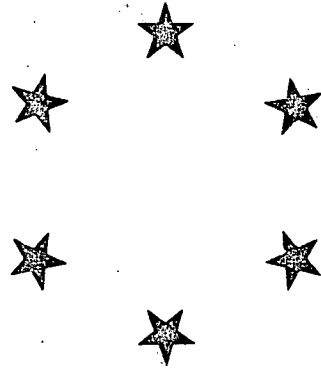




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ECONOMIC DEVELOPMENT
PLAN FOR MICRONESIA:

Summary and Index " APRIL
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Robert R. Nathan Associates, Inc., Washington, D. C.

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ECONOMIC DEVELOPMENT PLAN FOR MICRONESIA

S U M M A R Y and I N D E X

Prepared For
The High Commissioner of the
Trust Territory of the Pacific Islands

by
Robert R. Nathan Associates, Inc.
April, 1967

01-51173

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FOREWORD

During the past few years as programs were expanded rapidly, the need for economic development planning in the Trust Territory of the Pacific Islands became 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. After several months of investigation and deliberation by the High Commissioner and the Office of Territories of the United States Department of the Interior, on April 1, 1965, the Trust Territory Government 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. The Economic Development Plan for Micronesia was completed in December, 1966.

To carry out the needed tasks and to prepare the Plan, an Economic Development Team was established in the Trust Territory in June 1965. The Team included: Chief of Mission, Mr. Ivan Bloch, who previously had operated a planning and consulting firm in Portland, Oregon; Development Economist, Mr. James R. Leonard, who prior to his work in the Home Office of RRNA 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 RRNA, was assigned the role of providing Washington liaison services and Home Office guidance for the project.

During December, 1965, Mr. Bloch resigned for health reasons and was replaced by Dr. E. V. Bowden, formerly

Executive Director of the Upper Peninsula Committee for Area Problems, a regional economic development organization in upper Michigan; and earlier, director of various economic development studies, professor of economics, and Economics Department Chairman.

Throughout the term of the contract, the Team provided continuing assistance toward 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; local business enterprise expansions; and many other economic matters. The information, data, and insights essential to the preparation of the Plan were gained largely from these technical assistance activities.

Team members spent more than nine man-months traveling in the districts (outside Saipan). All district center islands and at least ten other islands in the Trust Territory were visited one or more times by one or more members of the Team. These travels and investigations proved to be an essential part of economic development assistance and planning for the Trust Territory.

Inasmuch as the Plan is contained in three volumes totaling approximately 735 pages, it was felt that a summary of the major conclusions and recommendations would be useful. By having a condensation of the Plan available in this form, it should be possible to broaden public understanding of and interest in the principal factors and problems affecting economic development prospects in Micronesia. These include such basic considerations as the political future of Micronesia, policies related to outside investment, land ownership and

use, the quality and quantity of the existing labor force, and the organization for administration.

The central purpose of the summary is to create an awareness of certain basic policies and principles which provide the foundation of economic growth. The Plan presents specific recommendations of what must be done and defines the areas where development is possible. A cross-referenced index of the Plan is included as the final portion of this summary so that individuals who are interested in becoming more familiar with the Plan can readily locate the subjects of special concern to them.

The most important single recommendation in the Economic Development Plan is that the Plan be studied, discussed, and understood by all who will influence policies, programs, and activities in the Trust Territory. Meetings and discussions should be held in all the district centers. Procedures should be established for gathering and analyzing the responses of government administrators, teachers, Micronesian leaders, Peace Corps Volunteers, and others on the major recommendations of the Plan.

If these procedures are followed, unified objectives, policies, and plans can be established, narrow and restrictive concepts can be widened, and economic progress can be pursued as a realistic, attainable goal.

The Plan addresses itself to a wide variety of problems and opportunities and in each case recommends a specific approach. It is not important that the precise recommended approach always be followed; but it is important that the findings and recommendations be studied, that each problem

and each opportunity be recognized, and that informed decisions be made and effective action taken. Otherwise, the Plan will at best serve as a resource for historians and at worst as a source of unrealized expectations, rather than as a tool for the use of legislators and administrators who have the responsibility for charting the direction and setting the pace for the economic development of Micronesia.

In addition to summarizing the Economic Development Plan for Micronesia, this report presents, in some instances, conclusions evolved subsequent to the submission of the Plan.

ECONOMIC DEVELOPMENT PLAN FOR MICRONESIA

SUMMARY REPORT

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I. HIGHLIGHTS OF PRESENT CONDITIONS AND PROBLEMS

Internally generated economic development will not be easy to achieve in the Trust Territory. The problems are many and they are serious; but, within limits, there are reasonable opportunities to organize and utilize available human and natural resources for significant development.

Geographic and Historical Influences

The smallness of everything in Micronesia--the land area, the population, and the supply of economic resources--is the greatest impediment to development. The land is scattered in some 2,000 pieces over an ocean area approximately as large as the continental United States. The people are widely scattered in several hundred more or less isolated villages on about 50 island clusters. Almost everything about Micronesia is small except the distances between islands, which are very great.

The ancient cultures have been greatly changed during the past centuries of Spanish, German, Japanese, and American influence and control. While modern goods and services have become increasingly part of the way of life for most Micronesians, many aspects of the traditional way of life live on. Some ancient traditions, such as the lack of clearly defined individual ownership of land, goods, or money and the continuation of complex social-economic-political systems of caste, family, clan, and chiefs, still stand as obstacles to development. Some of the more recent influences also impede development. Over the last century, almost all economic activities in Micronesia--both private business and government

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activities and services--have been planned, financed, and managed by outsiders. Dependence on outsiders has resulted, rather than the development of self-reliance.

Political and Social Change

The Trust Territory Government is in the process of reevaluating its major policies and programs and expanding its role in development. Political conditions in Micronesia are now beset with uncertainty as the traditional political structures in the local villages yield to pressures for change and as traditional controls yield to the impact of modern economic pressures and burgeoning education needs. The newly created District Legislatures and the Congress of Micronesia are still feeling their way, deciding what they are going to do and how.

Economic Conditions and Problems

The programs of the Trust Territory Government have opened new development opportunities, but have also exposed complex problems and interacting consequences inevitably associated with economic development.

The recently expanded efforts in education and health, and the expansions in sea and air transportation, communications, and government-provided infrastructure (airfields, docks, roads, electric power, water systems, and government buildings) now provide an improved base for economic development. However, government employment to construct, operate, and maintain public facilities and provide social services has made heavy demands on the very limited personnel resources of the Territory. Those interested in improving their economic status have found government employment opportunities

quite easily available. This has reduced their incentive to seek out the agricultural, fishing, industrial, and other business opportunities which have been created by the improved transportation facilities, the availability of public utilities, and the growing commercial demand for goods and services.

Most of the recent development efforts have gone into stretching limited resources as far as possible to provide essential public services, with only marginal attention to assisting and stimulating private production and trade. Further increased expenditures to provide public services are now under consideration. These decisions must consider government public service activities in terms of fostering the growth of indigenous productive enterprises, such as agriculture, fisheries, manufacturing, tourism, and trade, if development efforts in these areas are to succeed.

There is also the ever-present possibility that further increasing government employment while neglecting the needs of private enterprise will absorb most of the available supply of both skilled and unskilled wage workers and thereby create an economy supported mainly by the government and increasingly dependent on imported goods of all kinds.

The major resources in abundance in Micronesia are the ocean resources; all others are relatively scarce. From the point of view of economic development, the greatest scarcity is trained and experienced labor, including technicians and managers. Significant development in Micronesia will require that more labor, capital, and management be attracted. Also, it will necessitate increased population mobility toward far greater geographic concentrations of people. This, in turn, will reduce costs of providing public services

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and must be taken into account in planning public services.

Wage and salary scales paid by the Trust Territory Government have a major effect on the scales that must be paid in private enterprise. Since these scales are already high compared with those of other Western Pacific countries and, perhaps, compared with productivity, this has an important effect upon cost competition in export markets and even upon competition in the domestic market with imports. This has even broader implications with respect to the adequacy of the present and prospective Micronesian labor supply and the need for supplementing it with immigrant workers. The government wage scale also affects the type of enterprises that are economically feasible. For example, production may have to be capital-intensive rather than labor-intensive, making full use of modern labor-saving machinery and equipment.

At the present time, Micronesia has a mixture of both a money economy and a subsistence economy. About 9 million U.S. Government dollars flow directly into the Trust Territory economy each year. An additional \$3 million comes in as payments for exported goods, mostly copra. The respending effect of this \$12 million supports the trade and service industries which, other than copra-making, provide almost the only major source of private enterprise dollar income and employment.

Income sources and estimated amounts are shown in table 1. Table 2 shows the current annual value of goods and services available to the people for consumption and investment. The government contributes 47 percent of the total. The

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next largest component is subsistence sector goods (mostly vegetables, fruits, and fish) estimated at about \$11 million, or 30 percent of the total.

Economic life in Micronesia is changing rapidly as increasing government expenditures provide more services and goods to more people, and as more government dollars flow directly to Micronesians. Imported staples and canned goods have largely replaced traditional foods as the preferred diet for most Micronesians. Our experience indicates that most Micronesians desire that they and their children have the opportunity to enjoy the economic freedom and variety offered by a modern money economy.

The following sections identify the most promising opportunities for private enterprise expansions and summarize the actions which will be required both to overcome the obstacles and to take maximum advantage of the opportunities that exist.

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Table 1. Dollars Flowing into the Trust Territory
Economy, by Source

(Estimated Annual Rates, 1965-67)

Source of Income	Estimated value (dollars)
Direct Government expenditures (net).....	9,000,000
Copra exports.....	2,500,000
Other exports:	
Scrap metals.....	400,000
Offshore fisheries.....	150,000
Inshore fisheries.....	70,000
Handicrafts.....	60,000
Vegetables.....	50,000
Trochus shells.....	<u>30,000</u>
Total.....	760,000
Expenditures of travelers...	<u>70,000</u>
Grand total.....	12,300,000

Source: Condensed from Economic Development Plan for Micronesia, pp. 496-501.

Table 2. Value of Goods and Services Available for Consumption and Investment in the Trust Territory

(Estimated Annual Rates, 1965-67)

Source of Goods and Services	Estimated value (dollars)
Government sector production: public services, etc. (net).....	18,200,000
Subsistence sector production:	
Agriculture.....	9,000,000
Fisheries.....	1,500,000
Manufacturing, construction, and services.....	<u>500,000</u>
Total.....	11,000,000
Commercial Sector production:	
Domestic trade and services.....	2,000,000
Agriculture and manufactured products for domestic use plus construction.....	100,000
Production of goods for export.....	<u>3,300,000</u>
Total (value added).....	5,400,000
Commercial Imports in Excess of Exports.....	<u>3,700,000</u>
Total value of goods and services for consumption and investment.....	38,300,000

Source: Condensed from Economic Development Plan for Micronesia, pp. 501-505.

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II. OBJECTIVES AND POLICY RECOMMENDATIONS

If the Trust Territory Government is going to succeed in stimulating economic development in Micronesia, it must take the following four steps:

First, it must assign high priority to economic development and to the policies, programs, and projects needed to generate and support development.

Second, it must establish and implement throughout the Trust Territory a clear and definite policy both to permit and to stimulate the inflow of resources needed to facilitate sound development. Generally this will mean importing private capital, management, and some kinds of labor.

Third, it must establish effective communications and controls, unified and coordinated planning, and efficient administrative management of government programs throughout the Territory.

Fourth, it must make the specific budgetary and personnel changes necessary to mount a forceful and effective direct economic development effort at Headquarters and in each of the six districts.

Objectives

The United States, as Trustee for Micronesia, must decide that a significant degree of increasing economic self-reliance is to be the economic objective for the Trust Territory.

The alternative faced by peoples of most underdeveloped areas is either to achieve economic development or to experience

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continued hunger and hardship. In Micronesia, the number of people is so small that the United States could afford to simply furnish and maintain a high standard of living for all of them. The total cost of this would amount to less than one-tenth of 1 percent of the total U.S. Government budget. This, however, would not be desirable for either the United States or the Micronesians.

Conversely, economic development will require hard work, responsibility, increasing productivity, and self-denial. It will require careful policy and program determination and the postponement of some present consumption and services while a sound base for economic development is being created. All policies, plans, and management will need to be aimed specifically toward the economic development objective. This is the difficult road; but it is the only road which leads away from complete and perpetual dependency for Micronesia.

The rate of economic development in Micronesia can at least parallel the rates in many of the other developing areas of the world, and with sufficient effort and emphasis, Micronesia's development rate can far surpass that of most other developing areas. Progress in the next few years will, in turn, support more rapid progress in the following period, toward the end that dependence on grants from the United States can be progressively reduced.

The Economic Development Plan recommends that the United States and the Trust Territory Government clearly establish the following major objective:

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Maximum progress toward developing a sound and viable economy consistent with orderly social, political, and economic change.

The policy and program recommendations of the Plan assume that the United States Government, the Trust Territory Government, and the Micronesian leadership want sound economic expansion in Micronesia, and that they want increasing economic opportunities for all Micronesians which sound economic expansion will bring. It assumes that they are ready and willing to exert the forceful and continuous effort necessary to move toward this objective.

Major Policies

Effective economic development toward viability will require that a clear policy framework be established. The most important policy recommendations of the Plan are summarized below. Rapid economic development in the Trust Territory will require that these top-level policies be seriously considered, that they be adopted, that they be universally understood, and that they be faithfully adhered to by all administrators and others in positions of influence throughout the Trust Territory and in Washington, D.C.

The permanent political future of the Trust Territory should be determined as quickly as prudently possible.

Political uncertainty acts as a deterrent to economic development. For example, to attract the millions of dollars needed for long-term private investment is nearly impossible as long as the political future of Micronesia is in question. Many of the economic advantages which Micronesia could gain from association with the United States, such as tariff-free trade for canned fish, handicrafts, and other products, will be difficult to obtain as long as Micronesia's political

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relationship with the United States is temporary. Policies regarding the admission of foreign visitors and of non-U.S. capital must take into account the temporary trusteeship status. Even in decisions regarding such things as the wage scale for Micronesian employees or the kinds of infrastructure facilities and services to be provided, the Trust Territory Government must consider and allow for the fact that Micronesia's relationship to the United States is not now permanent.

The uncertainty regarding the political future of Micronesia should be eliminated as quickly as possible. A speedy decision to determine whether the Micronesians wish to tie permanently to the highly productive United States economy would bring a higher and rising level of economic opportunity for Micronesians.

Intensive economic advice and assistance should be provided immediately to all Micronesian Legislators.

The Congress of Micronesia, the District Legislatures, and the Municipal Councils are now or will soon begin to make economic decisions of significance to the future of the people of Micronesia. None of these governmental bodies are quite sure what their economic functions are, what their economic responsibilities should be, or how to approach their economic problems. In many developing nations, healthy economic development is frequently seriously impeded by the economic shortsightedness of the local legislators. It is likely that the same fate will befall Micronesia unless the right kind of help is provided by timely and decisive action of the Trust Territory Government.

This will moderate a serious kind of risk from the Micronesian economy and will make it much easier to attract the capital investments necessary for rapid economic development.

Comprehensive programs for developing the human resources should be formulated and directed toward increasing individual productivity in the Micronesian economy.

Much of the present human-resource development effort of the Trust Territory, especially the widespread teaching of language and basic mathematics, is generally applicable and essential for economic development. To serve the development needs, however, more intensive effort and higher achievement levels will be required in these basic subjects.

Vocational education, now almost completely ignored, must become a major part of the total education effort of the Trust Territory. The emphasis on vocational education should be geared to the development possibilities and long-range plans and projections for the Trust Territory economy.

The Trust Territory Government should design and operate its programs and activities so as to stimulate increased productivity in the labor force. An on-the-job training component should be built into each activity. High-calibre supervision should be provided to government employees. High standards of productivity and performance should be required as a condition of continued employment and, especially, promotions. Some of the habit patterns left by lingering traditions and reinforced by administrative paternalism will impede development unless changed. Strong

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feelings of individual responsibility need to be generated. The rewards of hard work, dependability, and high productivity and performance need to be understood and appreciated by more of the people. This will require a critical assessment of Trust Territory and Micronesian government educational, law enforcement, taxation, employment, and other activities and practices, and the setting of higher standards, as necessary.

Increasing productivity of workers and efficient work habits require good management and good tools and equipment. The Trust Territory Government must address itself to these needs if it is to play an effective role in developing a more efficient labor force.

Wages paid to Micronesian employees of the Government must reflect the productivity value of comparable work in the private sectors of the economy. If the recommendations of the Economic Development Plan are accepted and implemented, productivity in the private economic sectors should rise rapidly. The projected inflows of efficient capital and management plus the human-resource development efforts of the government and of private businesses will have a major impact on productivity, and wages can then rise without either inflation or the loss of competitive opportunities in world markets.

As development proceeds, some of the district center islands will experience more serious labor shortages than others. Many people are located on remote islands where they can neither contribute to the development of new economic opportunities in Micronesia nor share in the benefits. The Trust Territory Government should encourage

and facilitate the relocation of people from the outer islands to the district centers and from one district to another. This will give more people of the Trust Territory the opportunity to locate, adapt to, and perform the more productive and higher paying jobs. This will not only serve the economic interests of the individuals, but will also contribute to the development of the economy.

Capital, management, and labor should be sought from sources outside the Territory whenever inadequate local supplies limit the expansion of feasible economic activity.

Contrary to common belief, the limits on the expansion of economic activity in the Territory are not principally the result of limited land and other physical resources. If the full utilization of the Territory's physical resources is to be realized, it will be necessary to develop outside sources of such institutional resources as capital, management and labor. The need for this policy is discussed more fully in Section IV of this summary.

The nature, extent, and economic development potentials of Micronesia's natural resources should be more thoroughly assessed.

The Economic Development Plan for Micronesia is handicapped by the lack of dependable, detailed information and data on natural resources. Many possible economic opportunities cannot be foreseen and assessed until more is known about the natural resource base.

The need to assess and plan land use is discussed in Section IV of this summary.

All the natural resources of the land and sea should

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be investigated and the most beneficial uses planned. Forest and timber resource surveys, mineral explorations, inshore and offshore fishery surveys, and investigations of other marine resources should be undertaken over the next few years. It is uncertain that sizable new opportunities for development, based on natural resources, will be discovered; but the development cannot be foreseen and planned until the resource potentials are assessed.

Continuing long-range economic planning and vigorous direct development programs should be assigned highest priority by the Trust Territory Government.

Long-range economic planning in general has not been heretofore undertaken in the Trust Territory. The Economic Development Plan for Micronesia is an important step in introducing economic planning into the operations of the Trust Territory, but this is only the first step toward the development, maintenance, and application of continuous economic development efforts by the Trust Territory Government. An effective plan must be a living document, constantly adapting to new developments, discoveries, attitudes, conditions, and policies.

In addition to continuous planning, an effective economic development effort requires vigorous direct action. The Trust Territory Government will need to establish and to assign high priority to the staffing and support requirements of the economic development program. The detailed recommendations for the direct development program are presented in Section VI of this summary.

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III. EXPANSION POSSIBILITIES IN EACH ECONOMIC SECTOR

The major private industry sectors of the Trust Territory economy are: agriculture, fishing, manufacturing, construction, wholesale and retail trade and services, tourism and travel, and air and sea transportation. The speed of economic development in the Trust Territory will depend on the speed of development in each of these sectors of the economy.

General Agriculture

Opportunities exist for economically feasible expansions in the production of vegetables, livestock, tropical fruits, and certain other cash crops such as rice and pepper. Feasible expansions over the next five years will require more than 1,000 full-time workers and capital outlays in the neighborhood of \$9 million.

Markets for Trust Territory agricultural products already exist or can be developed in Guam, Japan, and elsewhere. In addition, local district center markets are developing rapidly as government expenditures increase and as more people stop their traditional food gathering activities and get jobs or go to school.

The greatest obstacle to long-range commercial agricultural expansion is the shortage of labor. Unless steps are taken to assure the availability of productive, reasonably-priced skilled, semi-skilled, and unskilled agricultural labor, there will be little chance for the expansion of commercial agriculture in the Trust Territory. Most of the young people in Micronesia appear

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to view agriculture as the least desirable occupation. White-collar government jobs are most desired and the present education program directs people toward white-collar employment or higher education--not agriculture.

Because of the relatively high wage rates in Micronesia, agriculture in Micronesia must be highly productive in order to survive. A high degree of mechanization and technology and very capable management and labor will be required.

Effective government programs will be needed to bring in private capital, high-level management, and some low-wage labor from outside. The opportunity for future Micronesians to participate in and reap rewards from agricultural enterprises will depend upon (1) the success of the government in stimulating the inflow of the money and people needed to establish this industry, and (2) the success of research and training programs to discover and teach Micronesians the best applications of the most efficient modern techniques.

The Coconut and Copra Industry

For more than a century, copra has been the "money" with which most Micronesians have purchased outside goods. Even today, more of the people in Micronesia receive some money income or trade goods from copra than from any other activity. For the people on the more remote islands, the economic importance of the coconut is as great today as it was 100 years ago.

The problems which impede agricultural development in general also impede the development of the coconut

industry. In addition, copra and coconut expansion is retarded by destructive insects, occasional typhoons, transportation and storage limitations, habits of inefficient and inadequate coconut grove maintenance, and fluctuating prices in the world markets.

Maximum expansion of the coconut industry will require an increased effort to overcome these restricting conditions. Also, an intensive effort will be required to import the necessary capital, management, and labor. The importance of agricultural and coconut industry occupations must be emphasized in the schools, and effective research, extension, and training programs are needed. A major effort should be made to establish processing facilities in the Trust Territory to convert the coconuts and copra into more valuable products both for local consumption and for export.

The development of the industry will require the services of an experienced agricultural specialist who can direct the entire agricultural development program in the light of changing local and world market conditions. With intensive direction and stimulation, the total income flowing to Micronesians from the coconut industry may be doubled over the next ten years.

The Fishing Industry

Although fishing has always been a major subsistence activity, it was not until the 1930's that a sizable commercial fishing industry was developed in Micronesia. During that decade the Japanese operated hundreds of tuna boats and large catches were reported at Palau, Truk, Ponape, and Saipan.

Today, fishing in Micronesia is for local consumption and consists of catching small inshore reef fish. The fish are usually consumed by the fisherman and his family and relatives.

Markets for reef fish are now developing at each of the district centers and some reef fish are being marketed in Guam. Local markets will expand rapidly over the next several years, but the expansion of production to supply these markets will require government assistance in providing the transportation and storage facilities required, and in helping to meet the capital and management needs of the industry. Some help has already been provided through assistance in the organization and management of fisheries cooperatives, but much more will need to be done if the full potential of this industry is to be realized. A major effort of the small business development program recommended in the Economic Development Plan should be aimed toward developing local fisheries enterprises.

The Van Camp offshore (tuna) fishing operation in Palau is the only sizable commercial fishing enterprise in the Trust Territory today. This enterprise operates with mostly imported (Okinawan) fishermen. It is attempting to attract and train Micronesians to work on the fishing boats, but this effort has not been very successful.

The fish are caught and brought into port daily, where they are frozen "in the round" and stored for later shipment for processing and canning in American Samoa, Puerto Rico, or the United States. If the fish were canned in Micronesia, tariffs would have to be

paid when the cans entered United States markets, which inhibits the development of full potential of the fishing industry in the Trust Territory. The United States tariff on fish canned in Micronesia should be removed as soon as possible. A major effort of the Industrial and Commercial Development Program (recommended in the Economic Development Plan) should be aimed toward stimulating a rapid commercial fisheries expansion in the Trust Territory.

Except for the American managers, the Van Camp shore operations are manned entirely by Micronesians. The monthly payroll to Micronesians amounts to about \$5,000. Another major economic impact of the operation results from the respending effect of the total payroll, and from local expenditures for supplies and services.

The Van Camp operation in Palau provides an excellent example of the way in which offshore commercial fishing operations in Micronesia can be successfully developed. Since the demanding work and low wages on the fishing boats has proved not to be very attractive to Micronesians, these jobs will need to be filled by people from outside the Trust Territory--people who can in this way escape serious economic hardships and lack of alternative employment opportunities or means of subsistence at home. However, the less demanding jobs on shore can be filled by Micronesians, and Micronesians can reap the profits from the new trade and service enterprises which the fishing expansion will support.

The extent of the commercial fishing expansion will depend largely on the effectiveness of governmental

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efforts to induce the expansion. The Trust Territory Government will need to seek outside capital and management to provide needed infrastructure, to assist in mobilizing and training an adequate labor force (Micronesians as available, others as necessary) and, in general, to support and facilitate the expansion.

The Trade and Service Industries

A great expansion in wholesale and retail trade and services is certain to occur in Micronesia during the next few years.

Local demands and money flows will expand rapidly as a result of (1) the expected increases in Trust Territory Government expenditures, (2) the local expenditures generated by the Peace Corps program, (3) the major injections of private capital (such as the hundreds of thousands of dollars of investment now flowing into Micronesia under the Mobil Oil Company contract), and (4) the increased money flows which will be generated by even a partial implementation of the recommendations of the Economic Development Plan. In view of the above, during the next five years trade and service activities in Micronesia will increase to more than twice and probably as much as three times the present levels. It is quite possible that trade and service activities in many of the district centers will expand five or six times by 1972. Unless all government program, land-use, infrastructure, and especially transportation planning anticipates these, development, trade, and service expansions will be seriously constrained.

The recommended Small Business Development Program will be essential in order to facilitate the speedy expansion of trade and service enterprises in the Trust Territory. This program must include vigorous lending and management assistance. In addition, a training program to prepare Micronesians for trade and service work should be begun immediately. A major effort is needed to stimulate the inflow of outside capital, management, and labor to supplement the scarce local resources and to prevent the development of constraints, shortages, and exorbitantly high prices.

Construction

Similarly, the construction industry in Micronesia will experience a rapid expansion during the next few years. The extent of this expansion will be determined by the extent of the increase in government spending and by the extent to which the recommendations of this Plan are implemented.

Outside capital, management, and labor will be necessary to permit the industry to expand and to allow essential construction to occur. But the government should train Micronesians and help them to participate as much as possible in the development of this growing industry.

Manufacturing

Except for the possibilities of processing copra and other agricultural products and fish and other marine products, manufacturing is not a promising force in the development of the Micronesian economy. Some local boatbuilding, handicraft production, and assembly operations

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are feasible and, as local markets develop and tourism becomes important, some new opportunities for local production of goods for local sale will arise. In general, however, it would be wasteful to exert a major effort toward developing manufacturing.

The Tourist and Travel Industry

The tourist and travel industry offers immediate opportunities for economic development in Micronesia and for opening new job, income, and training opportunities for Micronesians. A tourist industry will stimulate many kinds of profitable activities, including local marketing of agricultural products, fish, shells, and handicrafts; construction; wholesale and retail trade; and food, lodging, entertainment, and recreational sales and services.

The existing difficulties in obtaining permission to enter the Trust Territory, both for citizens of the United States and for aliens, has discouraged development of tourism and has seriously retarded the expansion of transportation facilities. Entry restrictions and delays should be reduced or, preferably, eliminated.

The Government will need to provide improved infrastructure and public facilities. Living accommodations, eating establishments, entertainment and recreation facilities, and historical sites and other tourist facilities and services needed to serve and attract tourists must be given priority.

The Plan recommends the establishment of an Office of Tourist Development to coordinate and facilitate

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the total development of the industry and undertake planning and promotion. Both the Small Business Development and the Industrial and Commercial Development programs should play major roles in stimulating and assisting the development of the required facilities and services.

The development of tourism is given priority in the Plan since the opportunity to reap considerable rewards from an expanding tourist industry is available to the Trust Territory now. The initial expenditures of money and effort that are required to take advantage of this present opportunity are minor compared with total overall development costs.

Transportation

Frequent, dependable, low-cost transportation is essential to any kind of significant economic development in the Trust Territory; but, in addition, transportation is in itself an important source of employment, income, training, and job experience.

In the past, the primary purpose of the transportation system has generally been that of serving and supporting the Government's programs. Only now is it becoming evident that long-distance air and sea transportation systems are essential for commercial and developmental needs. The Trust Territory Government needs to ensure the best possible transportation base for the support of economic development. All commercially feasible transportation services should be placed on a commercial basis as quickly as possible, with major emphasis on providing adequate support for economic development.

26.

The logistic shipping service should be provided exclusively by a financially sound, well-managed, broadly experienced shipping company. In return for a franchise, the company should be required to guarantee to provide the capital necessary to provide faster, more efficient, more frequent, and lower-cost service throughout the Trust Territory and between the Trust Territory and foreign ports. Arrangements must be made to ensure that the shipping company will expand the service and lower the costs as rapidly as the economics of the service will permit.

Similar arrangements should be made with an experienced, well capitalized airline for the provision of air services to, from, and within the Trust Territory. The Trust Territory Government should stand ready to provide operating subsidies or revenue guarantees to attract a commercial carrier to provide adequate service as required by the economic circumstances.

Transportation between the district centers and the outer islands is generally justifiable on administrative and economic grounds, but not on economic grounds alone. Because of the dual nature of the field trip service and the flat-rate subsidies paid to the private companies by the government, the administrative functions are not being properly performed; but still the companies are losing money. The Government's administrative and program requirements should be recognized as the primary purpose of the field trip operation, and the copra trading activity as secondary.

The Economic Development Plan recommends that the field-trip operations be recognized as primarily

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administrative, and that they be operated by the government with the costs charged against the outer islands' programs and administration. The government should formulate and implement an effective, detailed plan for transportation development in the Trust Territory. The Plan recommends the establishment of an Office of Government Enterprise Regulation and Management to maintain careful supervision over all transportation activities to ensure that economic development needs are given major consideration in the planning and evolution of all transportation systems.

IV. ECONOMIC EXPANSION POTENTIAL AND RESOURCE NEEDS, 1967-72

If the recommendations of the Plan bring the maximum potential development in each of the economic sectors, the total effect will amount to a very large expansion in the Trust Territory economy by 1972. This section presents estimates of total amounts of resources-- capital, labor, and land--which will be needed to support these potential expansions.

Meeting the Capital Requirements

About \$150 million in new capital investment will be required to produce the new and expanded buildings, equipment, facilities, infrastructure, and other fixed assets needed to support the planned five-year economic expansion. Of the \$150 million total, about one half will be needed for government investment in infrastructure and facilities. The other half, about \$75 million, represents fixed investment needs in the private sectors of the economy. This figure does not include working capital which will be needed for inventories, supplies, and other related costs.

Table 3 shows the estimated fixed capital requirements for each of the major economic sectors. Unless these fixed capital requirements are met, the potential expansions in these industries will not occur; unless the Government undertakes a vigorous effort to attract or mobilize investment from outside the Trust Territory, the capital needs will not be met. There are no sources within the Territory from which even a substantial portion of the total private capital requirement can be obtained.

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Table 3. Estimated Total New Fixed Capital Investment Required, 1967-72

Investment category	Range of Investment required (dollars)
Private (and/or government) direct investment in--	
Commercial agriculture.....	8 to 10,000,000
Copra	1 to 2,000,000
Commercial fishing.....	5 to 7,000,000
Manufacturing.....	1 to 2,000,000
Construction.....	5 to 10,000,000
Trade and services.....	5 to 11,000,000
Tourist, travel and recreation.....	10 to 15,000,000
Transportation (sea and air)..	20 to 27,000,000
Total.....	55 to 84,000,000
Government investment in general and specific infrastructure and facilities.....	50 to 75,000,000
Estimated total capital investment required.....	110 to 170,000,000

Source: Economic Development Plan for Micronesia, p. 664.

Local private capital from savings or from present private or governmental borrowing capacities cannot begin to meet the total needs. If the economic development of Micronesia is limited to the rate of growth which can be generated by resources of local ownership, the few local owners will prosper, but the total investment will be so limited that it will leave the great majority of the people with few employment opportunities, high prices, and shortages of goods and services. Under these circumstances, the only economic opportunity most of the people would have would be to get a government job and then to plead for higher wages to offset the high and rising prices of consumer goods.

The recommended Office of Industrial and Commercial Development should carry the major responsibility for stimulating the inflow of private development capital. In addition, the government should stand ready to provide some seed capital to invest in selected economic enterprises based on feasibility studies. In this way the Government can speed the beginning of new industries and can more quickly attract private capital for the further development of these industries. Furthermore, a major effort should be made to make foreign investors aware of investment opportunities in the Territory, and to provide potential investors with basic business services and incentives, such as economic forecasting, statistical services, and institutional assistance in conducting business in the unique business environment of the Territory.

Meeting the Labor Requirements

Between 20,000 and 30,000 full-time wage employees will be required to man the private industry and government

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program expansions projected for 1972. About one fourth, or between 5,000 and 7,000 of these jobs, will have to be filled by people from outside because of the skills and experience required. The remaining three fourths, or between 15,000 and 22,500 of the jobs, could be filled by Micronesians if this large number of Micronesian workers were moved to where the jobs are and were trained to perform them. The availability of Micronesian workers during the next several years will be limited by the absolute numbers of people, the great dispersion of the labor force and the resistance of many people to relocate, the rising number of young adults enrolled in school, and the opportunity of many Micronesians to lead a fairly easy and comfortable life without having to subject themselves to the rigid and unpleasant requirements of full-time wage employment. Thus, unless non-Micronesians are enticed to take the steps necessary to fill some of these jobs, much of the potential expansion cannot occur.

In many of the available jobs, the work may be much too demanding and the wages much too low to appeal to most Micronesians. Yet, in each industrial expansion there will be some jobs which will appeal to some Micronesians today and for which they are qualified; there will be many more Micronesians who will want these middle and upper level jobs in the coming years. But unless the bottom-level, lowest wage jobs are filled by someone, many of the potential industries cannot begin. Therefore, the better jobs that would appeal to Micronesians will not be created. The present operation of the Van Camp fishery in Palau illustrates this point. The low-paid and demanding jobs on the boats are filled almost

entirely by Okinawans, while the less rigid shore jobs are filled by Micronesians; but without the Okinawans on the boats, there would be no Micronesians employed ashore. It is clear that fairly large numbers of workers, especially low-wage laborers, will need to be imported.

Table 4 shows both domestic and imported labor which will be required to support the potential expansions in each of the sectors of the Trust Territory. To the extent that the labor requirements are not met, the potential expansion cannot occur.

Meeting the Land Requirements

If the existing land resources of the Trust Territory are properly and efficiently utilized, these resources will prove to be more than adequate to support both the immediate and the projected long-run development needs of the economy. However, the lack of available land will prove to be a serious impediment to economic expansion if the haphazard and unplanned land management and use practices of the past are continued.

Table 5 shows estimates of present land uses and indicates general changes in land-use patterns which will be required to support the projected economic expansions by 1972. As indicated in the table, total government holdings will need to be decreased and acreages in agriculture, coconut palms, and commercial and residential uses will need to be increased.

If economic development is to proceed as rapidly as desirable, arrangements must be made for changing the land ownership patterns. Careful and thorough

Table 4. Estimated Average Annual Labor Requirements, 1967-72

Sector or industry	Labor requirements		Total
	Indigenous	Nonindigenous	
	-----Number-----		
Construction.....	1,750 - 2,250	1,750 - 2,250	3,500 - 4,500
General agriculture (commercial)....	900 - 1,000	300 - 400	1,200 - 1,400
Copra.....	2,500 - 2,600	--	2,500 - 2,600
Commercial fishing.....	775 - 900	100 - 175	875 - 1,075
Manufacturing.....	150 - 200	25 - 50	175 - 250
Retail/Wholesale trade.....	3,500 - 6,000	1,600 - 2,000	5,000 - 8,000
Individual services.....	350 - 600	150 - 200	500 - 800
Institutional services.....	75 - 100	25 - 50	100 - 150
Tourism.....	750 - 1,200	250 - 300	1,000 - 1,500
Transportation.....	475 - 575	200 - 325	675 - 800
Trust Territory Government.....	3,800 - 4,500	1,500 - 1,800	5,300 - 6,300
United States Government Agencies..	1,000 - 1,500	--	1,000 - 1,500
Total.....	16,025 - 21,425	5,800 - 7,550	21,825 - 28,975

Source: Economic Development Plan for Micronesia, p. 667.

Table 5. Estimate of Land Utilization and Projected Needs

Economic Sectors and Activities	1966	1972
	<u>Acres</u>	<u>Acres</u>
Trust Territory Government:		
In use by administering authority.....	23,948 ^{a/}	23,348
Public domain (including recreation, forest, homesteads, some leaseholds, and other).....	233,488 ^{b/}	194,488
Total.....	257,436	217,836
Agriculture (excluding subsistence):		
General commercial and livestock.....	14,700 ^{c/}	37,700
Copra.....	78,000	86,000
Total.....	92,700	123,700
Commercial:		
Trade and services.....	d/	300
Tourism.....	d/	150
Fisheries.....	d/	150
Total.....	--	600
Private land holdings (subsistence, forest, and other)		
Residential requirements.....	86,614 ^{e/}	92,114
	11,250	13,750
Total.....	97,864	105,864
Total.....	448,000	448,000

a/ Includes areas used for administration, education, public utilities, military retention, and others.

b/ Excludes leaseholds in the Marianas District. Includes 23,157 acres of homesteads throughout Trust Territory.

c/ Includes 14,500 acres leased for commercial agriculture and grazing in the Marianas District.

d/ No data available.

e/ Includes land held by indigenous and nonindigenous persons and religious missions. Excludes 78,000 acres of coconut groves and residential requirements.

Source: Economic Development Plan for Micronesia, p. 690.

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land-use analysis and planning must be undertaken by the Trust Territory Government. Surveys of present ownership and use must be undertaken to develop total land-use plans. The land-use plans should reflect economic development opportunities, government programs, road and other infrastructure plans, engineering and economic feasibilities, and political and community development needs.

The total cost and effort required to reform existing ownership patterns and land-use planning is very small compared with the essential nature of this effort to the expansion of government and private development activities in Micronesia. Careful and thorough professional land-use planning in the district centers should be started as soon as possible; ultimately, land-use plans and maps should be completed for all of the district centers and other major islands for which government and private investment and activity is projected.

Meeting the Total Needs to Support Development

The potential development of Micronesia does not merely require that necessary quantities of capital, labor, and land be available; the right amounts of the right kinds of each of these must be available in the right places at the right times--Government fixed capital investments (infrastructure); private fixed capital (buildings, machinery, equipment); and the necessary labor supply with the right mix of abilities, skills, training, experience, and attitudes must be available at the right times and places. Similarly, the properly located parcels of the right kinds of lands must be available when needed; the total political and legal climate must

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be conducive to healthy business operation and expansion; and the Trust Territory Government must be able to provide the specific kinds of financial, statistical, technical, legal, managerial, and other advice and assistance as required.

V. ADMINISTRATIVE PLANNING AND MANAGEMENT

Information and Data Gathering and Analysis

Far more and better information and data need to flow continually to Headquarters from throughout the Trust Territory. A centralized unit at Headquarters should plan the gathering of statistics, and should process the raw data to produce the kind of summary information and statistics needed for intelligent management decisions on all programs, projects and activities.

Very little useful information and data is now being gathered on a regular basis. Much of what is gathered is not accurate. The available information and data generally are not coordinated and processed to provide a sound basis for informed planning and management decisions.

The following kinds of information and data need to be gathered in an organized manner and analyzed on a regular, continuing basis:

1. Measures of quantities, characteristics, locations, and present uses of human, natural and capital resources in the Trust Territory.
2. Measures of levels of and change in economic activity, including flows of dollars and goods and services and general levels of activity and economic conditions in the Territory.
3. Measures of accomplishments or effectiveness of each government program, project, or activity relative to clearly established goals.
4. Reports on local government and community conditions and activities, especially regarding taxes,

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business licensing, and regulatory activities.

5. Reports on special district conditions and circumstances and recommendations from the District Administrators regarding program or project plans and implementation.

The efficient gathering and analysis of the kinds of information and data recommended here will permit unified, realistic program and project planning for the Trust Territory. All programs and projects can be aimed explicitly toward chosen long-run objectives. Priorities can be assigned in accordance with top-policy decisions.

Unified Planning and Effective Management

The achievement of unified planning and effective management in the Trust Territory will require basic changes in administrative organization, procedures, and personnel. Figure 1 presents the proposed organization as recommended in the Economic Development Plan.

The Plan recommends that a Central Planning Office be established and attached directly to the Office of the High Commissioner. It also recommends the appointment of a Deputy High Commissioner for Planning and Programming to direct and coordinate the planning of all the various departments of the Trust Territory Government. The Planning Deputy should be responsible to the High Commissioner for coordinating the development of unified plans. He should have the necessary training and experience to enable him to introduce economic analysis into the planning and programming of all the government's operations and activities.

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Effective administrative management will be necessary to translate the plans into action. The most serious breakdown in the present administrative structure is in the link between the High Commissioner and the six District Administrators. Effective administrative management will not be achieved until each District Administrator begins to function as an active and responsive arm of the High Commissioner.

The Plan recommends that a strong direct link be established between the High Commissioner and the District Administrators, as shown in figure 1. The recommended Deputy High Commissioner for Operations should be charged with the responsibility for maintaining communications with, support to, and supervision over all district operations. The Plan also recommends that two Assistant Commissioners work under the Operations Deputy. Both should reside in the field to assist the District Administrators as necessary to guarantee the successful implementation of all policies, programs, and projects. This system can overcome the great distances, problems of inertia, and less formal practices of the past. As new procedures are introduced and new habits formed, and as communications and transportation links are improved, the Operations Deputy may be able to do his job without the help of the two Assistant Commissioners in the field; but for the next year or two, the field work will be much too intensive and demanding to be handled successfully by one man. In the past, the correction of these problems has been hindered by the lack of funds, but with increasing appropriations and a new emphasis, these shortcomings soon can be overcome.

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The recommended changes in organizational lines and functional responsibilities shown in figure 1 represent one specific approach to meeting the planning and management needs. Some other approach might be equally effective. The important need is to provide channels and arrangements which result in good planning and management.

The implementation of the changes shown in figure 1 could be seriously delayed in the process of acquiring new key personnel. The High Commissioner should nevertheless begin immediately to undertake and strengthen planning and management by redefining functions and reassigning some of the staff members already available. Figure 2 presents an alternative organization which could be established and staffed by the reassignment of present Trust Territory Government employees. The organization shown in figure 2 will not be found in the Plan since it evolved from discussions after the Plan was submitted.

Improved administration and personnel will yield a more efficient and responsive management organization. As this evolves, the working relationships between the Trust Territory Government and the Department of the Interior should be reassessed. The High Commissioner should be allowed sufficient flexibility and decision-making authority to enable him to function with speed and decisiveness.

Figure 1
RECOMMENDED ORGANIZATION OF THE TRUST TERRITORY ADMINISTRATION

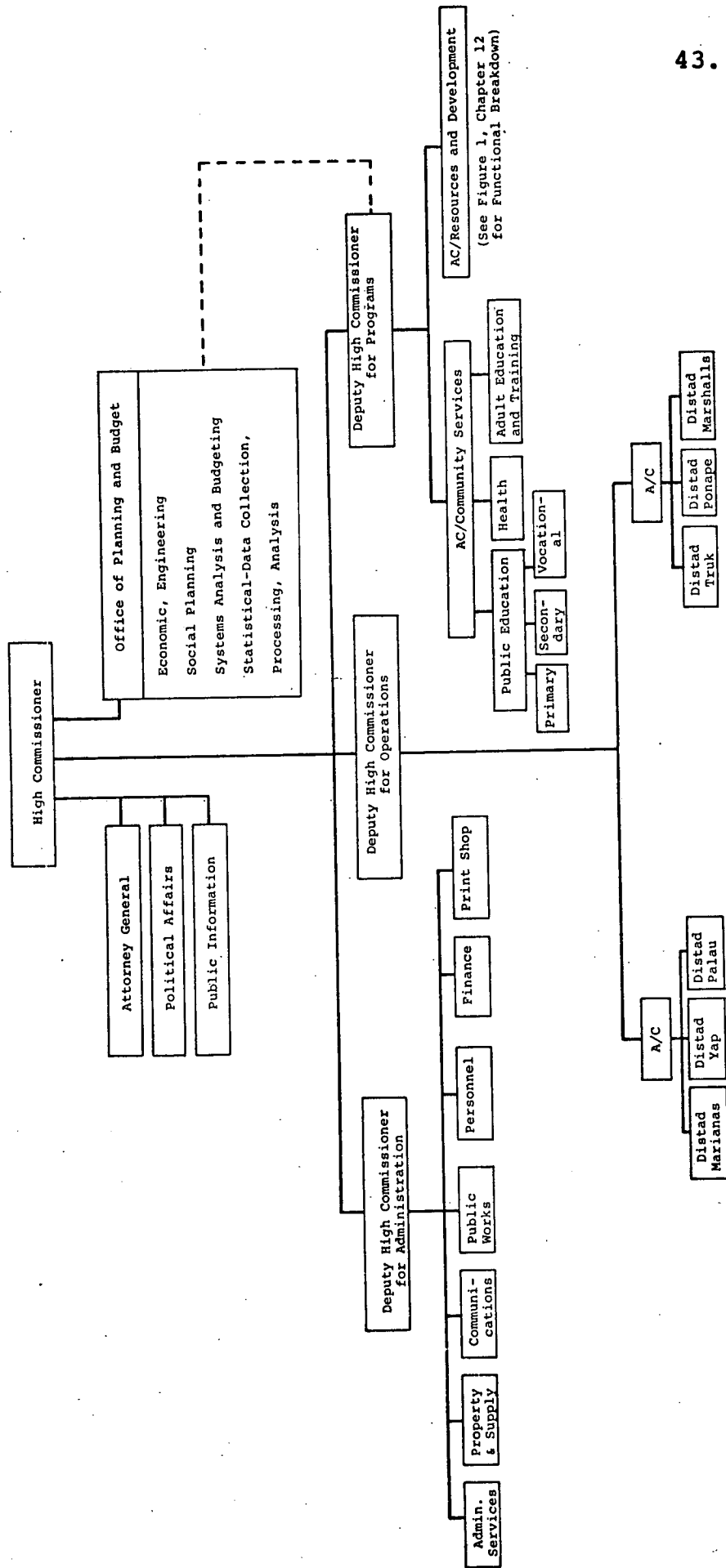
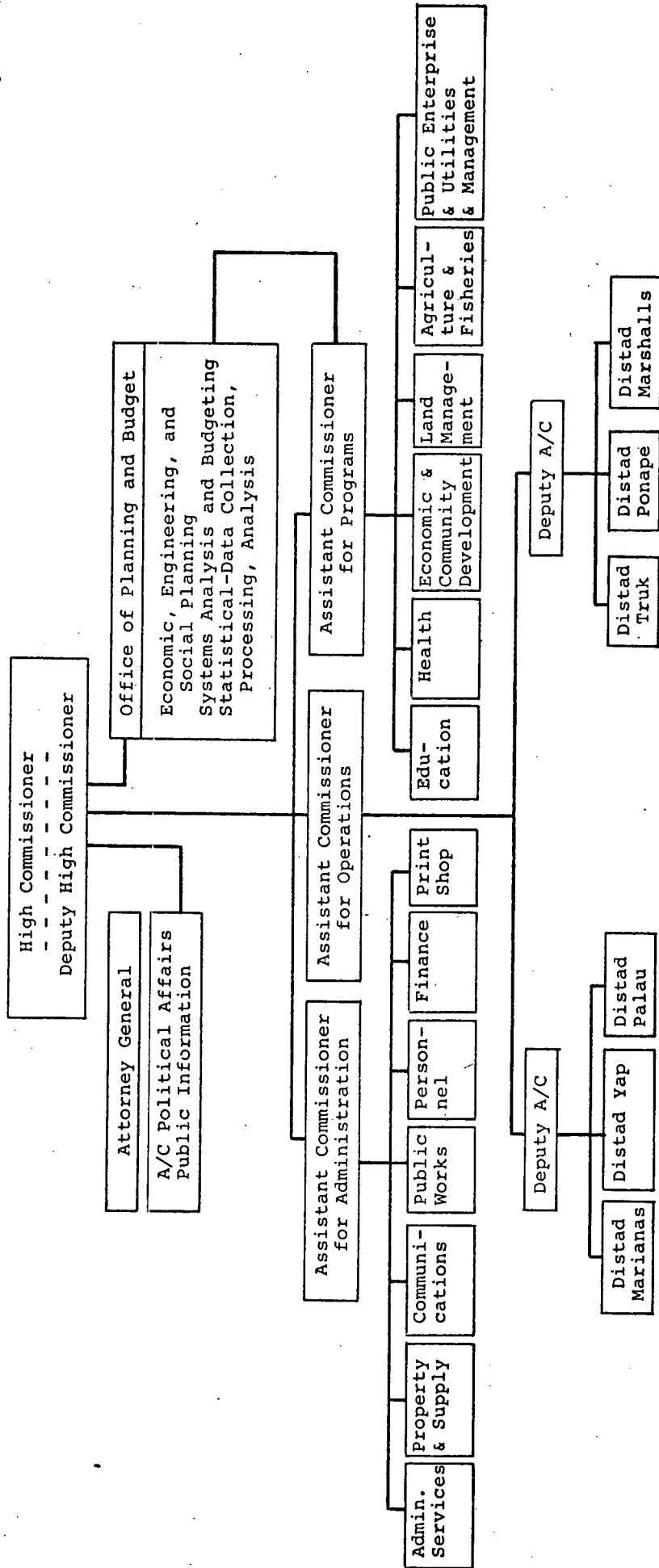


Figure 2

RECOMMENDED TRANSITIONAL ORGANIZATION STRUCTURE FOR TRUST TERRITORY GOVERNMENT



VI. GOVERNMENT PROGRAM RECOMMENDATIONS

Trust Territory Government Expenditures

Prior to 1962, the Trust Territory Government operated on an annual budget of \$6.5 million. Plans and programs designed to bring rapid changes in either economic or social conditions in Micronesia were largely absent.

In 1962, the budget ceiling for the Trust Territory Government was raised to the annual level of \$15 million and, in 1963, further raised to the present level of \$17.5 million. Most of the added funds were used to expand public education and health programs. Today, more than two thirds of total government spending in the Trust Territory goes for the direct and indirect support of health and education programs.

Table 6 shows the approximate amounts now being spent on each program. The table also illustrates the lack of emphasis on direct development activities. The Economic Development Plan recommends that, as expenditures are further expanded, the emphasis on direct development, particularly economic development, should be considerably increased.

Table 7 shows the approximate breakdown of expenditures by the Trust Territory Government in fiscal year 1967, compared with the preliminary requests for expanded expenditures during fiscal years 1967 and 1968. The preliminary proposals show an even greater relative emphasis on community services than is shown in the

Table 6. Patterns of Trust Territory Government Expenditures^{a/}
(Estimated Annual Rates, 1966-67)

Sector	Expenditure		Percentage of total
	Dollars		Percent
<u>Direct services to individuals</u>			
Education:			
Direct expenditures.....	6,600,000		
Overhead.....	2,700,000		
Total.....	9,300,000		44
Health and medical:			
Direct expenditures.....	4,000,000		
Overhead.....	1,600,000		
Total.....	5,600,000		26
Utility and other direct services:			
Direct expenditures.....	2,100,000		
Overhead.....	800,000		
Total.....	2,900,000		14
<u>General government</u>			
Headquarters and district executive offices.....	600,000		
Protection and enforcement.....	500,000		
Judicial.....	200,000		
Overhead.....	500,000		
Total.....	1,800,000		9
<u>Direct development programs</u>			
Economic development:			
Agriculture..... ^{b/}	360,000		
Industrial and commercial.....	120,000		
Fisheries.....	80,000		
Economic planning contract.....	230,000		
Total.....	800,000		
Political development.....	70,000		
Community development.....	100,000		
Overhead.....	400,000		
Total.....	1,400,000		7
Grand Total.....	21,000,000		100

a/ Direct expenditures include construction costs.

b/ Cooperatives, \$90,000; other, \$30,000.

Source: Economic Development Plan for Micronesia, pp. 534-536.

Table 7. Trust Territory Government Budgets,
Fiscal Years 1967 and 1968

Budget category	1967	1967 Revised preliminary	1968 preliminary
	-----Million dollars-----		
Office of the High Commissioner.....	.3	.3	.3
Judiciary.....	.2	.2	.2
Total.....	.5	.5	.5
Programs, administration, operations:			
Community services.....	6.6	8.5	11.7
Public affairs.....	.2	.4	.4
Resources and development Protection to persons and property.....	1.5	2.1	2.7
Administration.....	.5	.6	.7
Operations, maintenance, transportation, and communications.....	2.5	3.3	3.2
Total.....	4.7	6.7	6.0
Total.....	16.0	21.6	24.7
Capital improvements.....	2.5	10.5	10.4
Grand Total.....	19.0	32.1	35.1

Source: Prepared by the Trust Territory Government Staff, Economic Development Plan for Micronesia, p. 646.

Table 8. Recommended Trust Territory Government Expenditure Allocations among Programs and Functions, Calendar Years 1967-72a/

Programs and Functions	Average Annual Budget	
	Low	High
	<u>-Million dollars-</u>	
Office of the High Commissioner.....	.3	.5
Judiciary.....	.3	.5
Total.....	.6	1.0
Programs, administration, operations:		
Community services (education, health, etc.).....	9.0	10.0
Public affairs.....	.7	1.0
Resources and development.....	3.5	4.0
Protection to persons and property.....	.8	1.0
Administration.....	3.5	4.5
Operations and maintenance.....	5.0	6.0
Communications.....	.5	1.0
Transportation ^{b/}	2.0	2.5
Total.....	25.0	30.0
<u>Capital Improvements</u>		
Programs and activities:		
Service programs (education, health, etc.).....	2.0	2.4
Development programs.....	1.0	1.3
Administration.....	1.0	1.3
Total.....	4.0	5.0
Economic sectors.....	3.0	5.0
General infrastructure.....	3.0	5.0
Total.....	6.0	10.0
Grand Total.....	35.6	41.0

a/ Assumes average annual expenditure of \$35-40 million.

b/ Trust Territory Government operations and subsidies to private carriers.

Source: Condensed from Economic Development Plan for Micronesia, p. 647.

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actual 1967 budget. Some increases are allocated to economic development, but very few.

Table 8 shows the average annual budget allocations recommended in the Economic Development Plan. These figures indicate a considerable reemphasis toward direct economic development and toward increased operational and maintenance support of present programs. The increased developmental expenditures will be necessary to enable both the Trust Territory Government programs and the expanding private enterprises in Micronesia to function efficiently.

In addition to the change in relative financial support provided for the various programs, the Plan recommends redirection in emphasis within each of the major government programs in order to provide the necessary impetus to economic development.

Direct Development Programs

The Trust Territory Government's current three direct development programs--political development, community development, and economic development--should be redesigned, coordinated, and expanded to spearhead the total development effort.

Political Development. The direct political development activities of the Trust Territory Government have major economic development significance. If policies and programs for economic development are to be properly implemented, the understanding and active support of the Micronesian legislative bodies will be necessary. The legislators will need to know and appreciate the

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reasons for each recommended policy and program. They will need to be involved in many policy decisions, and to assist in the implementation of policies and programs. The legislators will need to understand the economic development significance of their actions, and to know what is in the enlightened, long-run interests of Micronesia.

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

Community Development. A vigorous effort needs to be pursued to coordinate the economic, political, and social community development activities in each of the district centers. Community action organizations at the local level, when provided with adequate professional help, can have a major impact on economic and other local conditions.

Economic Development. The direct economic development effort should consist of the following programs: small business assistance, industrial and commercial promotion, tourist and travel industry expansion, commercial agriculture and copra development, and increased commercial fisheries.

An active, capably staffed small business development program is urgently needed. This program should provide existing and prospective local businesses with help and training in matters of production, supply, markets, accounting, finance, and all other aspects of effective

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management. It should help enterprises in every economic sector--construction, manufacturing, trade, services, fisheries, agriculture, etc.

The small business development program in each district center should operate in close coordination with the direct community and political development efforts and with adult education and training activities. This program should be thought of as the grass roots economic development effort. The Economic Development Loan Fund should become an integral part of this program.

The industrial and commercial development program should be aimed toward creating and expanding large commercial enterprises by stimulating and enticing outsiders to invest in the Trust Territory. This is the program which should have the major responsibility for bringing in the capital, management, and labor as needed to spearhead major breakthroughs in the economic development of the Trust Territory.

The industrial and commercial development program should seek investments by major firms in commercial fishing, agriculture, private utilities, hotels, restaurants and entertainment, manufacturing and assembly, food and fiber processing, and mineral extraction. Such expansion will provide new money flows in the local economy and new employment and income opportunities for Micronesians. Without an effective industrial development program, the Trust Territory will lose many potential industries to the intense competition from other areas of the world. Inducements to prospective investors should be formulated by the top policy authorities, and the

industrial and commercial development program should aggressively promote investment within the context of these clearly defined incentives.

The major functions of the other three direct development programs--tourism, agriculture, and fisheries--were summarized in an earlier section of this report. The recommended organization of the Department of Resources and Development is presented in figure 3. The approximate amounts of money required to support each of these recommended programs is shown in table 9.

Since 1962, sizable expansions have occurred in some government programs, facilities, and services. These expansions are now providing an improved base upon which economic development can be built. The direct development effort, supported by the proper policies and the coordinated efforts of all the other government programs, can produce significant economic expansion in Micronesia.

The Plan gives a realistic explanation of what can be achieved in economic development, and of what must be done. If the recommendations of the Plan are followed, the people of Micronesia should enjoy expanded economic opportunities for themselves during the next few years. However, desires or plans alone will not bring optimum results. What is needed, above all, is a combination of policies, institutions, and positive efforts and actions.

The index following provides a subject guide to the Economic Development Plan for Micronesia.

Figure 3

Recommended Organization of the Department of Resources and Development

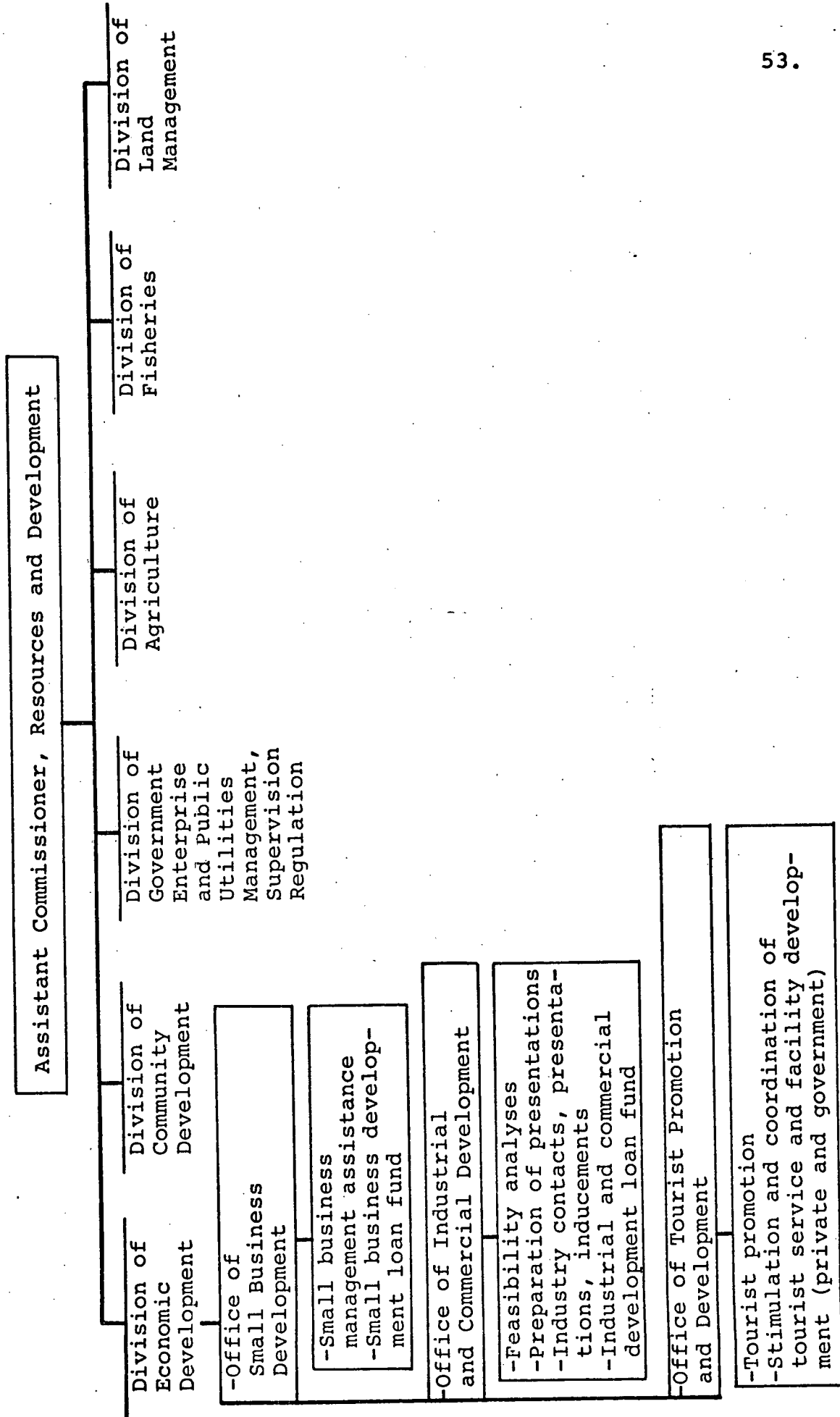


Table 9. Suggested Distribution of Expenditures Among Programs and Functions within the Department of Resources and Development

(Recommended Approximate Annual Averages, 1967-72)

Programs and functions	Expenditures	Percentage of total operating expenditures	Percentage of total resources and development expenditures
	<u>Dollars</u>	<u>Percent</u>	<u>Percent</u>
Operating expenditures:			
Economic development			
Department head.....	60,000		
Small business development....	200,000		
Industrial and commercial.....	70,000		
Tourist and travel.....	70,000		
Total.....	<u>400,000</u>	13	
Government enterprise and public utilities management...			
Agriculture.....	100,000	3	
Fisheries.....	1,500,000	50	
Land management.....	200,000	7	
Community development.....	600,000	20	
Total.....	<u>200,000</u>	7	
	<u>3,000,000</u>	<u>100</u>	46
Contributions to funds:			
Small business development fund.....	100,000		
Industrial and commercial development fund.....	500,000		
Total.....	<u>600,000</u>		8
Operating Costs and Subsidies: (Transportation, general utilities, other).....	3,000,000		46
Grand Total.....	6,600,000		100

Source: Economic Development Plan for Micronesia, p. 644.

I N D E X

Copies of the three-volume Economic Development Plan for Micronesia can be obtained from the Department of Resources and Development, Trust Territory Headquarters, Saipan, Mariana Islands 96950, \$14.50, airmail; \$10.50, book rate.

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