONOMIC BASIS FOR DEVELOPMENT

The many traditional, institutional, attitudinal, administrative, and political conditions discussed in the previous sections of this chapter will be serious impediments to economic development in Micronesia. These conditions will make it very difficult to motivate the cooperative effort necessary to implement effective development programs. The ability to understand and the willingness to face the reality of the existence and seriousness of these conditions and impediments is the first essential step in realistic economic development planning for the Trust Territory.

Although the general economic basis for development in the Trust Territory reveals many significant economic limitations, it also shows some areas which appear to hold considerable promise for economic expansion. However, economic planning and development expectations, even for the most promising kinds of activities, must be tempered in each instance by an awareness of the many impeding traditions, institutions, attitudes, and other conditions which will continue to characterize Micronesia and most Micronesians at least during the next several years.

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The following sub-sections undertake a general evaluation of the important economic determinants of Micronesia's development potential. First the natural resources, labor force, management, and capital needs are assessed; then the expansion potential associated with several existing kinds of activities, including Government activities, is considered; and finally a brief overview evaluation of the basic foundation is presented. The detailed analyses and specific program recommendations relating to the economic factors for development are included in subsequent parts of this report.

Physical Conditions and Resources

The most striking and pervasive physical characteristic of Micronesia is that of the smallness and wide dispersion of the land area and the great expanses of water which separate these clusters of minute islands. No single economic factor or combination of related factors is as important as this all-important element. The limited land area and the great distances separating the islands have always been and continue to be obstacles to trade and mobility, to investment and development. They impose high costs of supply, production, and marketing for

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almost any kind of enterprise. The difficulties of logistics must be considered in every single activity and every single enterprise.

The land area of the islands does not include many exploitable natural resources. There are some small and not very high grade deposits of phosphates and bauxite in some spots. There are adequate supplies of limestone, rock, and sand to provide building materials. Unless, however, techniques are developed for extracting minerals from the sea, there seems to be little opportunity for economic expansion based on mineral exploitation in Micronesia.

The islands produce little wood that can be used for lumber. The agricultural potential of most of the islands is limited. However, many kinds of tropical vegetation grow well, particularly the coconut palm which provides a major source of food, drinking water, and income through the sale of copra. The few high islands which have fertile lowlands and valleys appear to offer opportunities for increased agricultural production and income, especially meat and vegetable production. Many of the inhabited islands permit the production of several kinds of foodstuffs for home consumption.

The oceans and the lagoons provide sources of fish, shellfish, and marketable shells, but almost all the fishing activity is undertaken for home consumption. Little information or data exist to indicate the location, exploitability, or potential value of large-scale commercial fish resources in the Trust Territory, but it appears likely that this resource base is large enough to provide for considerable expansion in both commercial and sport fishing.

In addition to the natural physical assets and despite World War II destruction many man-made structures and improvements already exist in Micronesia as a potential for economic development. Harbors, port facilities, warehouses and other buildings, utilities, roads, airports, schools, hospitals, trading stores, hotels and a few other public establishments, and several kinds of machinery and equipment, and vehicles are available in the district centers. However, these physical facilities are generally not of high quality or in good condition. Additional infrastructure and fixed capital will be needed to provide for sizeable economic expansion anywhere in Micronesia.

Most of these islands exhibit rich green tropical beauty, warm tropical climate, clear multicolored lagoons,

vistas of pounding surf on coral reef, and palm fronds waving in the trade winds above the sandy beaches along the shore. Here is the physical manifestation of the "south sea islands" as dramatized by many writers over the last century or more and as envisioned in the minds of many Americans, Europeans, and others as the paradise to which one can escape from the pressing problems of the modern world. This beauty and this vision, properly capitalized, could attract large numbers of tourists and prove to be one of the greatest sources of economic expansion in Micronesia over the coming decades.

The physical scarcity of land, aggravated by the traditional restrictions on exchanges and sale of lands, will in some instances impede development. Some parcels of the sizeable public lands in the Trust Territory are suitable and are available for development purposes to partly offset the traditional ownership restrictions, though traditional restrictions will continue to impede some kinds of development.

Fortunately, the most serious physical difficulty, that of the great distances, is now technologically surmountable with adequate air and sea transportation. Even the need for fresh water, which creates problems on some islands, is likely to become surmountable with continued technological improvement of desalination equipment.

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Population and Labor Force

Micronesia is populated by some 90,000 physically and mentally capable people, more than half of whom are less than twenty years of age. Although these people are scattered over some one hundred of the islands, almost half of them are located on the six islands or island clusters which serve as the district centers for the Trust Territory Government.

The number of people in the labor force and available for employment opportunities at any spot in Micronesia is very small. The size of the total labor force is unknown, but it could hardly exceed twenty-five to thirty thousand persons. According to official estimates, there are less than fifty thousand persons between fourteen and sixty-five years of age in the Trust Territory. In this age range the population is evenly split between males and females.

Unemployment is not serious in the sense that there is a large pool of workers who want and are actively seeking employment. However, underemployment is prevalent. The number who would be available for new jobs is limited partly because of the limitation in the numbers of people on the individual islands, partly because such a large percentage of the residents

are too young to enter the labor force, partly because many of the adults would rather follow their traditional practices of food gathering and fishing instead of being employed an eight-hour day doing new kinds of things, and partly because many who speak some English and have some education or work experience are already on the payroll of the Trust Territory Government.

Aside from the problem of limited numbers of people and their availability for regular jobs, labor force conditions in Micronesia exhibit several other characteristics which impede economic development. Traditional work habits are influenced by the climate, the relative ease of food gathering, and traditions of producing only for today's needs. The work habits of traditional Micronesia do not serve well the needs of modern economic enterprises. Increasing numbers of the people are learning and adopting the workways of the modern world. Many Micronesians attach varying degrees of prestige to different kinds of work; white collar government employment is generally most desired.

Few private enterprises could hope to produce profitably if the standards of their employees approximated the standards of the average Micronesian employee on the Government payroll

today. The Government has set the standards in the labor market. Wages are generally considerably higher, and standards of employment and job performance generally lower than those existing in the private enterprise sectors of the local island economies or in economies elsewhere with which Micronesia might have to compete. Although some Micronesian employees of Trust Territory Government are excellent workers, few have been taught or have learned precise standards, to keep accurate records, to follow necessary maintenance procedures for buildings, machinery, and equipment, and in general, to do things efficiently and productively. Labor market conditions generally are such that substantial economic expansion based solely on the employment of Micronesian labor is virtually impossible.

The small numbers, the low levels of training, and the labor market standards in Micronesia combine to require that almost any kind of sizeable economic expansion in Micronesia must depend largely on imported labor, at least during the first few years of construction and even of operation while a domestic labor force is being gathered, oriented, and trained. The immediate creation of enterprises using imported labor, looking to the time when more young Micronesians will be entering the labor market, will speed the development of future employment opportuniti

Management and Capital

The greatest single impediment to the establishment and healthy functioning of new economic enterprises, and the expansion of the few which already exist, is the lack of capable management and adequate capital.

Micronesia has very few capable private business entrepreneurs and managers. The few who have developed good business management abilities are generally doing very well. There are no programs designed to take significant action to develop more Micronesian business managers. The general economic atmosphere in Micronesia is not designed to develop private business managers. Most of the activity in the Trust Territory is Government activity, which generally is not conducted according to the tight business-like principles, standards, and procedures essential to the success of private enterprises.

There are a few limited sources of capital now available in the Trust Territory. These include business savings of the few successful enterprises, a few small facilities of the Bank of Hawaii and the Bank of America, a few small credit unions, and the Economic Development Loan Fund of the Trust Territory Government with assets of about three-quarters of a million

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dollars. Loanable funds are not being fully used because of the unwillingness to lend to enterprises which do not appear to possess capable management. Also, the Trust Territory Economic Development Loan Fund has no staff to solicit, to review, to investigate, or to help to prepare proper applications for loans, nor does it have staff for follow-up supervision and assistance to the borrowers.

Programs will be required to increase the supply of capital and management among Micronesians. But this alone will not be sufficient. Unless much more capital and more capable and experienced management are introduced in Trust Territory from outside, many otherwise feasible economic development opportunities will have to be foregone, and Micronesian economic development will be seriously retarded during the next decade or two.

Existing Economic Organizations and Activities

Micronesian development can be facilitated by building onto the many activities which are already going on in Micronesia and in which some Micronesians have experience and ability.

Copra production and trade has been going on in Micronesia for more than a century, and many Micronesians understand well the gathering, processing, grading, handling, and trading of copra. Not only the abilities and experiences of the people, but also the fact that copra exists in Micronesia as a processable material with increased production potential provides substantial economic development opportunities.

Micronesians have traditionally undertaken agricultural production for subsistence purposes. During Japanese times and again more recently, many have marketed a part of their produce in local villages. Their agricultural experiences provide potential opportunities for expansion, improved techniques, and improved varieties, with some possibilities for enlarged local and export markets.

Fishing has been a traditional food producing activity in Micronesia. The inshore reef and lagoon fish which have been traditionally caught for subsistence consumption are not the kinds generally valued for processing and export. During Japanese times sizeable commercial fishing operations existed in several locations in Micronesia. Today one modern commercial fish catching and freezing operation is conducted by Van Camp

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in Palau. The present existence of a modern fishing operation, together with the likely large and unexploited fish resource, offers an important economic expansion base in Micronesia.

Many Micronesians continue to operate as craftsmen in carpentry and handicrafts. A few have developed skills in repairing electrical, plumbing, automotive, and other kinds of machinery and equipment. Most of these small service businesses are operated rather haphazardly, but they provide employment, incomes, needed services, and potential opportunities for further expansion.

A few Micronesians have been involved in wholesale and retail trade for many years. Today, there are a few large cooperatives and corporations involved in trading in some of the districts. Several hundred small retail stores exist throughout the towns and villages of Micronesia. Generally, they do not follow business practices of keeping records, inventory control, and regular hours of operation. But they do provide the opportunity for some embryonic management development and small business expansions. A few of the larger trading operations have provided excellent opportunities for a few Micronesians to learn modern business principles and practices.

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Although private enterprise activity in Micronesia today is limited, it does provide a basis for further growth. These few enterprises and their owner-managers provide a nucleus around which further expansions in indigenous enterprises can be stimulated and developed.

Government as Income Producer and Resource User

The entire economy of Micronesia is dominated by the activities of the Trust Territory Government. About 90 percent of the total money income received by Micronesians is derived either directly or indirectly from Government spending. Almost one-half of the Micronesians who are employed for money wages are on the Trust Territory Government payroll. In addition to Trust Territory Government employment, several hundred Micronesians are employed by the United States Government at the Kwajalein Island military installation. Almost all of the remaining money income is derived from the sale of scrap metals and copra, plus a small amount from other agricultural and fisheries exports, and handicraft sales, and from trade and service activities.

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Trade and service activities in Micronesia depend largely on the re-spending effect of monies injected into the economy by government expenditures. The fact that the Trust Territory Government will continue to spend large sums in Micronesia provides a base for further expansion of importing, wholesaling, retailing, and service activities. But at the same time, the Government provides a serious economic development impediment by employing most of the capable members of the labor force while restricting the entry of capable workers from outside.

The United States Congress is now considering a proposal to expand significantly the expenditures of the Trust Territory Government over the next several years. Increased expenditures will produce additional money flows, will require bringing in additional people, will create new demands, and will provide financial support for expansions in several kinds of trade and service businesses. Several hundred Peace Corps volunteers slated to be dispersed throughout Micronesia during the coming months will add further to these money flows and will increase the demands for both imported and local products.

The increased money flows will provide a strong additional base for many kinds of economic development. The increased use of local resources under Government programs, particularly local labor, but also other supplies and services, will make it increasingly difficult for local businesses to retain their labor and to ship their goods and equipment in competition with the high wage and high priority Government demands.

If shortages of local goods and services, the draining off of labor from private businesses, and serious project delays are to be prevented, additional sea and air logistic services will need to be planned and implemented immediately. Almost all the skilled and much of the unskilled labor required for the Government programs will need to be imported. Unless these conditions are planned for and met, shortages will impede the progress of the programs, local inflation will likely occur, and private businesses in Micronesia may be almost completely choked out of existence.

Expanded governmental activities and expenditures in Micronesia promise to provide a significant increase in the expansion potential, aside from the direct advantages of the projected and expanded programs and facilities. However, unless

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careful and realistic planning regarding resource mobilization is undertaken beforehand, the impact of the increased activity can hurt rather than help the economy of Micronesia. The total impact could be to create conditions of complete and irreparable economic dependency. The mixed consequences of public spending is one of the important issues dealt with in this report in relation to policies and programs essential for Micronesia's development.

The Peace Corps volunteers can considerably increase the development potential of the area by helping the Micronesians to understand many of the economic facts of the modern world, by helping them to learn to do things which will better enable them to participate in income producing activities, and in many other ways. These volunteers must understand the economic circumstances and the realistic economic alternatives of the Micronesian peoples, lest they exert influences toward unattainable goals.

Evaluation of the Basic Foundation for Development

Any development of economic enterprise must be based on the availability of the factors essential to profitable product

Yet, the number of experienced and competent workers is increasing, and there are many who can be taught, who can benefit from the right kinds of work experience, and who can become efficient and productive workers.

Recommendations are presented in subsequent parts of this report for specific programs for labor force and local market development. Development based entirely on either local consumer markets or the local labor force will necessarily be very slow.

Any significant expansion of market-based activities in Micronesia will need to be oriented to markets outside but within manageable distances from Micronesia. Guam offers opportunities for the sale of vegetables, meat, fish, and some other products. Japanese and other markets in the Far East need to be exploited, and some specialized products should be marketable on competitive terms even in more distant locations, including the United States. Success in entering these markets will not only depend on how resources are used but also on all the costs of the various inputs and particularly on wage rates in relation to productivity.

Perhaps the most promising natural resource of Micronesia is the appeal of the area as an attraction to tourists. Although the full potential of the tourist industry over the next two decades is impossible to forecast, it is clear that tourism

development holds real promise for Micronesia. In many places in the world the numbers of tourists and the funds spent by tourists are increasing at a phenomenal rate. The higher the standard of living in the developed countries, the greater the proportion of expenditures that are made for recreation and travel. The more adventuresome tourists are constantly looking for new and exotic places to visit.

The public and private capital to support the potential developments will need to be assembled. The need for hotel, restaurant, beach, entertainment and other facilities for tourism is quite apparent. Less obvious are the requirements for refrigeration, processing facilities, research, marketing efforts and the like for a livestock and poultry industry or fisheries or fresh vegetable production. The windfall of some facilities in Micronesia left from World War II can be regarded as a valuable asset. But for specific development programs, far more facilities and services will be needed to supply the external economies essential for efficient and competitive growth in production.

Although there are many serious impediments, development opportunities do exist in Micronesia. The progressive elimination

of some of the existing impediments will improve the development base and create more development opportunities. The rate of development will be largely dependent upon the extent to which the Trust Territory and Micronesian Governments undertake to eliminate the impediments and to stimulate, facilitate, and in some instances finance, the expansion of enterprises in each of the promising economic sectors. Program recommendations for inducing the maximum feasible expansion in each of the most promising economic sectors are included in Part II of this report.

CHAPTER THREE

DEVELOPMENT STRATEGY, OBJECTIVES, AND POLICIES

The preceding chapter has indicated that the economy of Micronesia cannot be developed rapidly and soundly without much careful planning and wise use of substantial resources. The many impediments that will need to be overcome have been discussed. The needed thorough study and careful planning must take into consideration the objectives sought, the delicate balances that prevail, the alternatives that can be chosen, and the effective mobilization of human, material and financial resources needed for achieving the agreed upon objectives.

An economic development plan can have meaning only if it includes a policy framework which is consistent with objectives set forth explicitly in the plan. Before specific policies, actions and institutions necessary to implement a development plan can be formulated, policymakers must take cognizance of and provide the answers to many very difficult questions. The most important and perhaps most difficult question concerning Micronesia is: "What basic economic objective is to be pursued?" Once this ultimate objective is clearly determined, then particular goals can be set

forth and the policies required to move toward this objective can be established. Then the programs and actions required for the implementation of these policies can be designed.

This chapter proposes general objectives and a compatible set of policy and implementation recommendations. Subsequent parts of the report present detailed information, analyses, and program recommendations. If the general objectives and policies recommended in this chapter are modified by various legislative and executive authorities, it will be necessary also to modify the specific prescriptions presented in subsequent parts of this Plan.

Generally, economic growth is the only path open to national viability and higher standards of living. It is generally taken for granted that the developing countries want to reach the stage as soon as possible when they can enjoy self-sustaining growth at a rapid rate. Economic development is commonly looked upon as a means for achieving both economic independence and better living conditions. Unlike most other developing areas, the Trust Territory may be considered a special case in which a differing set of alternatives exists.

Because of the relatively great resources of the United States and the relatively small number of people in Micronesia, the United States could furnish the funds to raise the standard of living for the people of Micronesia to any level chosen and maintain such a level for the foreseeable future without a viable and internally strong economy. If the United States Congress appropriated an amount equal to \$1,500 per man, woman, and child in Micronesia the total cost would be less than one-fiftieth of one percent of the gross national product of the United States and less than one-tenth of one percent of total governmental spending. This matter of the burden on the United States is not the real issue.

The basic decision which must be made is whether movement toward economic viability and self-reliance is to be the chosen objective and the guiding criterion for the determination of United States policies and programs for the Trust Territory or whether the infrastructure and employment pattern and much higher standards of living will all be geared to perpetual large-scale United States support. The United States, in its role of trustee for Micronesia, could follow the difficult policies and programs which will be required to maximize the rate of economic development in Micronesia and which in the longer run will be less costly, or the United

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States could provide supporting financial and material means to make the area into an impressive show place--a monument to American largess.

Although the alternatives are not as polarized as indicated above, it needs to be made very clear at the outset that the people and the economy of Micronesia can easily become almost totally dependent on government jobs, directly and indirectly. In fact, it will require clear goals, determined efforts and wise policies to harmonize rapid improvement in living standards on the one hand with perceptible progress toward viability and economic independence on the other hand.

Even if the United States decided not to supply Micronesia with so much income, so many jobs and such amounts of technical assistance as to make it into a "show case" of magnanimous trusteeship, the very process of rapid construction of many kinds of public service facilities could serve to preclude the development of economic enterprises making use of indigenous resources and capable of survival without perpetual external financial and technical support. Such enterprises are essential to effective progress toward viability. Large-scale and widespread construction of schools and hospitals, roads and airports, harbors and teachers' housing plus

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on-going public programs could create such a high demand for labor and at such attractive wages as to remove all incentive to engage in agriculture, fishing and most other private endeavors. The continuing manpower demands for operations and maintenance of public programs and public facilities must be related not only to total manpower resources but also to other labor demands lest development in the private sector be stifled.

The basic choice between moving toward viability or toward perpetual dependency is one which must be made by the United States. It cannot be made by the Micronesians, though they can and will influence policies. The past centuries of conditions, institutions, and events in Micronesia have developed a conditioning which will ensure that if the United States offers the alternative of high standards of living and much higher levels of public services through direct governmental actions, the Micronesians are not likely to refuse perpetual dependency. A few of the more astute Micronesian leaders might foresee and object to the loss of self-respect and human dignity which will attend such dependency. But their voices are likely to be lost as their friends, relatives, and constituents seek to participate in a rising tide of U.S. dollars and in an increasing quantity, quality, and variety of free services.

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The more difficult path to follow is the one toward economic viability. This choice will require hard work, the assumption of responsibility, the increase in productivity, the growth of self-reliance, and, to the degree necessary, the habit of self-denial among the people. It will require carefully designed steps aimed toward the long-run objective. It will require that many things which might be wanted and may be needed in the present and the immediate future will need to be postponed. It will require a high degree of ability, good management and resolute determination by the top level administrators and technical staffs of the Trust Territory Government. It will require the United States Government to establish policies which will assist in the economic development of Micronesia at the most rapid pace consistent with orderly social, economic, and political change.

There are many reasons why there will be resistance to pursuing the goal of economic development as the guiding principle. In the first place, most people recognize that complete economic viability in Micronesia with western standards of living is not likely to be achieved within the foreseeable future. Secondly, during most of the past two decades there has been little evidence of any real progress in economic development in the Trust Territory.

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Some people conclude, therefore, that significant progress on the economic front is impossible. They may contend that even talk of ultimate viability is an excuse for limiting the amount of funds provided by the United States. Yet, many of the growing accomplishments during the period of United States trusteeship have improved the base on which the private economy can now be expanded. Some policies and practices have created conditions which will serve as impediments to development but the prospects are by no means bleak. The analyses undertaken in preparing this report have led to the general conclusion that progress toward economic viability in Micronesia is a realistic and attainable objective. This conclusion must be accepted by the policymakers and administrators, if a "kept society" is to be avoided.

The available resources and potentials of Micronesia warrant the setting of goals of increased total and per capita output that should at least parallel the growth rates of many of the developing countries. The progress which can be achieved in the next few years will lay the foundation for further progress in the coming decades. This progressive expansion of economic activity can bring rising living standards and greater opportunities to the people of Micronesia and progressively diminish dependence of Micronesia on

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grants from the United States or other nations or international institutions.

This economic development plan is built on the assumption that the feasible objective for Micronesia is that of maximum progress toward economic viability, consistent with orderly and desirable social, economic, and political change. The policies recommended in this chapter, and the specific analyses and recommendations in the subsequent parts of this report assume that the United States Government, the Trust Territory Government, and the Micronesian leadership want economic development, expanding economic opportunities and increasing productivity in Micronesia, and that they are ready to exert the vigorous, concerted and continuous effort necessary to achieve these goals.

The evolutionary process from a largely government-supported and government-operated economic system to the significant expansion of privately financed and managed activity cannot come about on its own. Self-help must, of course, be an important ingredient of success but much external assistance will continue to be essential. The goal requires a considerable increase in carefully designed and closely focused government activity to provide the impetus to overcome the inertia and lack of economic progress in the past.

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Thus, the key to success will lie neither in total reliance on government support and public services nor total reliance on private activity but rather on that combination of the two sectors which will stimulate and sustain economic growth and will move more and more toward economic independence.

Within the context of this sound development objective and with careful programming and vigorous implementation, it will be possible during the next several years in Micronesia to achieve the following goals:

1. A sound environment for private investment and private economic expansion;
2. Considerably increased jobs and profits that in turn will enlarge the demand for and output of local goods and services;
3. Enlarged infrastructure facilities and services;
4. Expanded service enterprises operating in private hands with only initial government assistance;
5. Enhanced talents and skills for the people of Micronesia so that they can contribute not only to their economic improvement but also to their political and social stability and progress;
6. Effective exploration and exploitation of the land and sea and climate of the islands;

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7. Enlarged services and activities of the Micronesian governmental units;

8. Further strengthening of the Congress of Micronesia and the district and local legislatures for guiding and for supporting the directions and activities of their public services-- including education, public health, welfare, public works, and others; and

9. Marked progress toward a Micronesia populated by strong, capable, productive, responsible and self-reliant people who are developing their abilities and exercising their right to the expanded economic freedoms and opportunities which they will be able to enjoy.

These possible achievements lie in the future. How far in the future depends on how much is done, how well, and how rapidly. The policy and program recommendations throughout the remainder of this chapter are aimed toward achieving maximum economic progress. All these policies and programs must be clearly established and must be effectively and consistently implemented if Micronesia is to experience significant movement in the direction of economic independence over the coming years. The efforts and discipline required to carry out these policies and programs are the "price" of economic development in Micronesia.

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United States Policy to Support and Facilitate Development

The United States Government must establish and maintain economic relationships with the Trust Territory which seek to maximize the rate of economic expansion in Micronesia. This purpose should exert a major influence on the amounts of money made available, the pace of spending, the specific ways in which the money is spent and the kinds and levels of skills and abilities of the personnel assigned to work for the economic development of Micronesia. It also calls for a revision in policies dealing with such matters as tariffs, trade, entry and exit and concentration of population.

Micronesian development does not require the immediate flooding of the area with American dollars and people. Nor does it call for the immediate and indiscriminate elimination of all present United States regulations relating to Micronesia. What it does call for is the careful reconsideration of each existing policy, procedure, objective and program in the light of economic development needs. Finally, it calls for the United States to provide the necessary support and the favorable environment to enable the Trust Territory Government and the Micronesian people to do the many difficult things that must be done to stimulate and foster economic development.

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Improving the Political Base

The United States, the Trust Territory Government and the Micronesian governments should pursue with maximum practicable speed the policies and procedures designed to establish a clearly defined and continuing political status for Micronesia. In the meanwhile, of course, Micronesia should enjoy the maximum economic development advantages derived from its present relationship with the United States.

Uncertainties regarding the ultimate political status of the Trust Territory will deter development. The future attitudes of the Congress of Micronesia toward development policies, the role of public participation, the anticipated taxation and regulatory measures, the trade and tariff arrangements, immigration, foreign investment, and other basic relationships will need to be clarified and firmly grounded if the proper environment for development is to be created and maintained. Uncertainty can be and often is one of the most serious of all deterrents to economic development. Political uncertainty makes it impossible to assure economic certainties.

Political traditions in Micronesia are in the process of rapid change. Political attitudes and institutions range from modern democracy, understood and espoused by very few at one end

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of the scale, to the traditional attitudes of aristocratic feudalism, characteristic of many people at the other end. The attitudes of most of the people lie between these two extremes, but they appear to be closer to the old political traditions than to the new. Under the impact of mass education and other modern influences, the controls of the traditional chiefs are becoming less effective. However, new leaders have not yet gained sufficient allegiance to guarantee the maintenance of orderly social change. No new stabilizing political forces yet prevail.

New democratic political institutions have not yet been sufficiently developed to make it possible to forecast the attitudes the elected representatives will reveal or the kinds of legislative policies they will institute. The new legislators have generally had little education or experience in matters of taxation; establishing tariffs; regulating trade; setting policies regarding labor standards and the importation of labor, capital, and management; government support and maintenance of infrastructure, transportation services, utilities, communications; and other functions essential to the efficient and successful operation of an expanding economy.

Development requires positive policy determinations in all these areas. The prospect of changes in political status inevitably precludes the needed degree of confidence that today's decisions will not be reversed tomorrow.

Some kind of permanent political status needs to be established as rapidly as is feasible. Trusteeship is certainly a transient status. No matter how generous or dedicated the trustee might be, sooner rather than later the disadvantages of uncertainty will outweigh the resources provided by the trustee. Therefore, whatever the future status of Micronesia will be, it should be decided at an early date.

In the meantime, the Trust Territory Administration should provide professional guidance and assistance so that the new leaders of Micronesia can speedily and increasingly deal responsibly with the more complex problems now being faced by them. Technical assistance should be of the very highest calibre on matters of basic economic policies so that the legislators can deal increasingly with choices of economic alternatives for development, the key issues of budgeting and taxation and the whole field of administering and implementing development policies and programs. This is a minimum requirement expected of responsible trusteeship. It is certainly an essential prerequisite for creating the proper political framework for economic development.

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The economic development objective will be best served by providing to Micronesia the opportunity to benefit from its relationship with the United States, but carefully avoiding those short-term advantages which could result in perpetual economic dependence for Micronesia. Trust Territory policies and practices have already raised wages and educational standards in Micronesia substantially above those in countries of comparable stages of development and productivity. Voices have been raised urging that incomes and public services be expanded fairly rapidly toward United States standards. But the people and the economy of Micronesia are not the same as the people and economy of the United States. There is no ready access to American markets, capital, experienced management, and skilled labor. There is not the level of productivity to support much higher incomes and still compete in international markets. Trusteeship offers neither the full benefits of being part of the United States nor the best opportunities for significant progress toward economic independence. The present "half way" status is not conducive to getting the maximum benefits from old economic ties with Japan and other parts of Asia, nor does it provide the full advantages of being aligned with the United States.

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Eliminating economic barriers between Micronesia and the United States would facilitate the movement of capital, labor and management necessary for development. It would allow Micronesian products to enter United States markets on equal terms with the goods from Guam and Samoa. It might give a direct impetus to the development of a tourist industry.

Obviously, uncertainty over political status cannot be solved quickly. But the sooner the determination of permanent status can be accomplished, the better it will be from the point of view of economic development.

The Mobility and Concentration of Population

The Trust Territory Government and the Micronesian governments should establish and follow a policy of carefully planned inducements designed to speed the concentration of population on a relatively few of the major islands.

The success with which this policy can be established and implemented will be a major determinant of the speed with which economic development in the Trust Territory can be achieved. Many benefits can be expected to accrue from the greater concentration of population. Considerably better governmental services can be provided for given amounts of money. Better

schools, hospitals, water supply, electricity, and transportation and communication service will be enjoyed by more of the people. Even the development of sound political institutions and the modification of those traditions which impede economic development can proceed much more rapidly in the areas where populations are concentrated than where the people are far distant from each other and remain in small uneconomic and isolated clusters.

The most important positive economic development benefits of larger and fewer population centers, aside from the reduced logistic costs and better logistic service, will be the increased numbers and depth in the labor force, the expansion of local markets, especially markets for locally produced goods and services, and the improvements in infrastructure. Markets for agricultural products and fish and for various kinds of processed products can be developed sufficiently to support new employment and income opportunities in the production, processing, transporting, and sale of these goods. Many of these markets will be quite small in scale but they will facilitate the innovation of monetary marketing for subsistence and barter arrangements. They will provide greater investment opportunities and will make feasible the establishment and expansion of several kinds of business enterprises.

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The more that people move into the population centers, the greater will be the number and variety of economic opportunities, not only for those who move into the centers, but for those already there. Greater varieties of goods and services can be economically provided in the centers, and many kinds of activities, such as private construction and repair services, entertainment, business and social organizations, and others, can become feasible. Population concentration will thus offer Micronesians greater access to and higher standards of both public and private goods and services at considerably lower cost.

The resolute implementation of this policy, handled with sensitivity, will constitute a major step toward economic development and viability of the Trust Territory. All planning for infrastructure, services, and economic development projects and programs should be undertaken within the framework of this major policy. During the next few years, only at or near the six district centers and perhaps in two or three other locations should the Government attempt to provide the full range of facilities and services needed to support economic development. The highest standard of public facilities and services should be concentrated at two or three locations. This arrangement with present and improving transportation would best serve most of the people of the Territory.

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The provision of only minimal public services should be extended to the outer islands. Even the most expansive humanitarian considerations do not call for elaborate public facilities and services on remote islands where less than a hundred people live. Those who insist on remaining on these remote and small islands should be given access to some essential services but of very limited scale. In fact, the differences in scope and quality of public services may ultimately be one of the most important inducements for movement to population centers.

In addition to the policy of stimulating the movement of people to the few major islands with the most abundant resources, the Trust Territory Administration and Micronesian legislatures and counsels should clear the way for free mobility of people between and among these major population centers throughout the Trust Territory. Both the explicit and the subtle barriers and constraints which impede the movement of people from one district to another and from one location to another within a district must be removed as rapidly and as completely as is reasonably possible. As individual rights, personal equality, freedom and responsibility, private real and personal property, self-reliance and productivity and other elements of economic viability and political democracy spread in Micronesia, and

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as ancient customs and traditions disappear, many of the extra-legal restrictions to individual mobility within the Trust Territory will disappear. But clearly stated policies and continuous positive efforts will be needed to speed the elimination of these restrictions.

The economic development advantages of being able to pull together a labor force from throughout Micronesia, and of facilitating the flow of people from labor surplus to labor shortage areas will be beneficial to the ultimate objective of economic development. It will also be of benefit to the people--both those who move, and those who stay at home. This kind of mobility can facilitate the creation of a Micronesian entity to replace the present somewhat artificial association of a dozen or so somewhat similar but nevertheless distinctly different cultural, political, and economic entities. Increased mobility can speed the replacement of local particularism with a cohesive Micronesia.

Importing Capital, Management and Labor

An explicit policy needs to be established not only for allowing but also for stimulating the inflow of capital, management and labor necessary for the economic development of Micronesia. Little economic development can occur in Micronesia

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at any time in the foreseeable future without the importation of significant amounts of capital, management and labor. Greater production, on which higher incomes and higher consumption will ultimately depend, requires the inflow of these ingredients for expansion because they do not exist in sufficient quantities or qualities locally. Even if the natural resource base of Micronesia were abundant, economic development would proceed slowly without the capital and the entrepreneurial and managerial experience and the skilled workers to invest and to produce and market goods and services efficiently.

Although these external resources are essential for development, even those who are the most ardent advocates of economic development may have misgivings about bringing in outside investors and managers and workers. Capital for investment will be more welcome than the investors. Good management will be far more desired than good managers. The need for skills will be admitted but the import of workers will be frowned upon by many. It will be the old story of seeking benefits but not facing up to the inevitable costs and problems associated with the desired benefits.

It is to be expected that some Micronesians will oppose a policy which will tend to increase competition. The explicit or implicit policies tending to restrict Micronesian development

to Micronesians are giving a few Micronesian businessmen a monopolistic status and allowing them to operate without high regard for efficiency, to charge high prices, and to slow the pace of development. Also, an inadequate supply of labor competition provides a protective umbrella whereby the inefficient and unskilled are given jobs for which they are not suited. The introduction of outside resources will create competition among suppliers and producers, stimulate efficiency, provide a greater variety of goods and services, and protect consumers from unreasonable monopoly prices. Any policy that reserves economic opportunity exclusively for Micronesians will result, in effect, in giving to a few Micronesians the discriminatory opportunity to exploit the many.

The introduction of new businesses, financed and managed and manned in large part by outsiders will, over time, greatly benefit Micronesian businessmen and workers. As economic expansion proceeds, the increased tempo of activities and increased earnings and spending will improve the economic health of Micronesia and will increase the profit possibilities both of existing and of new Micronesian owned and operated businesses. Rapid expansion, with the essential external participation, will certainly bring more prosperity to more Micronesian businesses than the very slow

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growth that would be associated with restrictions on the inflow of investment and investors.

The long-run effect of outside investment will be to speed and complement greatly the development of skills and work habits of Micronesians. The increasing awareness among employees of competition for manpower and the importance of rising productivity will bring improved training of Micronesian workers, which is a highly essential step in the development of Micronesia. More Micronesians, workers and managers, will learn the principles of efficiency and discipline essential for greater productivity. They will learn to be less concerned about prestige, kinship and other discriminatory considerations as criteria for employment and promotions. Individuals will be given opportunities to learn to compete with other individuals for all jobs--labor, supervisory, and management--on an equal basis. As the principles essential to economic progress in business are illustrated to and learned by more and more Micronesians, all of Micronesia will share in the benefits.

The policy of bringing in needed resources should not preclude nor dampen the vigorous efforts needed to stimulate the creation and expansion of indigenous enterprises and the training

and productive employment of indigenous workers. Incentives and assistance to local business should be provided and vocational training programs should be established. But the programs must be programs of positive assistance to those willing and able to work and to compete. They must not be programs to shelter monopoly and thereby stifle growth, foster inefficiency, stimulate high prices, and permit the exploitation of many of the people.

The major issues should therefore be concerned not with the basic question of opening Micronesia to external resources, but rather how best to attract capital and know-how from abroad and under what kind of a time schedule. Clearly, the less the restrictions the greater will be the pace of development, provided reasonable conservation practices are pursued and local investors and workers are assured opportunities to share in the benefits of accelerated development.

Wage Rate Policies for Government Employees

Sound economic development progress in Micronesia requires a clearly articulated and consistently pursued policy for establishing wages for Micronesian employees of the Trust Territory Government

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which bear a close relationship to the productivity and wage patterns existing in the private sectors of the Micronesian economy.

Rising real wages and rising living standards are highly desirable and are common objectives among all peoples. But living standards must always derive from productivity--from what is produced. During any short-run period, living standards can be supplemented by grants and loans and direct investments from external sources, but such dependence on external assistance is not a satisfactory long-range solution.

Labor costs are a large element in total production costs. If domestic wage rates are high relative to productivity, production costs will be high and domestic goods cannot compete with foreign goods, either in domestic markets or in world markets. If foreign imports are restricted to protect high cost domestic producers, domestic prices will be high. The resulting higher prices will reduce consumption and thus the volume of production that can find a market. Fewer workers can be employed, and even though they receive high wages the advantages of this will be offset by the high prices they must pay for the goods they buy.

Shortages of labor in the private sector will develop as government spending and employment increase. The total needs for labor can only be met by bringing in workers from outside.

It is not only the matter of wage rates per se which is important, but also the level of productivity. Wages can be higher in a competitive environment only if productivity rises. If quality and performance standards for government employees are not raised this will contribute toward high costs per unit of work performed. Such a situation in government will have a spillover effect in the private sector which will increase the labor component of production costs.

Micronesians naturally look at conditions in the United States, or in Guam where the economy is largely government-oriented, and conclude that they too should receive much higher wage rates. They figure that if the United States Government favors high wages for its citizens and residents then why not for Micronesians? This is understandable. But it is an attitude which ignores economic reality. Statesmanlike leadership will need to prevail in order to establish wage rate objectives which will best serve the long-term interests of the people of Micronesia.

The problem of wage levels is brought into sharp focus by the challenge posed by the wage and salary differentials between American and Micronesian employees of the Trust Territory Government. At present there are different base pay scales and the Americans also receive a differential for working outside the United States. The purpose is to induce qualified people to take these assignments. This still leaves the question as to why Micronesians should not be paid the same as Americans for similar work when they serve in the same location and under what may appear to be the same circumstances.

As long as it is necessary to employ Americans for certain jobs in order to have effective performance of government and related functions it will be necessary and economical to have wage and salary scales which are as attractive as the alternatives available to Americans. As rapidly as Micronesians become qualified to perform specific jobs with a high standard of competence and efficiency they should have the opportunity to do so. It is important, however, to maintain a consistent relationship between government pay scales and those which prevail in private business. The latter are of necessity related to productivity and largely determine the pattern of living standards. To pay government

employees substantially more and thus to enable them to live far better than workers outside government will certainly attract the most capable to public service, but it will also greatly retard the development of the private economy. Skills and talent are needed both inside and outside government and, therefore, earning opportunities should be comparable. In short, it is far more logical to equate Micronesian salary scales in and out of government than it is to equate the scales of those who spend most of their lives and most of their incomes in Micronesia with those whose incomes must reflect productivity and wage rates in the United States. It is only through an upgrading of skills and productivity in the Micronesian economy that earnings and living standards can be raised in a manner compatible with movement toward economic viability, and in a manner which preserves the self-reliance and dignity of the people and maintains the mutual esteem of government and non-government workers.

Developing Responsibility and Self-Reliance Among Micronesians

A policy for developing the self-reliance of Micronesians as individuals and the strength of Micronesian governmental units as responsible political organizations, needs to be pursued firmly and implemented universally. This policy relates to what is often referred to as "muscle building".

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All programs should be designed so as to develop not only latent talents, abilities and practical experience but also the demanding discipline and responsibility essential for development. For instance, taxes must be increased as incomes rise. The people should become accustomed to bearing more and more of the burden for public services. All taxes levied should be collected because respect for authority is undermined when tax evasion is condoned. Government contract work should be contracted only on a competitive basis. Jobs should be offered only on a merit basis. Unreasoned preference for jobs and for investment opportunities should not be given to Micronesians. High standards of performance should be required in the schools and on the job. Scholarships should be granted on merit alone. Laws relating to protection of persons and property, to financial responsibility, and all other laws uniformly and universally should be enforced.

Administrative responsibilities should be assigned to Micronesians only slightly ahead of proven performance, but never at the risk of serious failure. Micronesians should be encouraged and assisted in assuming leadership and in accepting responsibility. Government employees and administrators, Americans as well as

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Micronesians, should be required to perform effectively. Micronesians should be given every possible assistance in obtaining necessary education and training and experience, both formally and on-the-job, but they should be called upon to perform on a competitive basis.

For Micronesians, who for the past century or more, frequently have been thought of and treated as "the children of paradise", sometimes mistreated, sometimes indulged, but never completely held responsible as individuals for their own conditions and fate, the road to self-reliance will be particularly difficult. A limited number of businessmen and political leaders in Micronesia have developed as much discipline and responsibility as could be found anywhere in the world. But most of the adults have hardly begun to develop in this direction.

The Micronesians must be allowed to learn the system of rewards and punishments on which every modern economy is based. They must understand the relationships between freedom and responsibility just as they must recognize and support the relationship between productivity and wages. This is part of the overall development process which is necessary in all underdeveloped areas. A clear policy for speeding this process should be established. Benevolent outsiders who may seek to help on non-economic grounds may well impede this growth process by undermining the needed discipline. The fact is that development is demanding and the benefits cannot be enjoyed without paying the costs.

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The many traditional institutional conditions which inhibit individual initiative in Micronesia and impede exploitation of resources, will need to be modified or eliminated as rapidly as is consistent with orderly social and economic change. Further strengthening of the institution of private property, expanding the scope of individual freedom and encouraging private decision-making will be necessary to facilitate the expansion of business enterprises. Land, personal property, and money savings will need to become more the property and responsibility of the individual, in order to free these resources and permit their allocation to the most productive uses.

The necessary "muscle building" for economic development requires the awakening of a philosophy among Micronesians which is in many ways foreign to their history and culture. Because of this, the process will necessarily be slow and probably frustrating to many people. But if the historical and cultural impediments are fully recognized and understood the difficulties and slowness of making progress can be at least partly overcome. Either failure to recognize the need for this "muscle building" process or the assumption that this process will be speedy, will lead to frustration, faulty program design, too rapid

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transference of responsibilities to Micronesians, widespread failure of programs and projects, and little or no solid progress in economic development.

Developing Human Resources for Economic Expansion

A clear policy needs to be established and programs designed to prepare as many as possible of the local people to participate most fully and meaningfully, both in the development process and in the new opportunities provided by economic development.

An important and continuing part of the human resource development policy should be implemented through the public education system. The emphasis on high quality, even, if necessary, at the expense of quantity, is essential to provide the kinds of skills, work habits and self-discipline needed for productive economic enterprises. The subject matter of the courses as well as the work and performance standards must be maintained at high levels.

Basic education should be as widely available as the requirements for high quality will permit. Education for the kind of economic life and economic opportunities which Micronesia promises to offer, including agricultural and other vocational education, needs to be handled not as a minor attachment to the curriculum, but as a central part of the entire public education program.

In the education, health, and medical programs, careful consideration should be given to the marginal benefits which will accrue to Micronesia from each of the possible alternative ways of spending available funds. Decisions regarding locations, kinds, and numbers of facilities and programs and services, and regarding the balance between adequacy of facilities and adequacy of personnel, need to be carefully made in view of the objective of steady progress toward economic viability in Micronesia.

Every government program and every private expansion provides the opportunity for setting examples, learning by doing, getting practice under supervision, and generally for expanding the abilities, opportunities, and responsibilities of the people. On-the-job training should be given high priority in all government activities. It should be extended to include government-supported training in private enterprises. But in all instances great care must be taken to ensure that the trainees will be learning and progressing rather than repeating their own errors or eagerly following the inefficient methods of poorly qualified instructors and supervisors.

The most important and most difficult traits to develop are the wisdom, leadership, and administrative abilities required of capable business managers and entrepreneurs. The introduction

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of outside management will fill the immediate need and provide the demonstration effect. Also, the competition provided by these outsiders will speed the development of entrepreneurial talents among Micronesians. But, in addition, the government must provide technical assistance to help existing and new Micronesian business managers to further develop their own abilities. Entrepreneurs who demonstrate greater initiative and better management talents should be offered greater assistance. They should be given special recognition for the important functions which they are performing in the economic development of Micronesia. In essence, every effort should be extended to upgrade both Micronesian management and the general productivity of all of Micronesia's greatest potential resource, her manpower.

Researching, Developing, and Conserving Natural Resources

The Trust Territory Government needs to follow a policy of emphasizing research, development, and conservation of Micronesia's natural resources.

Although these islands are not rich in natural resources, some resources appear to offer significant potentials for development. The big task will be that of exploring and then exploiting the resources with maximum effectiveness.

One essential part of the development program for Micronesia must consist of a concerted effort to determine the extent and characteristics of the resources in detail and to assess their potential contribution to the economy. A closely related effort must be a review of the kinds and levels of activities which have used these resources in the past, of present resource-use patterns, and future possibilities. Such a research effort will require the assignment of capable professionals, will be costly and will extend over several years. It will be necessary to collect and interpret the information essential to determine the feasibility of many kinds of potential enterprises. Vigorous programs for upgrading and rendering more efficient the use patterns of each resource should proceed simultaneously with research and development efforts.

Research is greatly needed on several aspects of the land resources. Basic soil conditions, present uses, crop prospects, and legal aspects such as access and ownership will need to be investigated and clarified. Feasibilities of changing any of these conditions to improve the total productivity of the land resources must be assessed and improvements planned and undertaken island by island, and plot by plot. This research effort should also include

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as a special undertaking the determination of the feasibility of clearing the scattered live ammunition from the northern portion of the island of Saipan and from other areas, and of returning these lands to productive use.

Perhaps as important or more important than major research and development efforts regarding land is the need for extensive exploration and intensive research into Micronesia's ocean and lagoon resources. This effort should include determination of the economically exploitable kinds of sea life. Investigations should be conducted to determine the feasibility of extracting minerals from within the sea, beneath the sea, within the lagoons, and from the known and unknown deposits on the islands.

Whether such resources might exist in commercially accessible quantities can only be determined by prospecting for and exploiting potential mineral deposits.

A general policy of conserving natural resources should be formulated. The patterns of exploitation should be related to using the resources on a sustained yield basis where possible. The location of hotels should take into account access to and preservation of beaches and boating facilities. Fishing rights should not be permitted to exhaust fish and bait reserves. Timber operations must not be permitted to destroy forests and to bring

land erosion. Land-use planning and zoning restrictions are needed now to preserve the natural beauty of the islands and to protect and enhance the potential of the tourist industry as a basic activity for economic expansion. Development will enlarge the urgency for such planning and such controls. Early steps in preparing conservation and land-use policies are essential.

Developing Infrastructure for Economic Expansion

The Trust Territory Government should plan and provide an infrastructure which will both serve the needs of economic development and will be compatible in magnitude, composition and timing with the goal of making steady progress toward economic viability for Micronesia.

All locational and design planning, quality and frequency of services, and priorities and phasing should consider development needs of the entire economy as well as requirements for the functioning of governmental programs. Heretofore, much public investment and many public services have been oriented more to governmental needs than to the aggregate of all purposes.

Man-made facilities and services sometimes can affect the pace and pattern of economic development even more than can the quantity and quality of natural resources. Facilities for transportation and communication services, electric power and

water systems, and most other infrastructure components, are absolute prerequisites for economic progress. This is more true in the Trust Territory than in most developing areas. Services must be developed separately for each island, and then for connecting the islands with a network of transportation and communications. Only with adequate facilities and services can costs of production be reduced and business ventures be made feasible which otherwise might be priced out of the market.

Economic development considerations should exert a major influence not only in determining the amounts and kinds of facilities and services to be provided, but also in the pricing of the services. Transportation, communications, storage, repair services, electric power, water, and various other services sold by the government should generally be priced in accordance with the "commercial principle," which means that the charges should cover the full costs of the services. In some cases this pricing principle would result either in such low standards of service or such high prices as to significantly impede economic development. In many such instances, it will be necessary to provide government subsidies. As more and more progress is made in economic development, subsidies can and should be reduced. In principle, these services should be able to pay their own costs from the

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revenues they receive. However, the logistics are such that this principle will be impossible to apply for some services for the foreseeable future.

Infrastructure facilities and the provision of basic services should be transferred to private enterprise operations as feasible. Care should be taken to assure that subsidies cover only losses which are justified in the interest of economic development and meeting basic welfare needs--not losses due to inefficiency.

Maximizing the Developmental Impact of All Government Programs

At present, government programs provide the major source of income and jobs in the Trust Territory. The principal basis for economic development for the foreseeable future will derive from government programs. Every program which the Trust Territory carries out has some economic impact, either direct or indirect. This provides a major and as yet largely unexploited opportunity to stimulate economic development. Each government program should be designed so that the attendant economic development effect will be as great as possible without, of course, sacrificing the direct objectives of the program.

Building the economic development objective into all Government programs will require changes in the attitudes of many American administrators and Micronesian leaders. There must be an

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increased willingness to accept the premise that progress is possible. Longer-term benefits will have to take precedence over some of the immediate and pressing short-term welfare needs. Maximum employment of Micronesians in order to provide greater immediate income might be far less beneficial to Micronesian development than importing more workers, establishing better discipline, maintaining higher standards, inducing increased productivity, giving local labor better training and longer apprenticeships and, above all, not draining off all of the labor force from private activities into government projects. All people in decision-making positions must think in terms of attacking the basic economic problems, rather than in applying sedatives to achieve temporary relief.

In every on-going function--health, education, roadbuilding, maintenance, administration and all others--there are opportunities to contribute significantly to the economic development objective. Generally, no program should be planned, no expenditure contemplated, no personnel hired, no policies established, no program continuously carried on, and no important decisions made, without assessing the economic development impact. There will continue to be inadequate funds and manpower and other resources to meet all of the most pressing needs for years to come. Programming and priorities

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will be necessary. It is in these inevitable programming and priority decisions that the appropriate developmental considerations must be embodied.

Of greatest significance is the need to relate the total and the pattern of government expenditures to manpower availabilities taking into account all sources of manpower and all demands for manpower, and to make changes in the total size and composition of planned expenditures as may be necessary to serve the economic development objective. Projects must be carefully phased over time in relation to manpower availability. Operating and maintenance as well as construction manpower requirements must be considered. Huge expenditures by the government must not be permitted to result in draining off all or most workers from agriculture, fishing, trade and other desirable private activities. This could destroy the foundations for private production, could bring unemployment when public investment levels off and could long retard if not permanently preclude any significant degree of progress toward economic independence.

This problem of reconciling the objectives of increased public spending for essential facilities and services with sound development in the private sector promises to be the most important, the most constant and the most difficult issue with which the policy-makers will have to deal during the immediate future. Increased

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governmental activity can serve to train workers and help build local markets as well as to provide needed facilities and services. Too slow a pace will inhibit progress, but too rapid a pace of Government investment and current outlays will undermine sound development. The proper balancing of these objectives will call for a rare combination of intelligence and understanding, and a display of uncompromising strength and courage by the Trust Territory Administration.

Direct Efforts to Stimulate Economic Expansion

The Trust Territory Government should place emphasis on the direct stimulation, assistance, and support of new and expanding enterprises in Micronesia.

All of the previously recommended policies are aimed toward improving the environment and increasing the feasibility of new and expanding enterprises. But the task of making economic expansions easier and more likely is not enough. The Government must take direct action to get the potential economic expansions to actually occur. Actions will range all the way from helping a small Micronesian businessman to find a market contact or a source of supply; to lending an entrepreneur money for a piece of equipment;

to providing buildings; to leasing large tracts of land; to providing or inducing or guaranteeing equity capital investment; to seeking outside management and labor; and to mobilizing other resources in order to get some major expansions underway.

The lack of productive activities and the limited capital, entrepreneurial and skilled manpower resources in Micronesia clearly point to the need for the government to go beyond providing a favorable environment. It must also provide direct assistance in training, in management, in attracting and underwriting capital needs, in conducting feasibility studies, and in taking many other specific measures to help initiate and accelerate the development of specific enterprises. The Micronesians will need assistance in establishing small local businesses and in learning to operate these enterprises successfully. Most larger operations will require both outside investors and internal government support, indirect and direct. The Government will need to play a constant, positive, and aggressive role.

In most places in the world investment profitability has been more clearly demonstrated and many kinds of risks more nearly eliminated than in Micronesia. Micronesia's attractiveness to foreign capital is not great. It is possible but unlikely that large outside investors will come in, establish businesses,

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provide the economic development breakthrough necessary to attract additional investments, and provide employment, income, and training opportunities for Micronesians. But to count on this unlikely possibility to provide the impetus for the economic development breakthrough is to gamble, with the economic lives of some ninety thousand people at stake. The Government must play as active a role as is necessary in creating the new "demonstration" enterprises.

Some of the generally applicable economic principles of public and private finance do not hold true in the unusual economic circumstances which now characterize the Trust Territory. Generally, public services are provided by government and financed by taxes collected from the members of the society; private businesses are financed by the owners at the owners' risks and the owners in turn reap the profits or suffer the losses. In the Trust Territory, with only minor exceptions, the costs of government services, including many services which in a more advanced economy would be provided by private enterprise, are covered by grants from the United States Government.

The expansion of private economic activity in Micronesia simultaneously will tend to reduce the numbers and kinds of services which the Government will need to provide, and will increase the

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ability of the Micronesian economy to finance more and more of its government services. For these reasons, carefully planned expenditures to stimulate, assist, or even temporarily to subsidize or underwrite promising economic enterprises may produce a larger and more beneficial long-run economic effect than could result from any other use of the available funds. A successful major enterprise will provide employment and income, increase local tax revenues, offer job training and private enterprise management experience, reduce cost of various Government welfare services, increase payments to the Government for transportation and utility services, increase information about Micronesia's resources, accumulate capital for further economic development, begin the development of sources of supply, improve external transportation arrangements and internal and external market development, increase business efficiency and profitability, and provide a nucleus for further economic expansion in Micronesia.

The potential benefits of private expansion provide a compelling justification for a maximum effort by the Government to induce new expansions of all enterprises. Thus, maximum feasible direct support for desirable private enterprise expansions must become a major consideration in the Government's determination of policies, programs and activities over the coming years.

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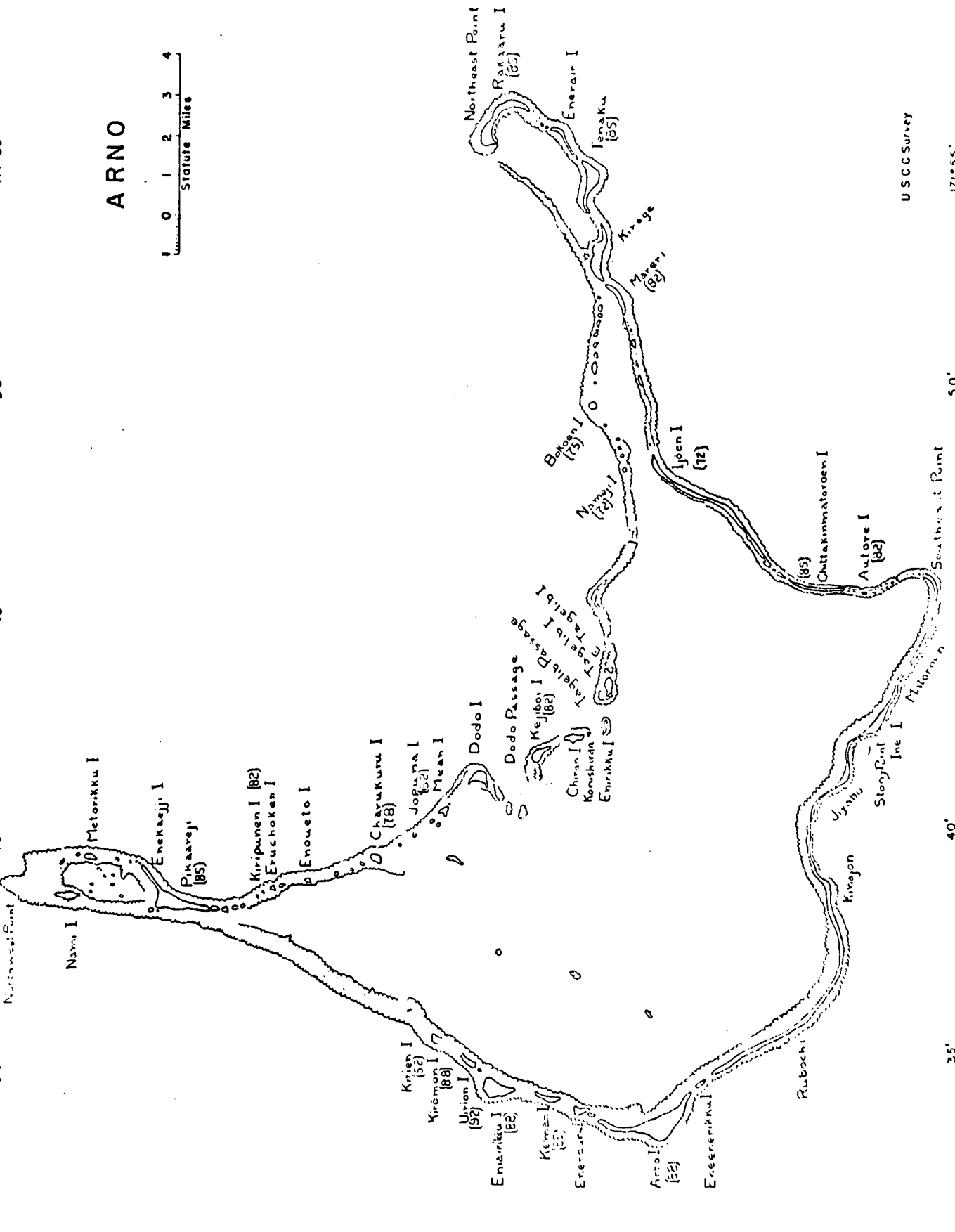
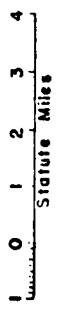
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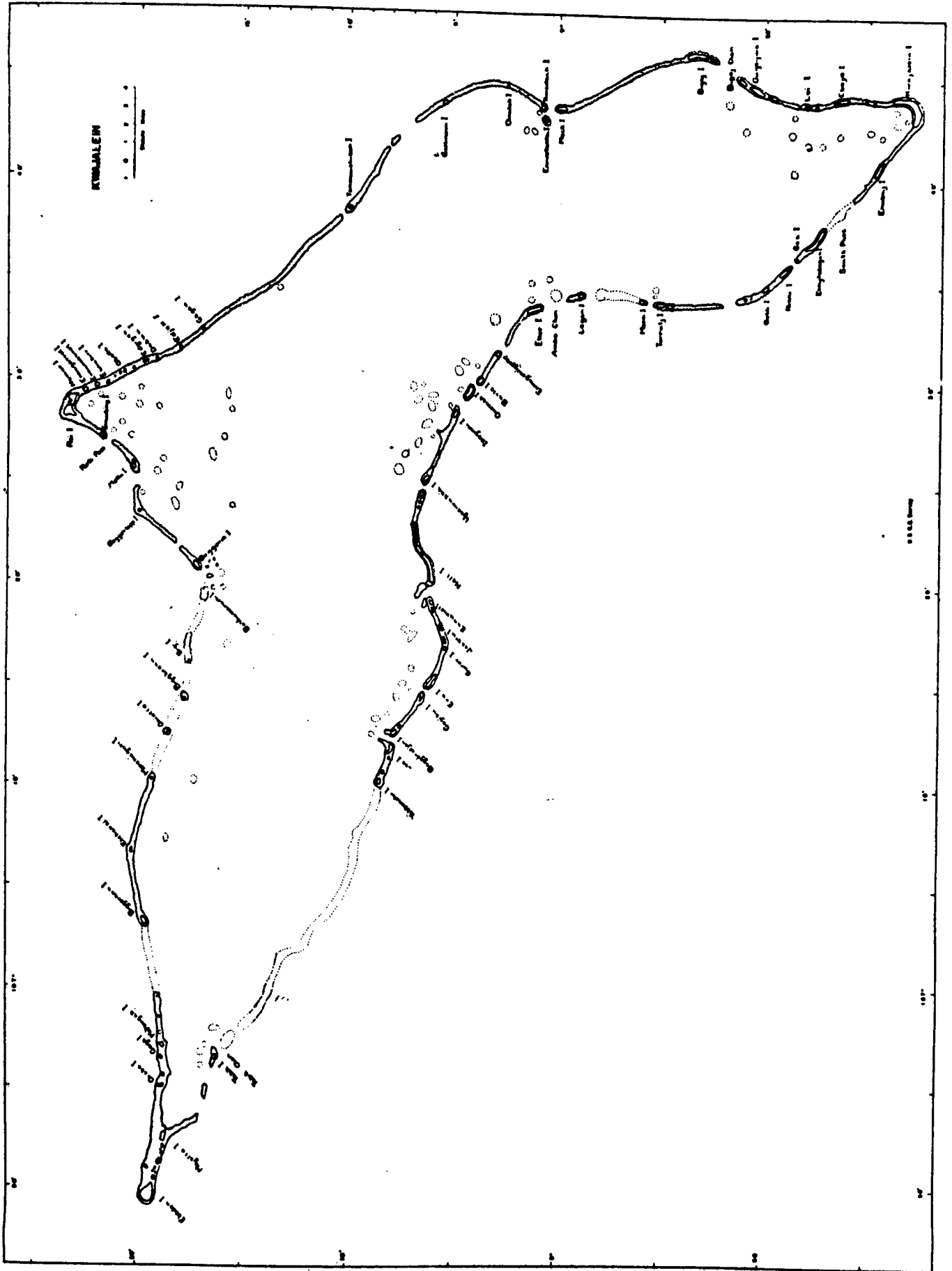
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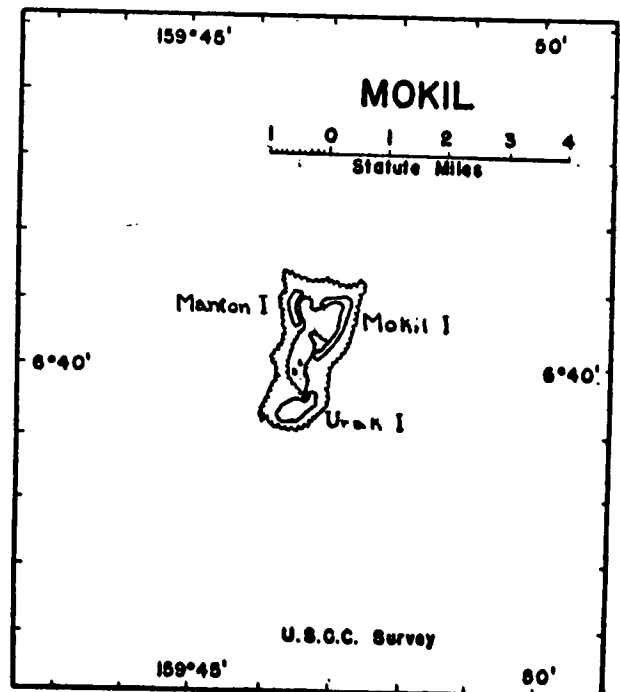
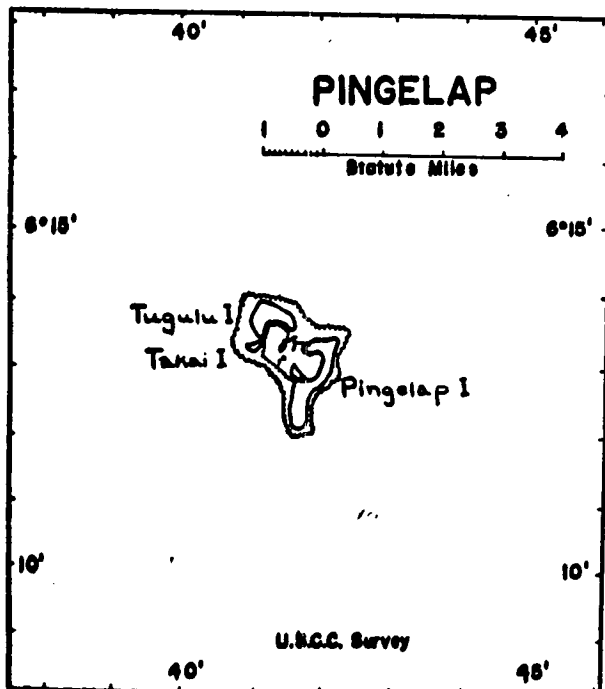
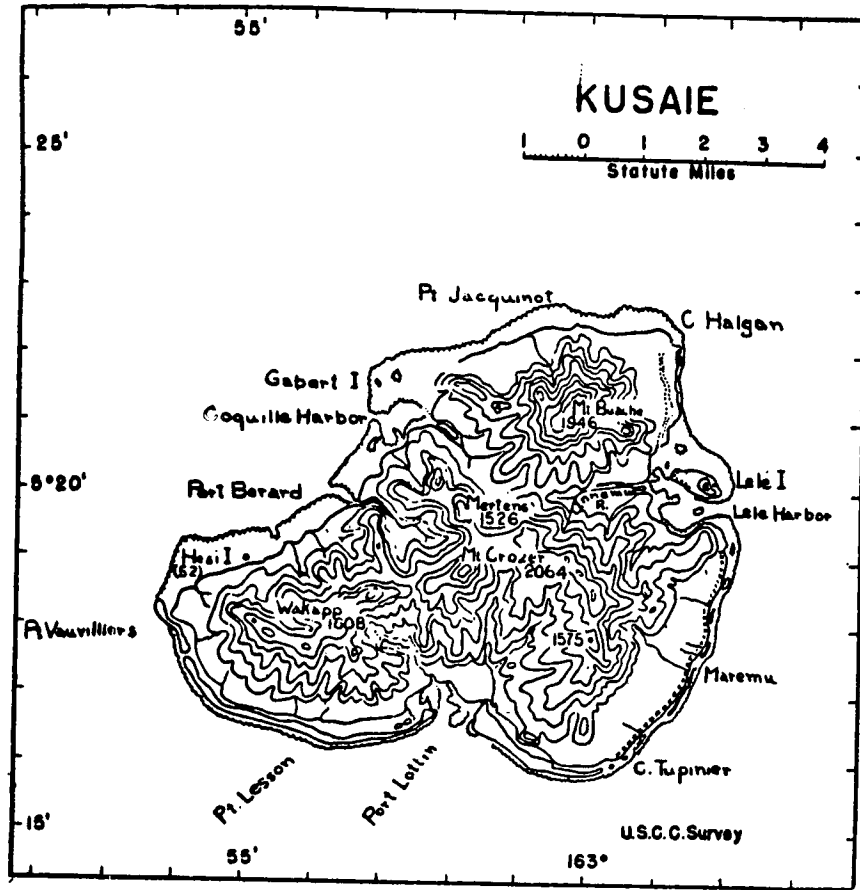
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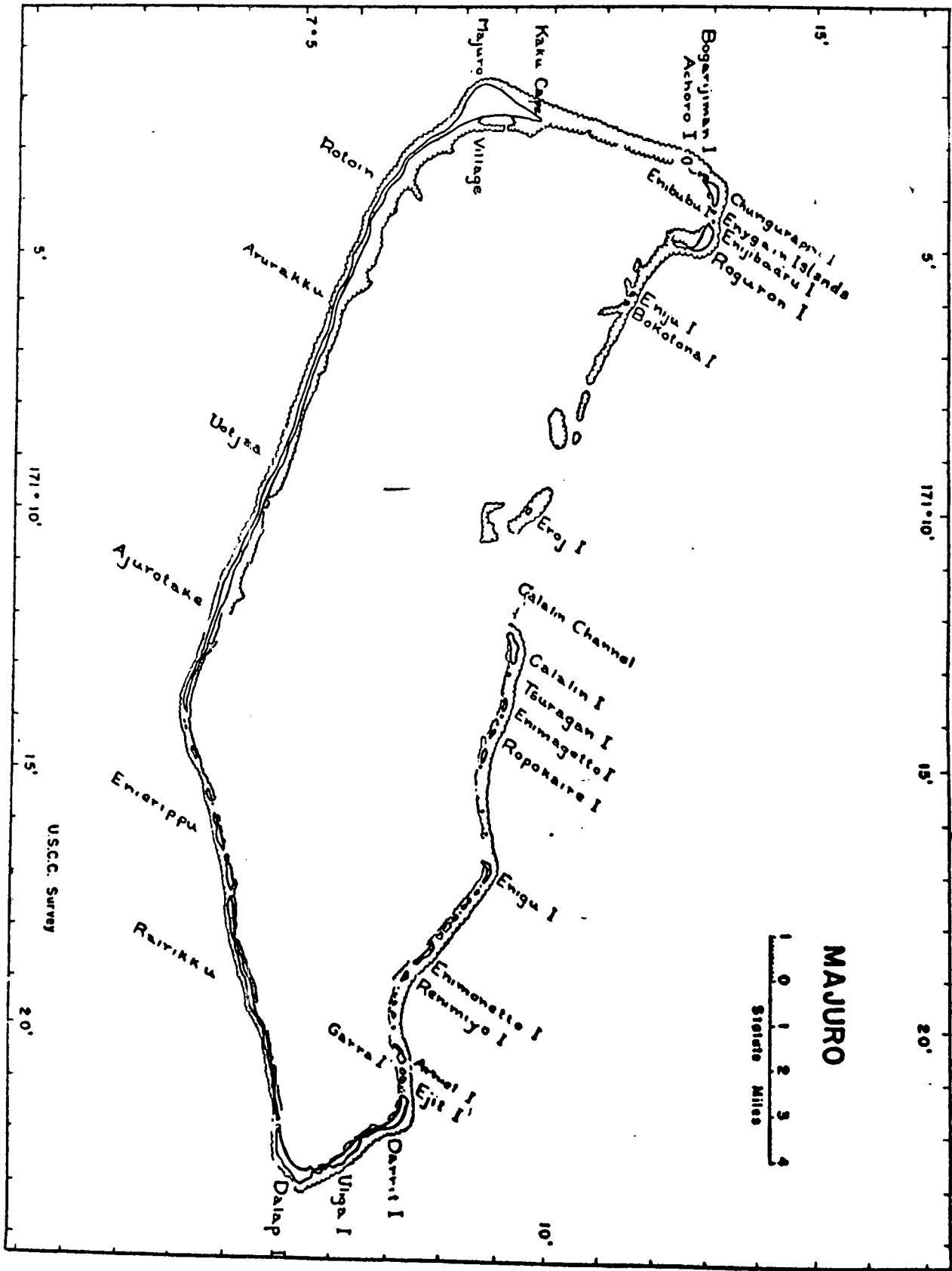
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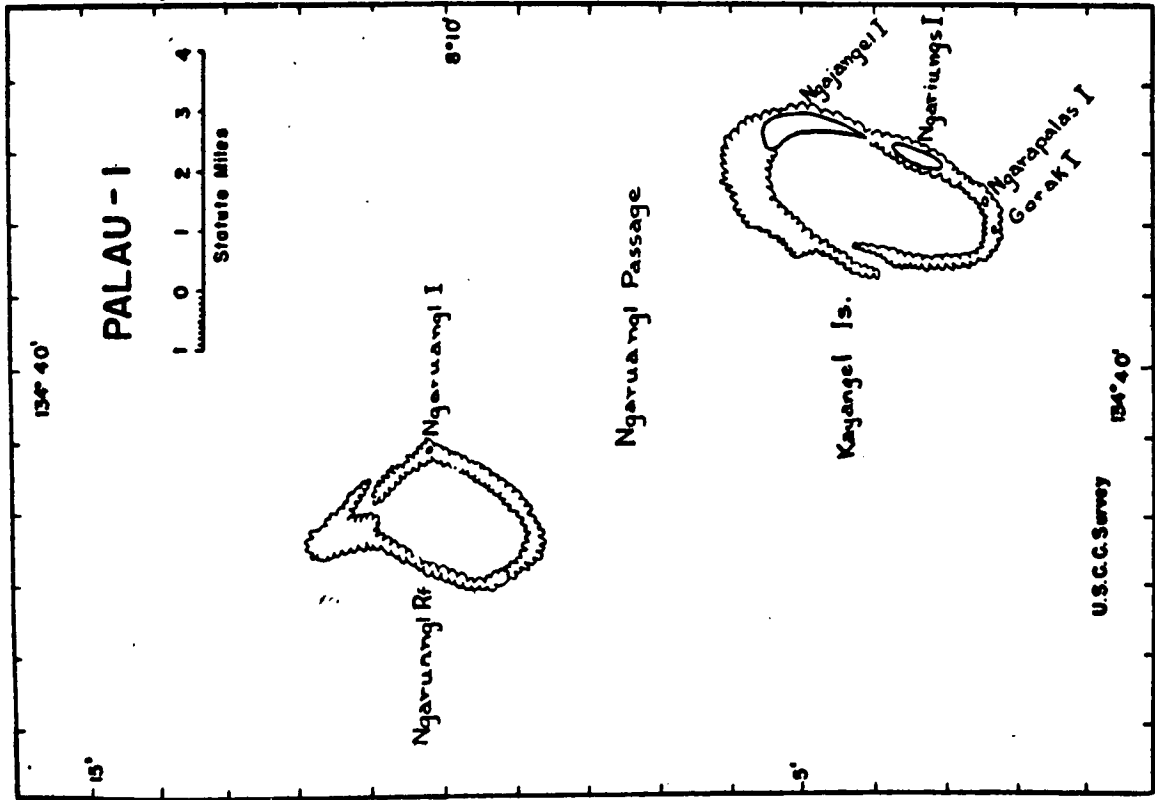
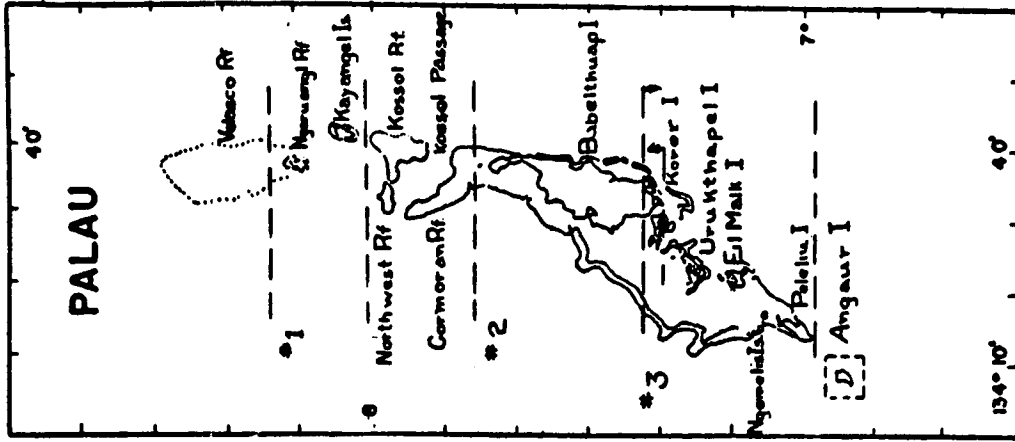
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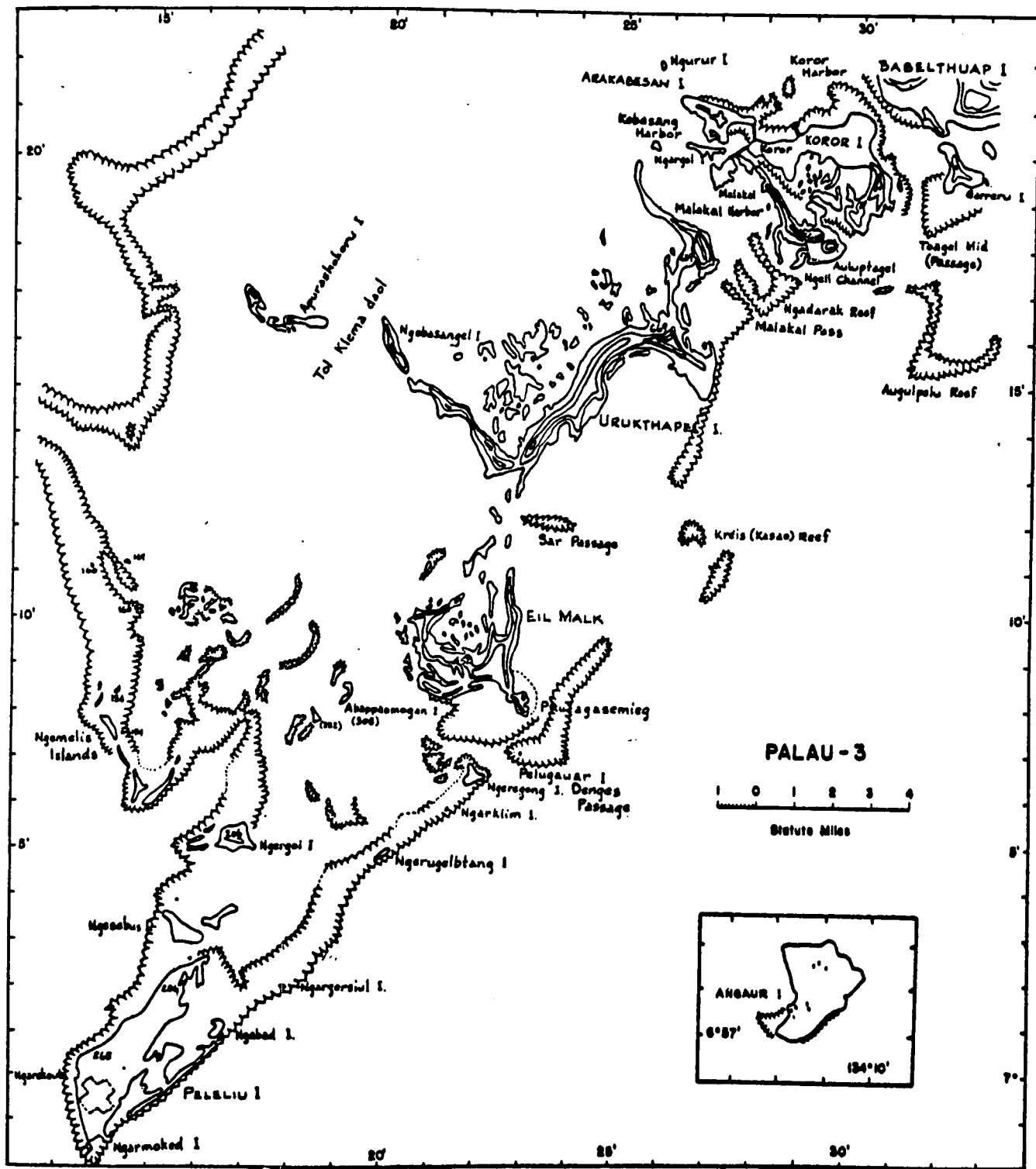




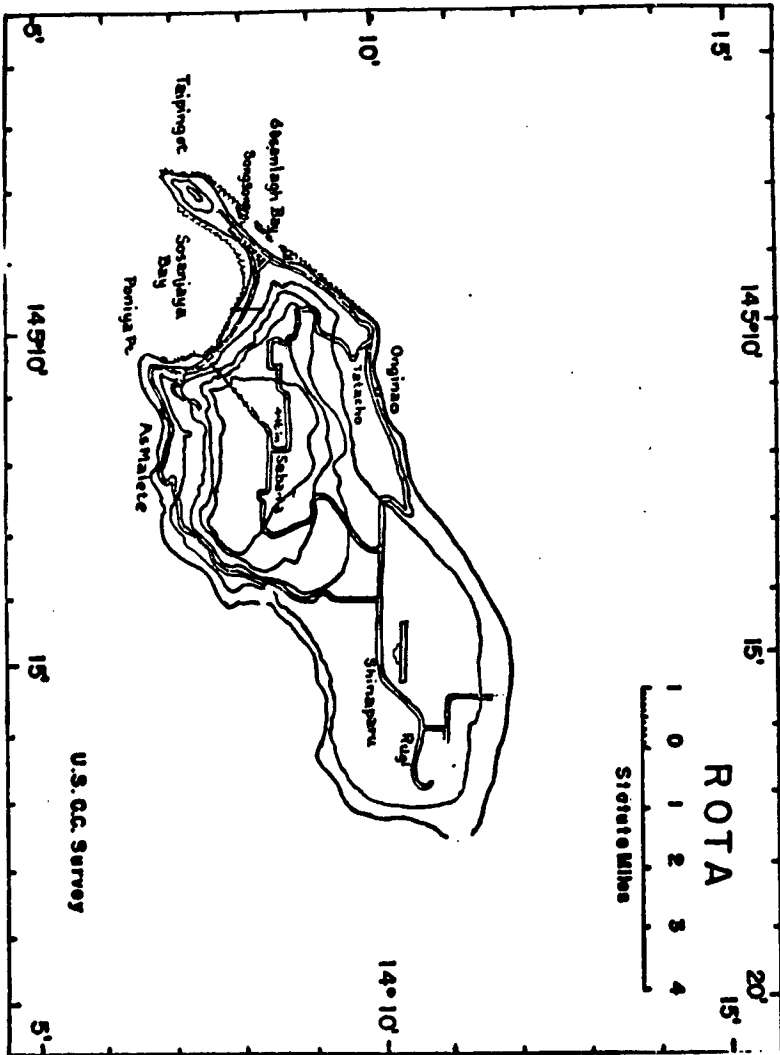
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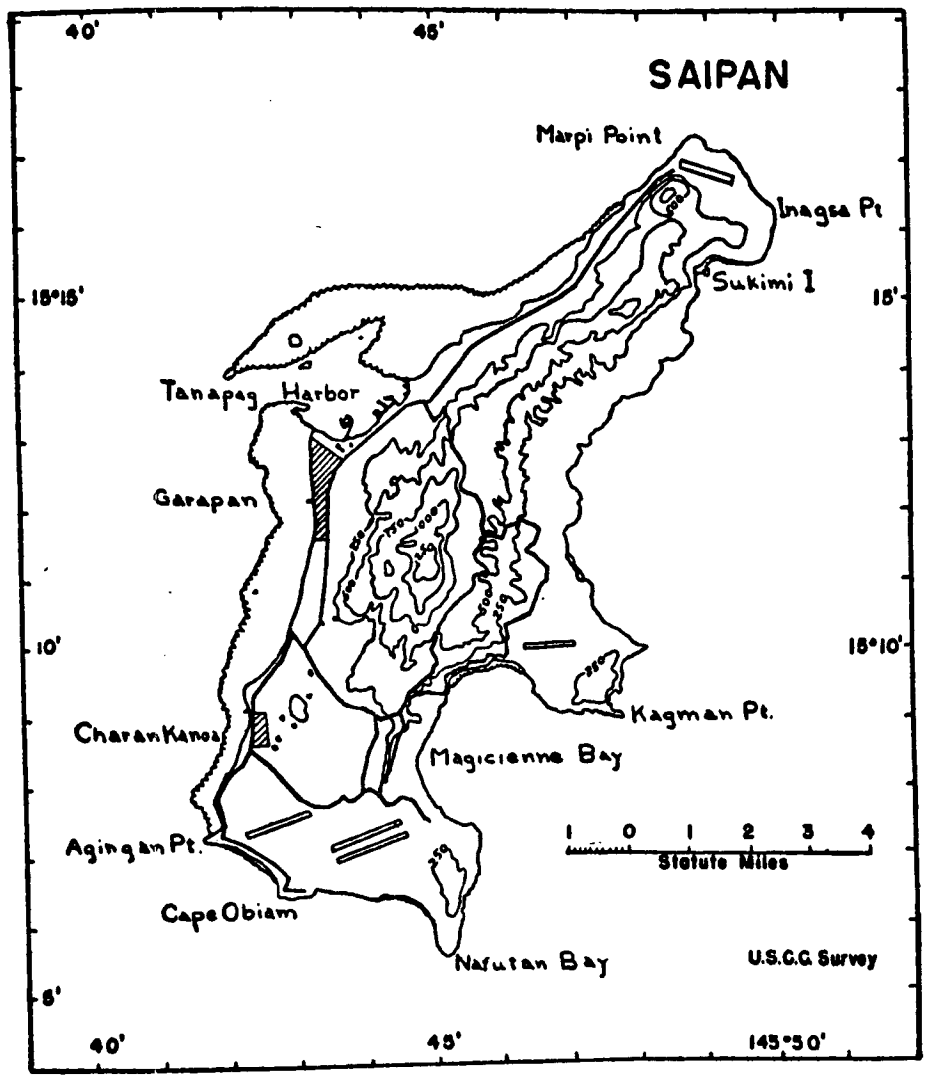




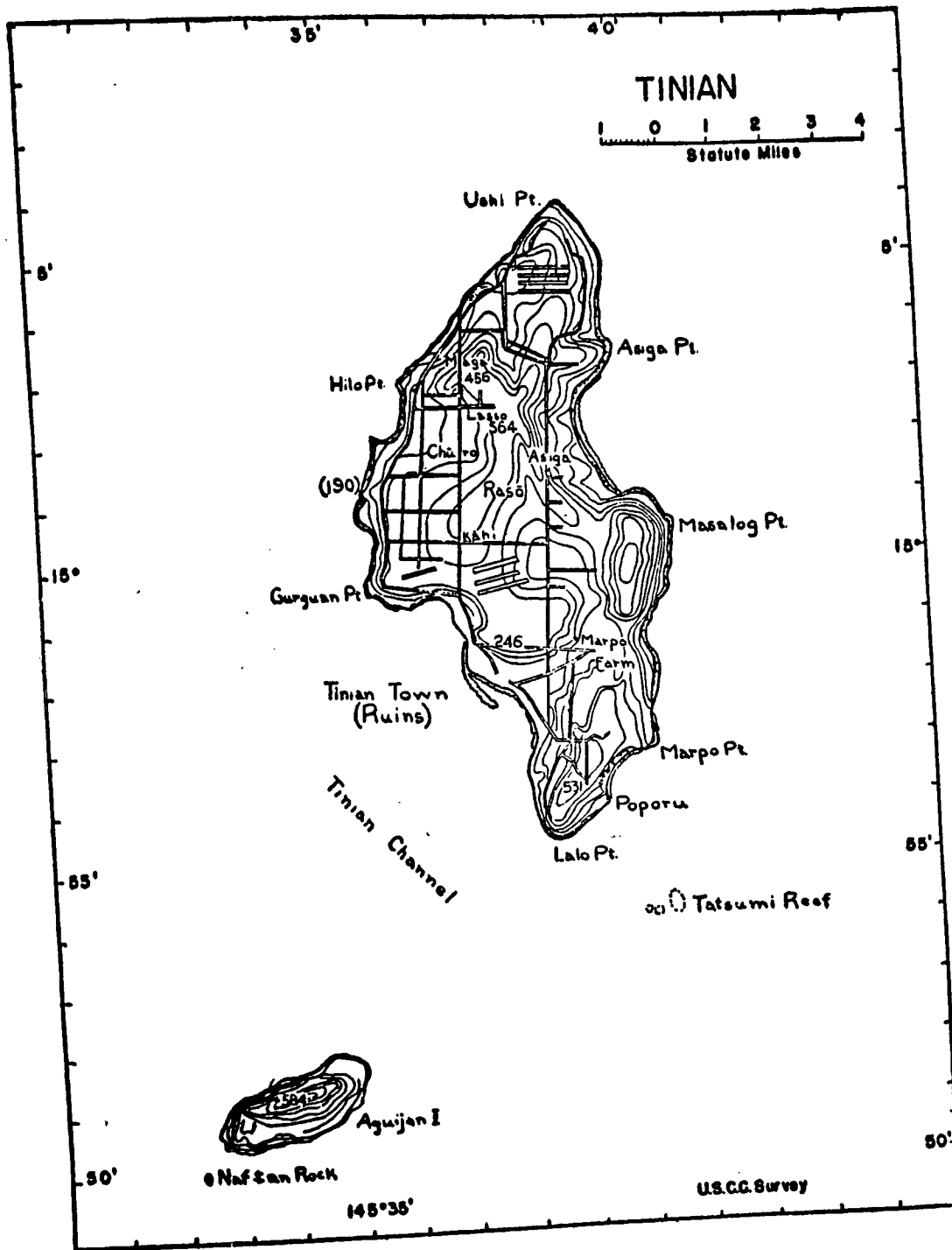
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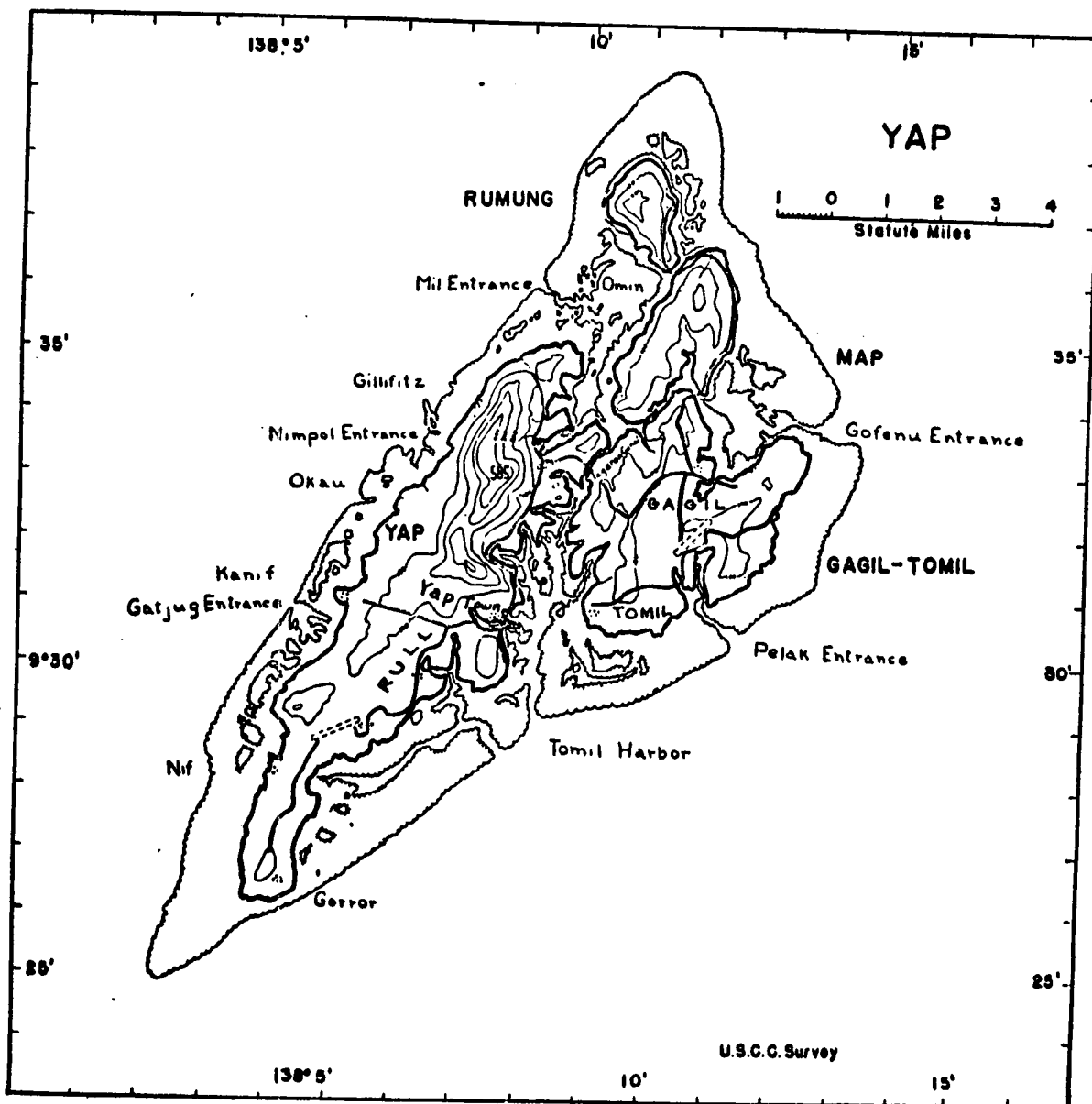
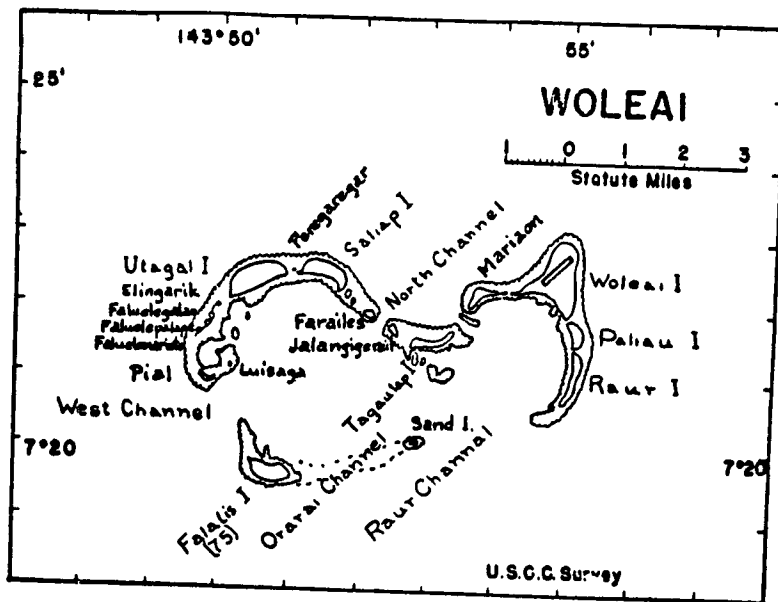
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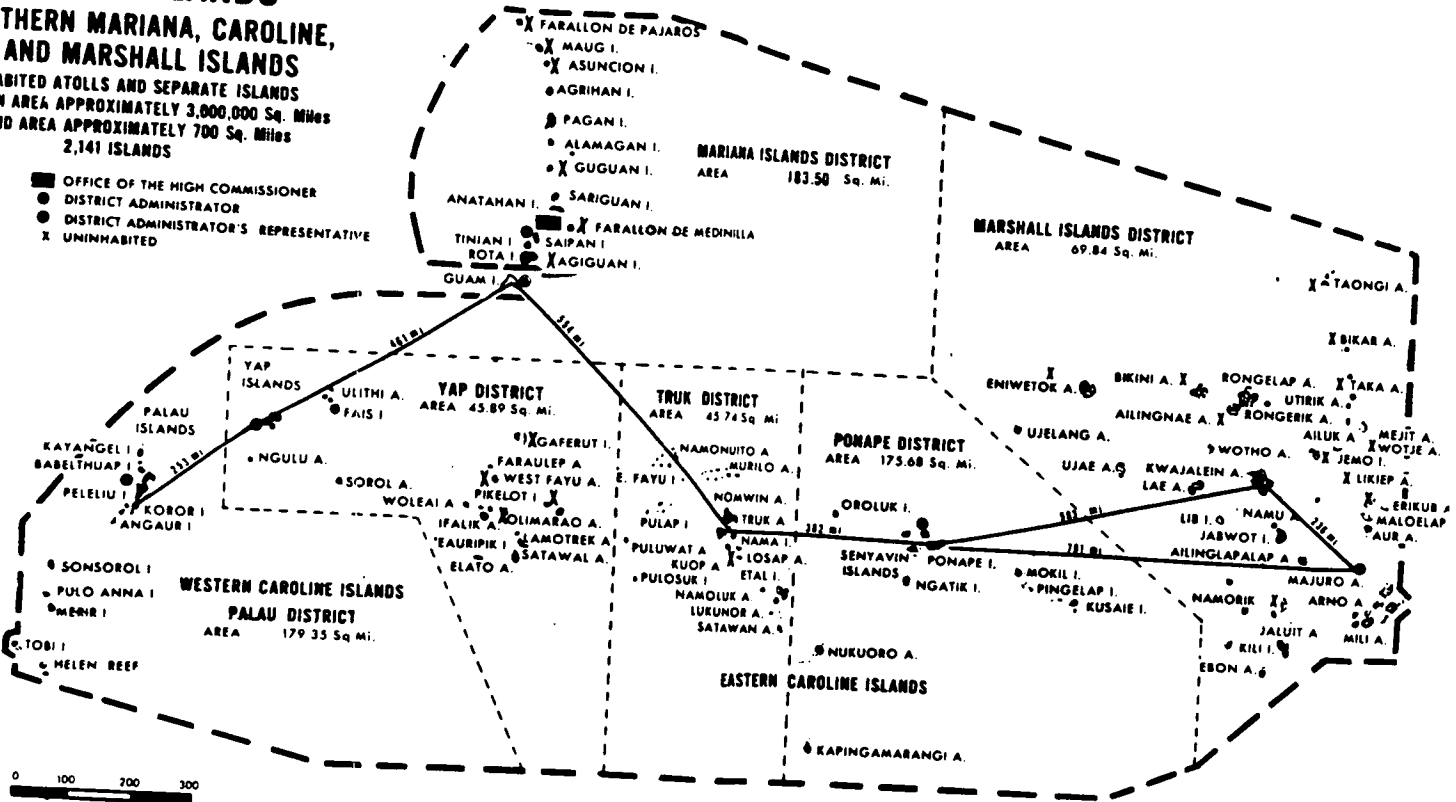
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TRUST TERRITORY of the PACIFIC ISLANDS

**NORTHERN MARIANA, CAROLINE,
AND MARSHALL ISLANDS**
 57 INHABITED ATOLLS AND SEPARATE ISLANDS
 OCEAN AREA APPROXIMATELY 3,000,000 Sq. Miles
 LAND AREA APPROXIMATELY 700 Sq. Miles
 2,141 ISLANDS

- OFFICE OF THE HIGH COMMISSIONER
- DISTRICT ADMINISTRATOR
- DISTRICT ADMINISTRATOR'S REPRESENTATIVE
- x UNINHABITED



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