THE CREATION OF A COLONY:
THE PARADOX OF ECONOMIC AID TO MICRONESIA

Two Varieties of Underdevelopment

The basic problem of underdeveloped countries is often stated as that of capital formation. Those underdeveloped nations that have especially caught the public eye and have demanded the attention of economists—particularly the countries of Asia and Latin America—must struggle with the difficulty of accumulating enough capital to provide the investments that are so necessary if they ever intend to industrialize. Overpopulation in these countries is generally looked upon as simply an amplification of the problem of capital formation, since it means that the barriers have been raised even higher, making additional savings necessary in order that any substantial economic progress be achieved. The question that continually plagues these large, rather populous countries is where they are to acquire the savings needed for their ascent towards economic prosperity.

This does not seem to be as pressing a problem for the island dependencies that are scattered throughout the Pacific. Although capital formation is something of a primary concern in the development of any people, these island groups are favored by their close economic ties with a metropolitan whose population and industrial capabilities are thousands of times greater than those of the island colonies. The Trust Territory of the Pacific is administered by the United States, a country that could very easily sweep it along to a point of prosperity that might make Micronesia the envy of the Third World. The same could be said of other island groups in the area.

The difficulty, therefore, is not in finding a source of capital, but in making sure that it is applied judiciously and in the best interests of the developing people. It might even be said that the very affluence of the metropolitan in respect to the colony constitutes the most serious danger. Lavish expenditures can stunt the growth of a developing country and prevent it from reaching the stature that it might otherwise have attained.

This paper is to be a case study of one of those island groups, Micronesia. After a brief review of the philosophy of economic assistance that has guided the
administration of these islands by the U.S., we will bring to light some of the problems that have emerged within the past few years as increased funds have been poured into a new development program. Finally, we will attempt to show the dilemma that confronts Micronesia on the eve of its political and economic thrust forward into the contemporary world.

The Case For Natural Growth

From the standpoint of economic growth, Micronesia shares several severe handicaps in common with other Pacific territories. Its present population of 90,000 is sprinkled over no less than 96 inhabited islands covering an area of 3 million square miles. Even after the large outlay required to provide minimal transportation throughout the Trust Territory, the manpower pool is anything but concentrated. Only on a few central islands is there a population reaching the range of four or five thousand. The nearest markets are well removed from Micronesia, and shipping is costly. In addition, natural resources are extremely limited. With the exception of copra, which brought in $2.5 million dollars during the 1966 fiscal year, there was no product exported in any appreciable quantity.

Despite such serious limitations, there was widespread optimism through the early years of the U.S. administration that self-sufficiency was a realistic goal for the Trust Territory. This belief was sustained in part by the impressive record of Japanese accomplishments in these islands prior to World War II. With the help of imported labor from Okinawa, the Japanese had succeeded in making Micronesia an entirely self-supporting colony with a favorable balance of trade.$ This was again to be the goal of the U.S. trusteeship, but with certain qualifications. The pace of development was to be geared to the desires and the capacity of the people, respect was to be paid their fondness for the traditional patterns of life, and wages were to be kept consistent with the productivity of the economy. Government appropriations for health and educational services were carefully controlled in the hopes of fashioning a self-contained economy. Capital investment on the part of the U.S. government was called for; however, private investment was discouraged, as also in other Pacific colonies, for fear of exploitation and eventual alienation of the land. In all, this philosophy of economic development was a cautious one that was on guard against the "creation of a mendicant economy and the growth of a
subservient spirit among the indigenes." It rested in the assumption that limited quantities of foreign imports could become "incentive goods" to spur the native population on towards ever greater productivity. Meanwhile, their commercial economy, which would develop side by side with the subsistence economy, was based on cash income from copra, fishing, and several small-scale agricultural ventures.

This policy had much to recommend it, even if it was never fully implemented by the administration. Blame for this cannot be assigned entirely to the administration, however. The annual appropriations allocated to the Trust Territory by the U.S. Congress were in the neighborhood of five or six million dollars, barely enough to maintain the existing operations. Furthermore, expenses were necessarily multiplied by the unavoidable inefficiency that resulted from the duplication of facilities throughout the disparate archipelago. Nevertheless, a modest attempt at economic development was made, and until 1956 the income from Micronesia's exports actually exceeded the cost of its imports.

By 1960, however, certain hard facts had become evident. Export values had reached a plateau at about two million dollars. There appeared to be little hope that economic growth could be accelerated from within the present internal structure; a large capital outlay was needed from without for this purpose. All over the Pacific, colonial powers were awakening to the fact that the solution to the problem of their dependencies' self-support did not lie in diversification of crops, as all had once believed. A large increase in subsidy was needed; but this also meant that the powers must prolong their ties with their island holdings, where once they had dreamed of a rapid economic maturity and an early severance of bonds.

The New Development Program

In 1961, a team of economists was sent at the bidding of President Kennedy to study the situation in Micronesia. Their recommendations, which were written up in the Solomon Report but never released to the public, sparked a program of intensive development in the islands. The annual appropriations of the U.S. were raised from seven million dollars in 1961 to a projected 35 million dollars in the
coming fiscal year. Thus far, the greater part of the capital investment has been spent to expand the infrastructure, with about two-thirds of the budget going into health and educational improvements.6

The years between 1961 and the present, then, have witnessed a volte-face of administration policy. They deserve closer attention, for they have had important consequences upon the economic, social and political direction of the Micronesian people. It is significant that during this time the primary concern of the U.S. administration has been with the development of human resources, an emphasis that has been supported by two recently completed studies of the Trust Territory.7 At the same time, however, the magnitude of the U.S. investment has put the cost of maintaining their government well beyond the reach of Micronesia’s own economic capacity, just as it has occasioned a number of other problems that threaten to complicate the territory’s maturation process. It should be noted in passing that these difficulties are in no way peculiar to Micronesia; they have surfaced in most of the other Pacific islands since the end of the War.

Problems in the Agricultural Sector

From the very beginning, the possibility of developing plantations with industrialized means of cultivation had to be ruled out in Micronesia because of the limited land available. Any agriculture there has to be done on plots of modest size. Several cash crops, such as pepper, cacao, ramie, and vegetables, were tried on an experimental basis; but the results proved somewhat less than spectacular. The income brought in by the sale of this produce never amounted to more than a tiny fraction of the exports.8 Only a high value cash crop that can be grown efficiently on small tracts of land, even in leached soil, could add significantly to the island’s commercial economy. With the fluctuation of the world market and the expense of shipping the small quantities produced, it seems more reasonable to stimulate the agricultural sector to supply a larger portion of the consumption needs of the islanders.

Although roughly 70 percent of the total productive acreage is now being farmed, a subsistence level economy is still the rule. The main obstacle to increased productivity is the general prevalence of the traditional land tenure patterns, for the land is corporately owned by the clan but parcelled out to
individual family groups to be worked under the old system of multiple kin obligations. The curtailment of incentive that is built into such a system has led the South Pacific Commission to urge that "land tenure reform, preferably on the basis of individual tenure, be recognized as a stimulant to economic development." It was recently estimated that a capital expenditure of nine million dollars would be needed to develop the agricultural potential of the Trust Territory. Even then, it would be subject to most of the same limitations mentioned above. On the whole, it appears that the agricultural sector, which once promised to make a significant contribution to Micronesia's economic growth, appears to have been a disappointment in this respect.

Expansion of Social Services

The capital expenditures in the new development program undertaken by the U.S. in the 1960's were concentrated largely on the expansion of health, education, and governmental facilities. The decision to begin in this area was dictated by several factors: concern over the high rate of population growth (3½ percent), criticism of the inadequacy of the existing services by the United Nations' visiting teams, and a conviction that the human resources of Micronesia should be developed prior to the natural resources. Consequently, funds were poured into the construction of new hospitals, schools, and teachers' housing. Money was set aside for the hiring of many additional American contract teachers and medical supervisors. For the first time, the ideal of universal education for Micronesians became a working norm. The quality of education was also stepped up. Not only did the percentage of population enrolled in school rise sharply during those five years, but the per capita expense on elementary school-children increased fourfold. (See Table I).

The administrative structure of the government grew in size as its new program began. Its expansion was, of course, chiefly due to the creation of new jobs in order to administer the new social program, but also partly attributable to the formation of an indigenous legislative body. The number of those employed by
the government nearly doubled in these five years. Meanwhile, a corresponding rise occurred in the number of salaried workers in private enterprise. A considerable number of islanders were drawn into the money economy during this period, with the principal employer being the Trust Territory government. Most of those who earned their salaries in the private sphere were employed in service occupations, especially shops, restaurants, and taverns. (See Table II).

The Effects on Trade and Wages

Whatever effect all this may have had on the economy of Micronesia, it did not bring about any striking increase in the production of marketable goods. Income from exports did show some gain, thanks to the more intensive production of copra; but while all other products remained relatively static, the sale of scrap metal became the second largest export of the islands. Within five years, the value of imported goods, on the other hand, doubled from 4.5 million dollars in 1961 to 9 million dollars in 1966. The flow of dollars out of the economy was three times as great as the inflow from the sale of exports. The trade deficit leaped from two million to six million dollars in five years. (See Table III).

What happened, as it appears, is that the imported goods which were to act as an incentive to greater economic productivity have been consumed far beyond the economy's ability to pay for them with its own produce. The rabbit is now chasing the dog. The "want development" that is described by economists as a natural part of the maturing process of a developing country has outrun the industrialization that it was meant to pursue. In order to finance its needs, Micronesia must rely ever more heavily on government employment.

There has been recent concern expressed over the rise in wages throughout the Trust Territory. Over the five-year period that we are discussing, the average salary of the Micronesian worker has increased by 28 percent while the cost of living has risen barely two percent. As more attention is focused upon the disparity between the American and Micronesian wage scales in the islands, the government is being pressured into slowly breaching the gap between the two. The administration already envisages a single scale in the not-too-distant future. Those Micronesians on Ebeye who work on the American missile base on nearby Kwajalein are even now covered by the U.S. minimum wage law. As sympathetic as one may
be to the protests of the Micronesian in this regards, it must not be forgotten that the wage scale of a country has its roots in the national economy. The "national" economy of the U.S. differs quite a bit from that of the Trust Territory—just as much, perhaps, as the real economy of Micronesia differs from its present government-subsidized one.

Unproductive Human Resources

The Nathan Report points out that of Micronesia's 12 million dollar "national income" nine million dollars come from the U.S. government, most of it in the form of salaries. It is the respending of this money that supports the trade and service industries in the islands. The entire economy is, therefore, dependent on the presence and continued backing of the United States. Granted even the cash value of the administration's previous investment in human resources—i.e., the skills and education of those who have been or are being schooled at the government's expense—the fact remains that they can only be converted into cash by an employer with sufficient funds to pay their salaries. In other words, educated human beings in a country are simply frozen assets unless their own government, private business, or some other agency offers the conditions under which they might feed the economy. Many of the educated in Micronesia can make a contribution proportionate with their training only because the U.S. has the wherewithal to keep them on the payroll.

As the education process in Micronesia continues to turn out thousands more potentially valuable employees, the government is forced to expand to absorb as many as possible into the administrative structure. Many others it can simply not employ. The payroll grows longer, while the cost of providing for the growing social services threatens to devour an ever greater percentage of public funds. It has been observed already that the cost of social services is rapidly outstripping the capacity of the economy to afford them. (See Table IV). Such a pattern is not terribly unsettling, provided there is a rich uncle around to collect the bills. But if a self-supporting economy is still the goal of both the administering authority and the territory, then the trend must be reversed and proper emphasis given to economic development needs. "Economic development," warns the South Pacific Commission, "is itself, the only sound basis for social development."
The Problems of Urbanization

A problem concomitant with economic growth and widespread throughout the Pacific is that of urbanization. The roots of this phenomenon lie far deeper than this study will take us, but we can describe how the problem in Micronesia has intensified during the five years under review.

The population shift into the "port towns" of Micronesia, while it may not be very startling in terms of bald figures, is rather high when seen in terms of percentage growth relative to the total population increase. (See Table V). Education has undoubtedly played a large role in causing this movement towards the towns insofar as it produces among students dissatisfaction with the rigid controls of the traditional village life and a sense of frustration at the outmoded agricultural economy. In some cases, education has the added effect of creating aspirations among the young that cannot easily be satisfied in an economy which is ill-equipped to offer either a sufficient range or number of occupational opportunities. When there are relatively few in a society who have completed twelve years of schooling, the high school graduate is inclined to look upon himself as a member of the "white-collar" elite and to disdain the manual work of the tradesman or mechanic.

In Micronesia, education has prepared a fairly sizable labor force of young literate people and freed them from a subsistence life on the land. Urbanization has concentrated them around the district centers; but, aside from a limited number of government jobs, no productive employment exists at present. Many finally do obtain some kind of work—often in the stores or town bars—which is only a species of "underemployment". Such a solution produces, at best, temporary relief. Occasionally their frustration at the inconsistency of a society that educates them and then offers them no suitable employment is vented in violence and rioting, as in the Fiji riots of 1959. Often enough it takes on other forms, less dramatic if equally symptomatic.

Industrialization As the Answer?

The solution to almost every one of the difficulties described above comes easily—an economic development program must be begun as soon as possible. In
point of fact, preliminary studies have been made and the program already inaugurated by the U.S. government. The proposed plan demands a total investment of about 150 million dollars; half of which is to be put into the infrastructure, the rest to be used for the development of industry in the islands. In a sense, the implementation of this plan will signal a full turn-about from the earlier administrative policy that insisted upon a natural, self-induced pattern of economic growth. The new cataclysmic approach, for all the upset it causes among the conservative members of a tradition-bound society, is supported by strong arguments:

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 people with few employment opportunities, high prices, and shortages of goods and services. Thus, it seems that a planned program is required if the haphazard and lopsided distribution of wealth so common in developing countries is to be avoided.

The Paradox of Over-Support

According to the terms of its Trusteeship Agreement, the United States has a legally defined obligation to "promote the economic advancement and self-sufficiency of the inhabitants of Micronesia." The responsibility of the United States towards the Trust Territory should be a guarantee of its resolve, while the magnitude of U.S. resources insures the availability of the means to help Micronesia through capital investment. From this point of view, the Micronesian people are more fortunate than most. As is often the case, though, factors like these can be double-edged; they can be as hazardous as they are helpful. The U.S. must strike a delicate balance in its relationship with its dependency. While insuring the conditions for economic development, it must resist the temptation to perpetually carry the territory along, thereby denying it any opportunity to learn how to walk on its own.
As the plans for the industrialization of Micronesia leave the drafting-board, it is ironic that many of the obstacles to their realization are the consequences of the administration's program of social development during the 1960's.

Private investment must play a large role in the islands' economic development within the next few years. The creation of a commercial fishing industry, manufacturing, construction, and tourism require capital investment estimated at about 75 million dollars. Even though Micronesia has more than its share of limitations when it comes to industrialization, we might expect them to be somewhat counter-balanced by its cheap and relatively abundant supply of manpower. The truth is that inflationary wages have raised the cost of labor in Micronesia well above that of Asian countries such as Taiwan and the Philippines. Unskilled and semi-skilled labor in the Trust Territory is too dispersed and too expensive to offer much of an attraction for foreign investors. It is true that the young and educated, who constitute a rapidly expanding segment of the population, must be counted as one of the most valuable potential resources of Micronesia. Industrialization may well offer them the new job opportunities they seek within the managerial or entrepreneurial class, but only if a large supply of semi-skilled labor can first be found.

When the first commercial fishery began its operations in Palau a few years ago, Okinawans had to be brought in to conduct the actual fishing operations. Palauans took the supporting jobs which were, for the most part, land-based and better paid. The five thousand dollars a month in salaries that flows into the Palauan economy is totally dependent upon the presence of foreign labor. This has led to the suggestion that cheap Asian labor be imported to answer the demands of a labor requirement that might rise to between 20 and 30 thousand persons in a few years. To attempt this classic solution, one that has been applied in many parts of the Pacific before, would be to invite the same social problems that have arisen in Hawaii, Fiji, and Tahiti.

Another alternative, of course, is to utilize to its fullest the indigenous labor force that already exists in the islands. The figures in Table VI show that the present number of persons between the ages of 15 and 65 (exclusive of housewives and students) is about 21 thousand. Population figures indicate that this number is growing by at least another thousand each year. Apart from the problem of
adjusting wages to a realistic level of productivity, a more serious social difficulty is encountered. For efficient employment of this manpower pool, most people would have to be relocated near the "industrial" centers. Such a policy would require that they subordinate traditional values associated with their family lands and their clan ties to the economic growth of the territory. It is unlikely that this change of attitude could be carried out in a short period of time.

Perhaps the labor difficulties in Micronesia are only illustrative of what must inevitably happen when development of human resources precedes, rather than parallels, economic development.

Creating Permanent Dependence

Our final observation rests upon a point that was made earlier. We have seen that the cost of maintaining its infrastructure has long since outdistanced Micronesia's economic means. Through the largess of the United States, Micronesia has been elevated to the status of a parasite economy.

This is inconsequential as long as U.S. funds hold out and the territory does not mind being a permanent economic ward of the United States. It only presents a critical problem when national aspirations begin to mount, when the territory regards political independence as a worthy goal, and when the new nation sees economic servitude as a more subtle variety of political domination. It is difficult to predict whether Micronesia will ever arrive at this point or whether it will be peacefully assimilated into the United States in some form or other. Regardless of the turn of future events, if the people of Micronesia are to be given a true option, self-sufficiency must remain the aim of all development that takes place. Otherwise, the political question will have been long since decided by the economic dependence that Micronesians will have come to accept as a matter of course.
### TABLE I

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1966</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>78,000</td>
<td>90,000</td>
<td>15 %</td>
</tr>
<tr>
<td>No. of students</td>
<td>17,000</td>
<td>28,000</td>
<td>65 %</td>
</tr>
<tr>
<td>Percent of total</td>
<td>22%</td>
<td>31%</td>
<td>9 %</td>
</tr>
<tr>
<td>population in school</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita educ.</td>
<td>$34</td>
<td>$120</td>
<td>253 %</td>
</tr>
<tr>
<td>expense for elementary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>school</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE II

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1966</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of persons employed</td>
<td>4,200</td>
<td>7,600</td>
<td>55 %</td>
</tr>
<tr>
<td>for wages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total salaries</td>
<td>$3.3 million</td>
<td>$7.7 million</td>
<td>133</td>
</tr>
<tr>
<td>No. of persons employed</td>
<td>2,700</td>
<td>5,100</td>
<td>89 %</td>
</tr>
<tr>
<td>by government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total salaries of</td>
<td>$2.5 million</td>
<td>$5.8 million</td>
<td>133</td>
</tr>
<tr>
<td>government employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average annual per capita</td>
<td>$790</td>
<td>$1010</td>
<td>28 %</td>
</tr>
<tr>
<td>income of employees</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### TABLE III

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1966</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of Exports</td>
<td>$2.1 million</td>
<td>$3.0 million</td>
<td>43 %</td>
</tr>
<tr>
<td>Total value of Imports</td>
<td>$4.5 million</td>
<td>$9.0 million</td>
<td>100</td>
</tr>
</tbody>
</table>

### TABLE IV

<table>
<thead>
<tr>
<th></th>
<th>1961</th>
<th>1966</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of administ. services (health, educ., polit., &amp; social)</td>
<td>$1.2 million</td>
<td>$6.8 million</td>
<td>467 %</td>
</tr>
<tr>
<td>Per capita cost of admin. services</td>
<td>$15</td>
<td>$75</td>
<td>400</td>
</tr>
</tbody>
</table>

### TABLE V

<table>
<thead>
<tr>
<th>Towns and Population</th>
<th>1961</th>
<th>1966</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Koror</td>
<td>3,933</td>
<td>4,975</td>
<td>24 %</td>
</tr>
<tr>
<td>Kolonia (Ponape)</td>
<td>1,195</td>
<td>1,674</td>
<td>40</td>
</tr>
<tr>
<td>Moon</td>
<td>3,080</td>
<td>4,380</td>
<td>42</td>
</tr>
<tr>
<td>Ebeye</td>
<td>1,443</td>
<td>1,879</td>
<td>100</td>
</tr>
<tr>
<td>Majuro</td>
<td>3,900</td>
<td>5,187</td>
<td>33</td>
</tr>
</tbody>
</table>
TABLE VI

Labor Force Occupation Structure*

(Excludes under 15 and 65 and over, Foreign Born, Students, and Housewives)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional, technical</td>
<td>1,829</td>
<td>8.7 %</td>
</tr>
<tr>
<td>Managerial, administrative</td>
<td>629</td>
<td>3.0</td>
</tr>
<tr>
<td>Clerical</td>
<td>807</td>
<td>3.9</td>
</tr>
<tr>
<td>Carpenter, handicrafter, other crafts and trades</td>
<td>2,416</td>
<td>11.5</td>
</tr>
<tr>
<td>Operators, service workers</td>
<td>2,483</td>
<td>11.8</td>
</tr>
<tr>
<td>Copra, subsistence, agriculture, fishing, and other</td>
<td>12,821</td>
<td>61.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,985</td>
<td>100.0 %</td>
</tr>
</tbody>
</table>

*Figures are for 1967. Taken from Stanford Report, p. 24
FOOTNOTES

1. See Gerald Moiur, "The Problem of Limited Economic Development," in The Economics of Underdevelopment, ed. Agarwala and Singh (New York: 1963), pp. 57ff. The author quotes Ricardo: "To say that there is a great abundance of labour is to say that there is not an adequate capital to employ it."


4. The proponents of this economic policy were chiefly O'Connor, op. cit., and Douglas Oliver, Planning Micronesia's Future (Cambridge: 1951). Both works had a strong influence on government planning in the early years of the Civil Administration in Micronesia.


6. Above information can be found in the statistical appendices to 19th Annual Report to the United Nations on the Administration of the Trust Territory of the Pacific: 1966.


8. Exports and their value for fiscal year 1966 were as follows: copra, $2,500,000; scrap metal, $237,000; handicraft, $88,000; trochus, $71,000; vegetables, $20,000; fish, $78,000. Earnings from ramie, cacao, and pepper were apparently so insignificant as not to be listed.


14. No figure giving the number of unemployed graduates are available; I am guided only by personal observations.


BIBLIOGRAPHY

a) General:


b) Micronesia:


