MEMORANDUM

In the summer of 1946 at the request of the Navy Department, the U.S. Commercial Company undertook an economic survey of the islands of Micronesia. At the end of that time, the researchers wrote fifteen book-length volumes describing their findings plus a summary volume embodying economic policy recommendations.

Among these recommendations was the following:

> "...that no new tax program should be instituted until specific analyses have been made of the extent of islanders' rehabilitation needs in terms of homes, productive industries, agriculture and income-producing enterprises..."

Despite this counsel of more than a score of specialists drawn from various departments of government, including Agriculture, Commerce, Public Health, Interior, and supplemented by technicians from universities, including Yale, Wisconsin, Northwestern, and Hawaii, who were sent into the field at an estimated cost of $150,000, the Navy Department recently issued directives arbitrarily authorizing two taxes to be levied on the people of the Micronesian Trust Territory. The first was an import tax, made effective August 15, 1947 and applied also to the Bonin Islands; the second, a processing tax, effective as of October 1, 1947. An explanation of these taxes and something of their implication follows.

Explanation of the Taxes

The import tax applies to all articles "not produced, processed or manufactured in United States, its possessions or in Trust Territory plus Bonins." It averages about 20% ad valorem. Cotton textiles, for example, have a 15% ad valorem duty; medicines, 25%; shoes, 40%. Goods most likely to come from the Far East bear a higher duty: silk textiles, 40%; rice, 20 cents per 100 lbs.; toys and ornaments, 50%. Paper, now a scarcity in the U.S. and its possessions, is taxed 15% to 40%, depending upon the grade.

The processing tax applies to all goods processed or manufactured in the Trust Territory by corporate concerns for export and is a flat 15% ad valorem tax. The manufacture of tile, refining of coconut oils, fish canneries, etc. probably will be most affected by this duty.

The directives authorizing the taxes were issued by R. Adm. C. H. Wright, Deputy Commander Marianas.

Background on Island Living Conditions

The implications of *any* tax on the 50,000 people of this area cannot be seen until set against the background of present-day living conditions in these islands.

Of these conditions the U.S.C.C. specialists wrote (Vol. I., p. 16)

> "Due to the ravages of combat, natives in Saipan, Rota, Yap, Palau, Truk, Ponape, Kusaie, and main centers in the Marshalls have had much, if not most of their economic resources nullified or destroyed; subsistence levels; natives' savings are inaccessible, frozen, or lost; schools, hospitals, and other essential public facilities were bombed out of existence and present facilities are but temporary; land and property claims allowable under international law have not been settled; in general, the native economy in practically the entire area is in a serious state of maladjustment, with natives having no alternative to directing most of their energies to providing bare subsistence considerably below prewar levels."

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Devaluation of the Yen

Of available money and Islanders' savings, they added (Vol. I, p. 65)

"When Military Government officials established jurisdiction over natives in the Mandated Islands, they exchanged yen currency of natives at the rate of 20 yen to a dollar and to a limit of fifty dollars a native. Yen surpluses above that exchanged for dollars were collected and individual owners given receipts. Military Government now holds this yen currency along with other 'captured documents,' with no apparent plan for restoration . . . the establishment of an exchange rate of twenty to one cannot be justified.

"This Board recommends that the prewar exchange rate of approximately four yen to a dollar be re-established for Micronesia, and that this be extended retroactively to the dates of occupation to permit an adjustment of natives' yen already exchanged for dollars. . .

"Natives in Palau verified postal savings claims amounting to 687,500 yen. Rota natives have postal savings listed to the sume of 10,163 yen, and, in addition, Chamorros have a community claim of slightly more than 11,000 yen for a savings deposit in the Bank of Saipan...They now need, and they could use to great advantage, the cash equivalent of these savings."

Coolie Wage Standards

As indicated by recent stories of the Bikini natives who were moved to Rongerik and left to hunger, some island peoples have been virtually abandoned by the Navy. Inhabitants of other islands, living in temporary shelters often away from their farm land and deprived of their savings, have had to depend largely on work provided by the Navy and compensated by Navy decreed wages. These wages are shocking.

In an order dated 3 April 1947, Admiral C. H. Wright prescribed a maximum wage scale for the ex-mandates, except Saipan and Tinian, which is in force today. That wage scale allows payment of common labor 5 cents to 7½ cents an hour; of semi-skilled, 7½ cents to 9 cents an hour; skilled, 9 cents to 11½ cents an hour. A supervisory foreman can earn 25 cents to 30 cents an hour. Clerks and sub-professional workers are limited to $15 to $36 a month. Professional and administrative natives, including the two highest classifications of teachers, get $20 to $75 a month. The most talented, educated, skilled native in the area cannot receive wages exceeding $150 a month without the approval of the Sub-Area Commander.

It cannot be over-emphasized that these wages are maximum wages. The order reads:

"Sub-Area Commanders may prescribe lower rates than those herein authorized where in their opinion such action will best serve current needs in their respective Sub-Areas. . .

"Nothing herein contained shall interfere with the payment of part-time employees in Groups V and VI (clerical, professional and administrative) including officials, in outlying islands and small communities, as small a salary as their work load warrants."

For apprentices under 16 years, the Navy will dribble out 3 to 5 pennies for each hour's service; for domestics, to which classification many natives are confined, 4 to 6 cents an hour, plus subsistence provided by the employer.

Generally speaking, the breadwinner of a Micronesian family makes no more than 50 cents a day, about $3.00 a week or $12 a month.

The U.S.C.C. specialists reported (Vol. 1, p. 61):

". . .Today, as compared with prewar, natives' incomes are considerably less. . .

". . .On Yap a fourth of the families with incomes in 1939 now have none. Among those with current incomes, the average amount received each month dropped from $25.99[1] in 1939 to $15.98 in 1946. Residents of Palau experienced even greater declines in income. In 1939 the average Palau family had a monthly income of $44.33[1]; the same group's average monthly income in 1946 was $14.57. On Rota there were only 31.5 percent as many wage earners in 1946 as there were in 1940, and the average monthly earnings dropped from $14.22[1] to $11.54.

Members of the Editorial Board recommended a restoration of natives' prewar level of income as an immediate objective for economic planning in Micronesia. After their 1946 survey they wrote (Vol. I, p. 70 - 71):

"The present wage rate is interpreted as <u>the</u> wage; it should be interpreted as the minimum. . .

"The minimum wages should be sufficient to provide for every full-time worker enough purchasing power to secure a level of living at least equal to that which prevailed before the war. This condition does not prevail today. . ."

"Members of the Editorial Board recommend a restoration of natives' prewar level of income as an immediate objective for economic planning in Micronesia. . ." (Vol. I, p. 61)

It was after this recommendation was in the hands of the Navy that Admiral Wright decreed <u>maximum</u> wages generally not exceeding 3 cents to 11½ cents an hour.

Deflated Buying Power

While the level of income in Micronesia was going down, buying power also declined. The U.S.C.C. reported (Vol. I, p. 61):

"Concurrently with losses in income, purchasing power of specific income units also declined. An analysis of prewar costs of selected commodities in terms of earning capacity, compared with costs and earning capacity, indicates that natives must now work longer — when work is available, which is not commonly the case — to purchase the same goods. A cost-of-living "basket" of these selected commodities would have cost islanders 93.9 percent more on the basis of August 1946 U.S. wholesale prices than the same commodities cost on the average during 1936-40 in the Tokyo wholesale market. . .

"In 1939, the 60 sample families (on Yap) spent an average of $4.32 a month on imported goods. In 1946, the same group of families expends $5.69 a month for the same kind of goods. The proportion used for the purchase of food has remained the same. In the former sample year, it was $2.63, and in the present, it is $3.51. Forty percent of the families no longer buy anything, for lack of income or supplies wanted. There is a conspicuous absence in the current period of any investments in capital-durable goods. Practically no money today goes into house building, household effects, fishing gear, canoes, etc. These comprised a substantial part of family budgets in the prewar era — and at that time native resources were greater than at present. For example, in 1939, the 60 sample families as a group owned 9 cattle, 241 hogs, 2,214 chickens and 24 ducks. Now they have no cattle, 13 hogs, 484 chickens, and 1 duck."

That was in 1946. And prices in Micronesia, like in the U.S. have been constantly rising. Some commodities actually sell for more in the Trust Territory than they sell for in the United States.

American Cost Schedule

There never has been a completely uniform or stable price schedule throughout the islands. Goods for the natives are procured by the U.S. Commercial Company under an arrangement with the Navy Department. Most purchases are made

[1] Converted on the basis of four yen to the dollar.

from United States wholesale markets. Sometimes in the past, the U.S.C.C. has sold above cost, cometimes below cost. At almost any time prices have been greater than Micronesians could comfortably pay. For example, the 40 cents a gallon being charged for gasoline throughout most of the area as of September, 1947, was more than many natives earned in a day.

The subject of prices is such a "hot" one that both the Navy Department and U.S.C.C. refuse to discuss it. For two weeks the Institute of Ethnic Affairs sought from the U.S.C.C. a statement as to total commercial transactions within the Trust Territory for the past year and a price list on some of the most essential commodities. That statement was never provided.

From the Navy Department it was learned that current price listings had been sought from U.S.C.C. men in the field, but that those figures had not been received.

Finally, it was learned by the Institute upon reliable authority, that prices fluctuate from time to time but that the level generally is rising. As of September, 1947, it was reported, 20 cents was being charged for a gallon of kerosene and about the same for diesel oil. Gasoline sold for 40 cents a gallon; milk for 10 cents a can, rice for 15 cents a pound; flour, when available, for 10 cents a pound.

Despite prohibitive costs, the importation of goods is essential. The U.S.C.C. Board commented (Vol. I, p. 46):

> "The presence or absence of imported goods means to most natives the difference between a satisfactory standard of living and a submarginal one, the difference between having a chance to become self-sufficient through their own production or being dependent upon the government for relief, the difference between progressing toward a better life or recession to the kind of life which existed in aboriginal times. . ."

In the light of these facts, the recommendation of the U.S.C.C. specialists that no tax be imposed on the Islanders until rehabilitation is effected and wage schedules are raised, becomes increasingly clear.

Why the Navy Imposed the Taxes

Why then has the Navy chosen to import import and export duties on the poverty stricken people of the Pacific Islands?

Capt. W. F. Jennings, chief of Islands Government Section in the Office of the Chief of Naval Operations in Washington, explains them as purely revenue taxes. He says that Congress has not appropriated sufficient funds to administer the Trust Territory properly and that the Navy Department has been forced to find some means of securing local revenue.

($3,000,000 was appropriated by Congress for the fiscal year 1948 to the Navy Department for the administration of Guam, American Samoa and the Trust Territory. This figure does not include salaries for personnel, transportation and communication costs, or the cost of training officers at the Stanford University School for Naval Administrators. Before the war, Congressional appropriations totaled about $35,000.)

Captain Jennings goes on to explain that no processing taxes now are being collected because no industries have been set up in the Islands. And only a "trickle" of goods is coming from areas outside the United States and its possessions, he says; so revenue from the import tariff cannot be said to swell the Island Government coffers. The effectiveness of the taxes therefore remains to be proved. Their potential of discouraging privateeenterprise and discouraging trade with countries other than the United States looms ominous.

Import Duty Violative of Trust Agreement

The very fact that the import duty applies only to goods coming from countries other than the United States seems to be a violation of a United Nations trust. These Micronesian islands are held by the U.S. under a trusteeship agreement approved by the United Nations Security Council.

Article 8 of that agreement provides that

> "...the administering authority, subject to the requirements of security, and the obligation to promote the advancement of the inhabitants, shall accord to the nationals of each Member of the United Nations and to companies and associations organized in conformity with the laws of such Member, treatment in the trust territory no less favorable than that accorded therein to nationals, companies and associations of any other United Nation, except the administering authority."

Warren R. Austin, U.S. Representative to U.N., when questioned about the phrase, <u>except the administering authority</u>, stated for the record:

> "...the United States Government has no intention, through this clause or any other clause, of taking advantage for its own benefit, and to the detriment of the welfare of the inhabitants, of the meager and almost non-existent resources and commercial opportunities that exist in the scattered and barren islands..."

In view of this interpretation, imposition of the import tariff constituted a clear violation of the Trust Agreement. Unless the tax is revoked, the United States may be called to task by other countries on the Security Council or on the Trusteeship Council or on both.

The inclusion of the Bonin Islands in any order affecting the Trust Territory might also be interpreted as a presumptive attitude on the part of the U.S. Navy. The Bonins are not a part of the former Japanese Mandated Islands. It is not becoming of the Navy to claim U.S. jurisdiction over them until their disposition has been determined at the writing of the Japanese peace treaty.

Conclusion

In sum, the lack of integrative planning for the economic welfore of the inhabitants of the Trust Territory has resulted in the imposition of an American cost schedule on a people with pre-war Japanese living standards. Continued pursuance of this policy can only result in economic strangulation of Micronesia.