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DEPARTMENT OF STATE
WASHINGTON

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April 6, 1964

MEMORANDUM FOR: Mr. Walter Jenkins
The White House

Abe Fortas indicated interest in seeing this Report by the Presidential Mission on the Trust Territory of the Pacific Islands. The 30 page summary at the beginning of Volume One, which was read by President Kennedy, gives a clear picture of the problem and our recommendations. President Kennedy ordered that the Report be implemented but implementation is going more slowly than the timetable of our political objectives permits. One of the chief reasons is the difficulty, both bureaucratic and political, of getting certain key personnel decisions made. Mike Forrestal and Charles Johnson of the NSC staff know about this problem.

I am sending the Report to you on the possibility that you may be interested and also since it is classified I did not want to send it to Mr. Fortas' law office.

Tony Solomon

Anthony M. Solomon
Deputy Assistant Secretary
for Inter-American Affairs

P.S. I should explain to avoid confusion that I headed this Mission to the Pacific as an outside consultant before I joined the State Department's Latin American Bureau.

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SANITIZED

REPORT BY THE U. S. GOVERNMENT SURVEY MISSION
TO THE TRUST TERRITORY OF THE PACIFIC ISLANDS

Volume One

Introduction and Summary
Part I. The Political Development of Micronesia

SANITIZED
E.O. 12356, Sec. 3.4
NLJ 90-130
By mg. NARA, Date 12-6-90

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THE WHITE HOUSE
Washington

October 9, 1963

Dear Mr. President:

Pursuant to your instructions through National Security Action Memorandum No. 243, dated May 9, 1963, I am submitting on behalf of the members of the U. S. Survey Mission our report on the Trust Territory of the Pacific Islands.

Accompanying the Mission and greatly aiding in our work were Mr. Richard Taitano, Director of the Office of Territories in the Department of the Interior, and Commander Charles Chamberlain from CINCPAC.

The members of the Mission were: Mr. Richard Cooper from the Council of Economic Advisers; Mr. Paul Daly from the Peace Corps; Mr. Donald Lindholm from the Bureau of the Budget; Professor Gerard Mangone from the Maxwell School, Syracuse University; Dr. Pedro Sanchez, Commissioner of Education in the Virgin Islands; Mr. Howard Schnoor from the Bureau of the Budget; Mr. Cleo Shook, Consultant.

My colleagues join me in urging that if the recommendations of the report meet with your approval they be implemented rapidly in the interests of the United States and the people of the Trust Territory.

Respectfully,

Anthony M. Solomon

Chairman

The President
The White House
Washington

A Report by the U. S. Government Survey Mission to the
Trust Territory of the Pacific Islands

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INTRODUCTION AND SUMMARY

The Setting

1. The Trust Territory of the Pacific Islands -- or Micronesia -- comprises the former Japanese mandated Caroline, Marshall and Mariana Islands. Scattered over an area as large as the mainland of the United States, those 2,100 islands, less than 100 of which are inhabited by the territory's 81,000 people, came under United States control first by conquest and then, in 1947, under a trusteeship agreement with the Security Council of the United Nations. The islands vary from low coral atolls to higher islands of volcanic origin, the largest land masses being Babelthup in the Palau district with 153 square miles, Ponape with 129 square miles and Saipan with 46 square miles. Population distribution ranges from islands with a few families to Saipan with 7,800, Ponape with 11,500 and Truk with 15,500.

With a variety of racial mixtures, languages and cultures, essentially a series of individual island communities rather than a unified society, a lack of human and natural resources, tremendously difficult communications and transportation, the area has presented very serious administrative and developmental problems to the United States. Historically, life has centered around the village, the extended family or clan and its lands. The traditional systems of communal, rather than individual land ownership, of inheritance through matrilineal lines and of the selection of native chiefs continue side-by-side with the forms of democratic institutions introduced by the United States.

For a variety of reasons, in the almost twenty years of United States control, physical facilities have further deteriorated in many areas, the economy has remained relatively dormant and in many ways retrogressed while progress toward social development has been slow. The people remain largely illiterate and inadequately prepared to participate in political, commercial and other activities of more than a rudimentary character. The great majority depend largely upon subsistence agriculture -- fruit and nut gathering -- and fishing. As a result, criticism of the trusteeship has been growing in the United Nations and the United States press -- and in certain ways, among the Micronesians.

2. Despite a lack of serious concern for the area until quite recently, Micronesia is said to be essential to the United States for security reasons. We cannot give the area up, yet time is running out for the United States in the sense that we may soon be the only nation left administering a trust territory. The time could come, and shortly, when the pressures in the United Nations for a settlement of the status of Micronesia could become more than embarrassing.

In recognition of the problem, the President, on April 18, 1962, approved NASM No. 145 which set forth as United States policy the movement of Micronesia into a permanent relationship with the United States within our political framework. In keeping with that goal, the memorandum called for accelerated development of the area to bring its political, economic and social standards into line with an eventual permanent association.

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The memorandum also established a Task Force to consider what action might be taken to accomplish our goal and to provide policy and program advice to the Secretary of the Interior who is responsible for the administration of the Trust Territory. The Task Force, consisting of representatives of the Departments of the Interior, Defense, State and Health, Education, and Welfare and observers from the NSC and Bureau of the Budget, has considered and recommended several steps for greater aid to the area, both through the increased appropriation ceiling (from \$7 to 17.5 millions) and in legislation (H. R. 3198) now pending in the Congress. It also proposed the sending of a survey mission to the Trust Territory to conduct a more thorough study of the area's major problems.

3. The Mission's formal instructions from the President (through NASM No. 243 of May 9, 1963) were to survey the political, economic and social problems of the people of the Trust Territory and to make recommendations leading to the formulation of programs and policies for an accelerated rate of development so that the people may make an informed and free choice as to their future in accordance with United States responsibilities under the trusteeship agreement.

4. The Mission consisted of nine men, both Government and non-Government, selected by its chairman and serving for differing periods of time up to six weeks in the Trust Territory during July and August 1963. The Mission visited the six district centers in the territory and a representative sample of the outlying islands containing in all a majority of the area's

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population. Discussions were held throughout the area with seven assemblies of local people, eight legislative committees, seven municipal councils and three women's associations; about twenty-five interviews with American missionaries and over forty-five interviews with Micronesians were held. There were also briefings by Headquarters personnel of the Trust Territory government and the six district administrators and their staffs. Wherever possible roads, communications, transportation facilities, agricultural developments, schools and other facilities and enterprises were examined and evaluated. Several additional weeks were spent in the United States preparing the final report of the Mission.

Major Objectives and Considerations

1. Working within its broad frame of reference, the Mission's major findings relate to three key sets of questions that it attempted to answer:

- a. What are the elements to consider in the preparation for, organization, timing and favorable outcome of a plebiscite in Micronesia and how will this action affect the long-run problem that Micronesia, after affiliation, will pose for the United States?
- b. What should be the content and cost of the minimum capital investment and operating program needed to insure a favorable vote in the plebiscite, and what should be the content

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and cost of the maximum program that could be effectively mounted to develop the Trust Territory most rapidly?

- c. What actions need to be taken to improve the relationships between the current Trust Territory government and Washington and to insure that it can implement any necessary political strategy and development program with reasonable efficiency and effectiveness.

2. The Mission's findings and recommendations on these three sets of questions correspond to Parts I, II and III of its report. Those recommendations sum up to an integrated master plan which, if accepted, would provide guidelines for Federal action through fiscal year 1968 to secure the objectives of:

- a. Winning the plebiscite and making Micronesia a United States territory under circumstances which will: (1) satisfy the somewhat conflicting interests of the Micronesians, the United Nations and the United States along lines satisfactory to the Congress; (2) be appropriate to the present political and other capabilities of the Micronesians; and (3) provide sufficient flexibility in government structure to accommodate to whatever measure of local self-government the Congress might grant to Micronesia in later years.

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b. Achieving rapidly, minimum but satisfactory social standards in education, public health, etc.

c. Raising cash incomes through the development of the current, largely crop-gathering subsistence economy.

3. There are, however, unique elements in the delicate problem of Micronesia and the attainment of our objectives that urgently require the agreement now of the President and the Congress as to the guidelines for United States action over the next few years. First, the United States will be moving counter to the anti-colonial movement that has just about completed sweeping the world and will be breaching its own policy since World War I of not acquiring new territorial possessions if it seeks to make Micronesia a United States territory. Second, of all eleven United Nations trusteeships, this will be the only one not to terminate in independence or merger with a contiguous country, but in a territorial affiliation with the administering power. Third, as the only "strategic trusteeship," the Security Council will have jurisdiction over the formal termination of the trusteeship agreement, and if such a termination is vetoed there, the United States might have to decide to proceed with a series of actions that would make the trusteeship agreement a dead issue, at least from the Micronesian viewpoint. Fourth, the 2,100 islands of Micronesia are, and will remain in the now foreseeable future, a deficit area to be subsidized by the United States. Fifth, granted that this subsidy can be justified as a "strategic rental," it will amount to more than \$300 annually per Micronesian through 1968 and

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any reductions thereafter will require long-range programming along the lines of a master development plan as proposed in the Mission report. Finally, this hoped for long-range reduction in the level of subsidization and the implementation of the political strategy and capital investment programs through fiscal year 1968 require a modern and more efficient concept of overseas territorial administration than is evident in the prevailing approach of the quasi-colonial bureaucracy in the present Trust Territory government.

Part I. Political Development of Micronesia

1. The Washington policy, adopted last year, of having the Trust Territory affiliate permanently with the United States has not had an observable impact on the Trust Territory government. American and Micronesian officials in the area appear still to be thinking in terms of independence for Micronesia as an eventual, distant goal and there appears to have been little attempt to direct Micronesia toward thinking about eventual affiliation with the United States. In the absence of further action, the Mission believes that the momentum of previous attitudes and policies which did not involve the concept of affiliation will be hard to overcome.
2. It can be stated quite unequivocally that the masses of Micronesians are not only not concerned with the political future but also are not even aware of it as a question. They simply live in the present reality of the "American time" that has replaced the "Japanese time." The earlier German and Spanish times are dimly, if at all remembered.

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3. The situation is not quite the same among the political elite. Political power among the Micronesians is in a triumvirate of the traditional clan chiefs, the educated younger bureaucracy working in the Trust Territory government and the small but powerful group of businessmen operating trading companies. These groups are aware that their political future is still to be resolved, but even they generally shy away from actively concerning themselves with it. The reason lies in their belief that: (a) they cannot stand alone now and that independence, even if they want it, is so far distant that meaningful consideration is not practical; (b) there has been no indication from the United States of an alternative to independence -- they do not know that the United States may desire affiliation; and (c) even if affiliation were possible, the prospect creates feelings of uncertainty and insecurity that they would rather not face.

4. These insecurities arise from general ignorance as to what affiliation means and what it would do to their lives as they know them today. The more important of the traditional chiefs are especially concerned whether "coming under United States laws" would invalidate the present restrictions against non-Micronesians owning land and whether it would affect their complicated communal land-tenure systems on which their social organization and customs and the chiefs' powers are based. The merchant businessmen, even though they want more economic development, react against the prospect of a flood of American businessmen with whom they believe they cannot compete. The Micronesians in the government bureaucracy are less fearful of

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permanent affiliation but they also share in the general concern among the political elite that they don't want to be swamped by Americans and lose their status "as the Hawaiians did."

5. On the other hand, there is a sophisticated awareness among a goodly number of the Micronesian elite that their own interests are not best served by the United Nations trusteeship simply because, as a provisional non-permanent arrangement, it perpetuates the excessively dependent psychology and habits of a people who have been handed around among four major powers in the last 65 years. There also appears to be an unexpressed but fairly widespread and awakeable emotional feeling among these more sophisticated Micronesians that they want an "identity" and a permanence of status that is not compatible with the implied impermanence of the trusteeship.

6. Another disadvantage of the trusteeship is its protective and custodian nature, a carryover from the philosophy of the League of Nations mandates, which is not fully compatible with the more recent emphasis on modernization and more rapid development of peoples under trusteeship. Most policies which try to be both development-minded and protective do not seem to do a good job of either. However, a conflict between development objectives and protective attitudes characterizes the current administration of the Trust Territory. Although it has become fashionable for American officials connected with the Trust Territory to disclaim any desire to maintain an "anthropological zoo," in reality protective and custodial policies are

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very prevalent. This conflict within official thinking faithfully mirrors the dilemma of the Micronesians themselves. They desire urgent economic development, but want to retain, at the same time, restrictions on non-Micronesians immigrating, occupying land and starting businesses. The Mission believes that, if for no other reason than that of the impending plebiscite, the Micronesians need reassurances on the continuance of those restrictions but, at the same time, we are recommending certain modifications which will initiate long-run liberalization of those restrictions.

7. Another factor of importance affecting the plebiscite is the economic stagnation and deterioration of public facilities that has characterized the United States administration of the Trust Territory in contrast to that of the Japanese. The rapid growth under the Japanese was due not only to their large capital investment and subsidy program, but to Japanese government-directed colonization by Japanese and Okinawans. The fact that it was the Japanese rather than the Micronesians who supplied the labor for the then flourishing sugar cane and commercial fishing industries and who benefited most from the Japanese government's subsidization of the area does not alter the fact that per capita Micronesian cash incomes were almost three times as high before the war as they are now and that the Micronesians freely used the Japanese-subsidized extensive public facilities. For the outcome of the plebiscite to be favorable, the Mission believes there must be an effective capital investment program before the plebiscite.

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to give the Micronesians a sense of progress to replace the deadly feeling of economic dormancy.

8. While more than 95 percent of the budget of the Trust Territory government is financed by the United States and the importance of those funds in influencing a favorable plebiscite result is obvious, the impact of United States funds has been lessened by: (a) considerable feeling among Micronesian bureaucrats that a large part (actually over \$2 million) is spent on high salaries for United States personnel in Micronesia; (b) numerous complaints about, and dissatisfactions with the competence of the Trust Territory government (one district congress advised the Mission that, despite area needs, they did not want more United States funds if they were not "properly administered by real experts who should be brought in"); and (c) some belief that United States aid results only from United Nations action and that Micronesia might not do as well as a United States territory.

9. The Trust Territory government gets good marks from the Micronesians, however, for its genuine fostering of democratic civil liberties and increasing the participation of Micronesians in various levels of local government (a territorial advisory council, six district legislatures and a multitude of municipal governments). However, Micronesia is still a long way in terms of experience and funds from being able to mount a viable local government. The very multiplicity of local governmental levels is beginning to cause problems, particularly at the municipal level where

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there is much dissatisfaction because of the realization that, in a large majority of cases, the "U. S. imposed" municipal taxes produce only enough revenue to pay salaries to municipal officials and councilmen for making decisions that the village elders previously made free as a public service. This is a clear case of too much government.

10. The great distances, cultural and linguistic barriers separating the six districts of Micronesia also have special implications for a plebiscite. The Mission found little consciousness among the people of the Trust Territory of themselves as "Micronesians" and no emotional nationalistic feelings. There are no traditions of unity but rather a history of individual island cultures. There is almost universal ignorance in each district as to who are the leaders, political or otherwise, of the other five districts, and there is little inclination to compromise on a district's special interest in favor of the territory's advancement as a whole. This regional separation is strengthened by the existence of separate district legislatures, and to date only minor progress has been made toward a centralized indigenous government. The district legislatures function reasonably well given the small revenues they can command, but they represent conservative bastions for the maintenance of traditional policies, and land and social customs. Within some districts, especially Yap and Ponape, there is the additional complication of the outlying island groupings resenting the domination of the islands nearer to the district centers. This situation requires the most carefully impartial handling by the United States in the period before the plebiscite and the avoidance in the

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plebiscite of questions of special interest to particular districts, such as "union with Guam" which is an issue in the Marianas. It also creates the need for the right mix of political compromises in the organization of the territorial legislature. (The Mission's report, in Part I, identifies for each district the particular issues, political groupings and key people of importance in that district.)

11. The Mission has no difficulty in concluding that there is little desire for independence in the Trust Territory. It would go so far as to say that even if a plebiscite were held today without preparation, the total vote for independence would probably be only from 2 to 5 percent. The Mission also concluded that there is no hard core of feeling against permanent affiliation with the United States but, as described earlier, an inchoate insecurity among a substantial number of the elite that can be allayed only through certain actions recommended below.

12. The Mission recommends that the plebiscite be held in 1967 or 1968 because:

- a. Our timetable calls for creation of the true territory-wide legislature in the fall of 1964 and having its members serve out an initial three-year term before the plebiscite, during which the members from the different districts can develop more political experience working together than was possible in the present territory-wide advisory council.

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- b. The maximum impact of the recommended capital investment program will not be felt until late 1967 on the one hand, nor will it be felt as strongly after 1968, since the Mission does not expect the development process in the private sector of the Micronesian economy to be strong enough to offset the anticipated cutback in the capital investment program after fiscal year 1968 (by which time the higher priority capital needs of education, public health and public works will have been met).

- c. The early definitive resolution of the political future of Micronesia as a United States territory will make it easier for the United States, if it so decides, to permit Japanese businessmen, technicians and fishing vessels into non-sensitive areas of the Trust Territory which would supply a very great stimulus to economic development at no cost to the United States and thereby permit reductions in the United States subsidization of the territory.

If necessary, the plebiscite could be advanced to as early as 1966 by compressing the schedule for the development of the legislature. The legislature could be created by the spring of 1964 if the High Commissioner were instructed to do so. However, such an advance in the plebiscite timing would be at the expense of giving the legislature less experience and not waiting for the capital investment program to have its full impact.

13. The questions offered in the plebiscite to the Micronesians should be confined to two in number with some such general wording as follows:

- (a) Are you in favor of becoming an independent nation?
- (b) Are you in favor of a permanent affiliation with the
United States of America?

There will be some nations in the United Nations which, sensing our objective, will claim that the plebiscite should be confined to the single option of independence since the basic idea of trusteeships is that they should terminate in independence. There may also be some nations which will claim that, in its 1967-68 state of development and dependence Micronesia cannot realistically choose independence and is therefore not being given real alternatives. To some extent, this latter argument could be nullified by including a third plebiscite option -- namely, continuation for the time being of the status quo of the trusteeship with the United States as the administering power. From our viewpoint, this would reduce the vote for permanent affiliation from 95 percent of those voting to a substantially smaller percentage, although still a majority.

14. The Mission recommends the following steps as part of the overall program to achieve our plebiscite objective and at the same time promote the longer run political development and general advancement of the Micronesians:

- a. A qualified American should be appointed in each of the
six districts to develop and maintain continuous liaison
with the various leaders of the three politically critical

groups. His main job would be to develop, in a gradual way, interest among these people in his district in favor of permanent affiliation by supplying the information needed to eliminate their ignorance and allay their fears as to what the affiliation would entail, as well as its advantages. He would also administer useful adult education and United States and world information programs, as well as the local radio programming now handled by the district director of education. These six information officers, in whose recruitment United States Information Service should cooperate, would also perform through their supervisor at Headquarters the regular political reporting function so acutely lacking at present.

- b. Washington should facilitate the general development of Micronesian interest in, and loyalties to, the United States by various actions, three of which are:
- (1) Sponsorship by the Department of State of Micronesian leader visits to the United States.
 - (2) Introduction in the school system of United States oriented curriculum changes and patriotic rituals recommended in the section of the Mission's report dealing with education.

(3) Increasing the number of college scholarships offered to Micronesians, a highly sensitive issue in the Trust Territory.

- c. The Community Action Program by the 60 Peace Corps Volunteers recommended in the Mission report should be begun because it is of critical importance to both the plebiscite attitudes and the overall advancement of the majority of Micronesians living on islands outside the district centers. The program as recommended (which excludes use of Peace Corps Volunteers as teachers in the school system) and the realities of Micronesian needs contain all the probabilities of a spectacular success for the Peace Corps.
- d. Preparations should be taken to offer Micronesian government employees and other wage earners two specific inducements to seek affiliation with the United States. First, after such an affiliation Micronesian and United States personnel basic pay scales would be equalized. Since the inequality exists only in the professional and higher administrative echelons, the cost would not be excessive. Second, rather than introduce a retirement program for Micronesian government employees, the Social Security system should be extended to all wage and salary earners in Micronesia (most of whom are government employees) with possible consideration of a more general inclusion simultaneously or at a later time.

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15. The final factor of importance to the outcome of the plebiscite will be the Micronesian leaders' insistence on knowing the proposed organization of Micronesia's post-plebiscite territorial government. The Micronesian leaders are intelligent and in many cases quite sophisticated, and they have been led to expect eventual independence; their willingness to produce a large popular vote for permanent affiliation will partially depend on the measure of self-government to be given them within the structure of territorial affiliation. This will also be of critical importance in the United Nations since the trusteeship agreement requires "independence or self-government" as the terminal objective. On the other hand, consideration must be given to the need for continued adequate control by the United States and the traditional attitude of the Congress toward the organization of territorial government. Also, there are clear limitations on the present-day ability of the Micronesians to govern themselves.

As the practical solution of this many-pronged dilemma, the Mission recommends a government organization for the Territory of Micronesia that gives, on the one hand, a reasonable appearance of self-government through an elected Micronesian legislature and a Micronesian Chief Executive nominated by and having the confidence of the legislature, but on the other hand retains adequate control through the continuation of an appointed United States High Commissioner. (This arrangement is similar to that now operating in the administration of the Ryukyu Islands.) The powers of the High Commissioner could range from:

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- (a) The minimum of being able to withhold all or any part of the United States funds going to the Micronesian government and the authority to declare martial law and assume all legislative and executive powers when the security of the United States so requires; to
- (b) the maximum additional power of vetoing all laws, confirming the Chief Executive's appointments of key department directors and dismissing the Chief Executive and dissolving the legislature at any time.

16. The Mission also recommends that, after the plebiscite, the Congress recognize the expressed desire of the people of Micronesia to affiliate by granting them the status of United States nationals but that action on an organic act be deferred until Congress judges that the development of the territory has sufficiently advanced, and the territorial legislature has had a chance to take action on the local customs and laws which now protect the lands and businesses of Micronesians. Once the people of Micronesia have expressed their desire to affiliate, it is highly advisable that they feel that the question of their political future has been definitely resolved by having the Congress grant them without delay the status of U. S. nationals even though there may be subsequently protracted debate in the Security Council over the termination of the trusteeship agreement. It is worth pointing out that the extension of the status of U. S. nationals appears to the Mission, although questioned by State, to be legally possible under the trusteeship agreement which permits the extension of all the

administering authority's laws to the Trust Territory, and that this could be the first in a series of steps that could make the trusteeship agreement an academic issue, even if the Security Council were not willing to terminate the trusteeship agreement.

17. Looking beyond the plebiscite and the subsequent achievement of territorial status for Micronesia, what seems to be the possible long-run political future of the area? First and most essential consideration might be given to the union of the two territories of Micronesia and Guam which would produce (a) economies of overhead in regular governmental administration, transportation and other facilities, (b) a more economically viable area along with a new stimulus to its economic development, and (c) the more rapid modernization and Americanization of this United States frontier in the Pacific. Such a union would involve a very delicate problem of negotiation and would require consistent pressure. However, the payoff would be a substantial reduction in the need for appropriations as these deficit areas came to stand more and more on their own feet. (Part II of the Mission report includes recommendations for immediate action to develop the economic interrelationship between Guam and the Trust Territory.)

The even more distant problem of what ultimately, if anything, could or should be done with the unified territory of Guam and Micronesia is at present too much in the realm of clouded crystal ball gazing. Incorporation as a county into the State of Hawaii has been suggested in various places,

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and the Governor of Hawaii apparently feels that it is very much a possibility, but the Guamanian and Micronesian leaders' long-run political speculations definitely do not contemplate this degree of absorption and loss of political independence. Furthermore, the ultimate status of this territory may very well not be decided separately but as part of a general solution devised by the United States for all our remaining territories.

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Part II. The Capital Investment Program for Overall Development

1. Until fiscal years 1963 and 1964, when the Congress authorized an appropriation of \$17.5 million for the Trust Territory and appropriated \$15 million for each of those years, the level of United States appropriations for Micronesia had averaged slightly under \$7 million annually. Outside of new transportation facilities, few new capital investments were possible within this budget and those were achieved at the expense of an overall net capital disinvestment -- that is, by permitting the deterioration of buildings, machinery and public facilities. The running down and eventual destruction of much of the physical plant inherited from the Japanese and Navy administrations, which is amply evident in all the districts, has proved to be a very expensive "economy".
2. The decision by the United States to bring about the permanent affiliation of Micronesia requires the formulation of programs that will have both the maximum political impact in the plebiscite and will also advance the Micronesians in the long run as rapidly as possible toward satisfactory living standards. A successful initiation of the economic development of the area is critical not only to the plebiscite and the living standards of the people who would become United States nationals but also to eventually relieving the United States of the financial burden of subsidizing those living standards.
3. The bulk of the increased funds in fiscal years 1963 and 1964 is being used in a program just starting for the construction and operation of an

expanded and accelerated elementary school system. In view of the remarkable degree to which educational opportunities are almost desperately wanted by all classes of Micronesians (including surprisingly the most traditional-minded clan chiefs) this priority of funds was exactly right by every criterion of United States objectives.

4. The Mission found, however, an unsatisfactory state of affairs in the Trust Territory government with respect to the development of the overall size and the components of an integrated capital investment and operating program (including the educational sector) that would meet Trust Territory needs in the framework of United States objectives. The High Commissioner himself believes that the \$57 million long-range capital program briefly presented by him to the House Interior Committee last year was not based on an adequate study of sectoral needs and priorities within those sectors to achieve the most favorable developmental and political impact.

5. The Mission members therefore proceeded within the short time available to identify the specific sectoral social and economic capital need and feasibilities in the survey of each of the six districts. Simultaneously, the Mission members surveyed the policies and administrative problems specific to each of the sectors and those that could probably arise in connection with an overall capital investment and development program. The Mission then worked out the overall priorities and their interrelationship and formulated the optimal program it judged to be a feasible and efficient maximum, given the differing district labor availabilities and

other resources. This maximum program totals \$42 million of capital investment over the four fiscal years from 1965 through 1968 with annual operating costs ascending from \$14.5 million in 1965 to \$15.9 million in 1966, \$18.5 million in 1967 and \$20.2 million in 1968. The Mission also presents, at the other end of the scale, the minimum program it believes sufficient to achieve United States political and developmental objectives which involves somewhat inferior educational and other standards and slower economic development. The minimum program totals \$31 million of capital investment over the four-year period and somewhat lower operating costs than the maximum program.

6. To look at it in various perspectives, the maximum program is a small program, except in education, relative to the investment made by the Japanese government before World War II. The \$360 average per capita annual expenditure that it represents is not very meaningful in the Trust Territory with its 81,000 people scattered through a vast area, but it is closer to the small per capita expenditure of Britain and France in their Pacific colonies (under \$60) than it is to the high per capita expenditure (\$1,300) of small Denmark for the 23,000 inhabitants of Greenland. Also, in view of our political objectives, the program should be viewed in relation to the Micronesians' average per capita income of about \$80 per year -- the equivalent of \$36 in 1939 prices -- compared to the comparable 1939 Micronesian average of about \$100. Given the rate of increase in the population of Micronesia (about 3.5 percent annually) and the almost negligible impact of current technical assistance efforts, the economic

development problem will not be solved except with some such capital investment program such as that presented in the report.

7. The major items in sectoral breakdown of the optimal capital investment program from 1965 through 1968 are:

Education	\$9.9 million
Health	2.4 "
Public safety and judiciary	0.9 "
Economic Development Fund	5.0 "
Transportation	1.5 "
Communication and radio	2.7 "
Public Works	13.0 "
Equipment replacement	2.5 "
Housing assistance	1.2 "

The small percentage of the proposed program devoted to economic development projects -- which would be administered through a recommended Economic Development Fund -- is due to some extent to the anticipated response of private Micronesian and United States capital. However, it is primarily a reflection of the Trust Territory's very limited ability to use such funds effectively, given its meager production resources and tiny, dispersed markets. The limited prospects for the growth of the private economy dictate that for the foreseeable future this will continue to be a deficit area notwithstanding the development that will result from the proposed program. Prospects would be brighter, and the post-1968 need for subsidization reduced if Washington would be willing to cancel United

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Summary

States import duties on processed fish (a privilege enjoyed by American Samoa) and to eliminate, after the plebiscite, entry restrictions (except in the Kwajalein area) on Japanese businessmen, technicians and fishing vessels. And, in the still more distant future, although not now foreseeable, what looks like a "Micronesian Folly" -- justifiable only for its strategic value -- may very well develop into a viable economy based on American residents and tourists.

The large part of the capital investment program, and the even larger part of the annual operating program, devoted to education reflect the acute need and the critical importance of that program. But, given the limitations on the feasible rate of economic development, it also poses a dilemma. Modern education, particularly secondary education, will create a demoralizing unemployment problem as graduates refuse to return to their primitive outlying lands and to the extent that they are not aided to continue on to college. It is essential that the safety valve of legally unlimited (and possible financially-aided) immigration to the United States be established. Fortunately, that would come to pass when the Micronesians are given United States national status, if not sooner.

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Part III. Administration in the Trust Territory

1. The Mission regrets to report that a major obstacle to the overall development of the Trust Territory is the creaky functioning of the quasi-colonial bureaucracy in the Trust Territory government. Unqualified American officials with remarkable long periods of bureaucratic longevity, many from the days of Navy military government, are more the rule than the exception. There is a real and present danger that increased appropriations by the Congress will not be used with maximum effectiveness and that the Trust Territory government cannot implement the program needed in the area. Increased numbers of permanent personnel in the Trust Territory government staff are assumed by too many department heads in too many cases to constitute the needed "expansion of programs".

2. The Mission believes that a new approach to territorial administration is required if the Executive and the Congress want results. This should be the conscious effort to utilize the services of other Federal agencies or to contract out the implementation of the new and expanded programs recommended in this report. Based on its survey the Mission is convinced that results will be quicker and the overall and long-run costs of such a policy cheaper. To list just a few examples, the Mission recommends that the recruitment of American teachers be provided for through a contract between the High Commissioner and the State of Hawaii, that the provision of American physicians be contracted for with "Medico", that a private consulting organization provide advisory services in connection with the administration of the proposed Economic Development Fund and that the

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Summary

Immigration and Naturalization Service take over immigration functions in the area.

There has been sufficient exploration by the Mission to be reasonably sure of the general flexibility, and in most cases the particular willingness, of the suggested agencies and contractors to undertake those functions. Contract supervision will pose its own set of problems for the Trust Territory government, but it can handle these problems more readily. To charge the Trust Territory government with the task of implementing with its own staff a relatively large and complicated program will not only involve many years' delay and much waste, but will saddle that government (and the United States) with the costs of permanently swollen bureaucracy necessarily recruited in many cases without full qualifications owing to the pressure of time. The need for many of these contractual services will disappear as certain programs are completed and others are increasingly staffed by qualified Micronesians.

3. The Trust Territory governmental organization of functional departments at headquarters in Saipan and in the six district administrations headed by district administrators is basically sound. However, there is a serious problem of communication between headquarters departments and their district counterparts partially arising from the over-centralization of authority in the High Commissioner's office. Essentially, the High Commissioner uses his department heads as staff officers, and they have no real operating authority delegated to them, nor are they permitted to deal directly

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with their district counterparts nor with the district administrators. Furthermore, it is alleged that the district administrators frequently alter professional technical policies and programs. The Mission believes that in the interests of better administration of both the pre-plebiscite "master plan" and the particular nature of the post-plebiscite territorial government, that the delegation of powers by the High Commissioner to his department heads be permanently clarified. The headquarters department directors should be given professional and technical responsibility for their programs, beginning with Departments of Education, Health and Agriculture, and a management specialist should be sent to the Trust Territory to spell out the specific steps to accomplish this objective.

4. Budgeting in the Trust Territory government is simply a means of setting a ceiling on expenditures rather than a planning mechanism through which programs are developed and carried on effectively. There are numerous and serious deficiencies in both budget formulation and execution, and the accounting of expenditures. The Mission recommends various specific measures among which are requiring the full funding of construction projects starting in the FY 1965 budget and separate accounting for business-service operations including payment for such services as the Trust Territory government receives.

5. Due to the long supply lines back to the United States and inadequate funds, the Mission found serious supply deficiencies (particularly in medical supplies and spare parts) at various points through the system. The Mission recommends certain funding and management actions.

6. Under United Nations pressure and our own response to it, the policy of replacing American officials with Micronesians has been pressed to the point of using poorly qualified Micronesians. The Mission has investigated various possible training programs to meet this problem and makes specific recommendations regarding training for public administrators, teachers and medical practitioners.

7. The Mission recommends in regard to American personnel that minimum professional qualifications be formulated, that the Department of Interior adopt a compulsory rotation program and that the directors of education, public health and engineering and construction be upgraded.

8. The ultimate objective should be a single personnel system where American and Micronesian officials in similar positions receive equal basic pay. In the interim and as a measure to reduce friction and encourage Micronesians to complete their full education, the Mission recommends the adoption of a new transitional schedule in the Micronesian pay scale for senior professional officials who meet every qualification requirement for comparable grades in the Federal civil service. Once a unified personnel system is established and the Social Security system is extended to territorial employees, the new American employees entering after that date should have territorial-employee status rather than Federal employee status, unless they are detailed from a Federal agency.

9. The policy and administrative relationship between Washington, especially the Department of Interior, and the Trust Territory government must be sharply improved. There has been, on the part of Washington, both insufficient guidance as to new policies and program objectives and a lack of review in depth of the Trust Territory government's administrative implementation of them. A major reason seems to have been the tradition of treating the Trust Territory government somewhat as a sovereign foreign government. This is in the Mission's opinion an unnecessary and inadvisable interpretation of the administering power's role in the Trust Territory. One important example of these deficiencies is the lack of familiarity by many high officials in the Trust Territory with the policy shift contained in NASM 145 and the marked failure of that Presidential policy statement to have sufficient impact on Trust Territory government policy. To correct the general problem, the Mission recommends:

- a. The Task Force created by NASM 145 should continue up through the plebiscite as a program and policy advisory group to the Secretary of the Interior. They should be involved in the adoption of a "master plan" of priority programs and periodic review in Washington of the progress of these programs as well as approving any later modifications.
- b. Annual visits of an evaluation team to the Trust Territory to ascertain by field inspections that the "master plan" is being implemented in accordance with the terms of reference approved by Washington. The team

should serve the Secretary of the Interior, but the Task Force might aid the Secretary of the Interior in nominating the membership of the team, and should of course have full access to the report of the team for such action as it considers appropriate. If the team's annual visits were to coincide with the Trust Territory government's budget formulation, it would further insure the implementation of the "master plan" and would facilitate the more intensive budget examination by Interior that is needed.

c. The High Commissioner should be appointed by the Secretary of the Interior rather than the President partially because of certain legal anomalies involved in the position being filled through a Presidential appointment, but primarily to focus responsibility on the Secretary for the continuing guidance of the administration of the Trust Territory.

d. The Secretary of Interior should issue an order clarifying the exact powers delegated to the High Commissioner and those reserved to the Secretary in accordance with the draft appended to the Mission report.

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PART I

THE POLITICAL DEVELOPMENT OF MICRONESIA

Talking about United States policy for the Trust Territory of the Pacific Islands, a young Micronesian on the boat from Kwajalein to Ebeye burst out, "I feel blind". Many Micronesians and Americans are wondering about the present and future status of the Trust Territory, but virtually no one has focused upon the idea and the need for a plebiscite in Micronesia in the near future that would propose permanent affiliation with the United States. The Washington policy formulated last year of bringing about the permanent association of the Trust Territory with the United States has not had an observable impact in Micronesia.

It has generally been accepted instead that it will take many years of tutelage under an indefinite United States trusteeship for Micronesia to develop to the point where it can be an independent or self-governing, economically viable entity capable of determining its own status and future. Because we have not come to grips with the problem of international trusteeship and political reality, policies for the Trust Territory have been hesitant and planning uncertain, while the lack of a definite objective has not only confused the Micronesians, but hampered the administration of the Americans.

A. Problems of the Trusteeship Status

Little blame for the lack of a definite goal can be levied upon individual officials in the Trust Territory, most of whom have performed their tasks

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under arduous physical handicaps, with pitiful resources and an extraordinarily difficult transport-communications system. The fault to date lies instead in the conflicting interest of the United States with regard to the Trust Territory and the concept of an indefinite trusteeship itself.

The United States has been torn between the need to retain full control over Micronesia for American security interests and its anxiety to abide by a progressive international philosophy toward dependent territories. The conflict was evident in the decision to place Micronesia under the United Nations trusteeship system, but in a special agreement with the Security Council that permits the United States to close off any area at any time from UN inspection for security reasons.

Since the initiation of the trusteeship, we have continued to equivocate. On the one hand, based on the understanding that the area might someday become independent, we have been attempting to be scrupulously neutral in our limited action to develop a self-sufficient and self-governing Micronesia. The United States has been celebrating United Nations Day throughout the Trust Territory, while the Fourth of July is generally ignored; the Trust Territory flag is given as much, if not more prominence than the American flag; we have been reluctant to force the use of English upon the natives in order to give full respect to the nine major languages of Micronesia, none of which is spoken by more than 25,000 people; we have delivered the care and treatment of the sick to native practitioners, although no Micronesian has a degree of doctor of

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medicine; we have encouraged down to the smallest village the practice of local representative government, despite doubts as to its utility and acceptance; we have promoted the development of native legislatures and courts, despite an obvious lack of native leadership, experience and ability; and we have restrained the free entry into the area of American investment and American private enterprise.

On the other hand, we have had to face the practical realities of the situation and the need to preserve American security interests. The Defense Department is expanding rather than reducing its activities in the territory; almost as many Americans work in the Trust Territory administration now as five years ago, and the reality is that additional, rather than fewer Americans are needed; all major positions of authority are still held by Americans; and the United States continues to finance well over ninety percent of the cost of government in Micronesia.

The dichotomy in United States interests is also reflected in the frequent shifts of responsibility that have occurred between the Navy and the Department of the Interior for the administration of all or portions of the territory. These shifts have resulted in unfortunate breaks in the continuity of administration, planning, and development.

In the confusion over American goals for the Trust Territory, our policy has been to "stimulate and promote the attainment of self-rule among the Micronesians" within some undefined framework. The resulting attitude, at least until 1962, was largely that of a custodian,

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protecting, preserving, and maintaining the territory, with insufficient emphasis on, or interest in development for the future. The tendency to hold the line is evidenced by the stability in the annual appropriations for the Trust Territory between 1952 and 1962 - - ranging between \$4.3 million and \$6.8 million - - during a long period of rising prices and expanding international commitments by the United States. The limited appropriations also reflect the policy that the United States ought not to finance a level of government services in the territory which the local economy could not support in the event of eventual independence.

Americans in Micronesia have marked time in self-conscious uneasiness while watching the deterioration of roads, schools, hospitals and other public works, and the continued stagnation of the local economy. As a result, we have wound up with a run-down physical plant, a poor showcase of American administration and a Micronesian people who are non-aggressive, but rather apathetic, willing to follow, but timid in accepting obligations and responsibility, and making minimum use of their potentialities. Without clear political objectives, the economic and political development of Micronesia cannot move forward with much vigor, for initiative will be stifled and administration will remain a routine servicing affair rather than an imaginative tool for progress.

Background on Trusteeship

Pending the arrival of that day in the distant future when an undefined something will happen as the result of Micronesia's development toward self-rule, we have continued to assume that the present trusteeship agreement will continue for an unspecified period despite some heckling

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from the unfriendly members of the United Nations. The fact is that trusteeships are out of date. The legal status of trust territories actually contributes to the drift in which we and the Micronesians find ourselves, and the United States may soon be in the embarrassing position of administering the only area under a UN trusteeship in the world.

The concept of mandates and trusteeships evolved during World War I from a disenchantment with the exploitation and trading of colonies by the great powers. Rather than treat the weaker peoples of Africa, the Middle East and the Pacific that were detached from Germany and Turkey as mere spoils of war, it was agreed to place those dependent areas in the care of "mandatory" or administering powers, which would exercise sovereignty over the areas subject to the guiding principles of the League of Nations. While independence was recognized as a possibility for the mandated former possessions of Turkey, the emphasis in Africa and the Pacific was upon protection and tutelage by an advanced nation.

The United Nations inherited and endorsed this philosophy during and after World War II, but added to the responsibilities of each administering power the promotion of self-government in the dependent territories. Under the United Nations Charter, the administering powers transferred their mandates into "trusts", and a Trusteeship Council was established as the principle organ of the new organization both to receive reports and petitions and to supervise the regular visits of inspection to the trust territories.

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Japan had seized Micronesia--the Mariana, Caroline and Marshall Islands--from Germany in 1914. By the Treaty of Versailles, however, Japan was denied title to the islands and, in keeping with the Covenant of the League of Nations, instead received a class "C" mandate to exercise sovereignty over the area. In keeping with the letter of the mandate, Japan essentially governed the islands as an integral part of its own territory. It violated the spirit of the mandate, however, insofar as it proceeded to fortify and heavily colonize the area.

The United States occupied Micronesia by conquest during World War II, and, immediately after the war, the military forces urged the retention of the area as American territory by virtue of that conquest. No public doubt existed that the United States had a paramount interest in the islands, and that they could not be left to go their own way or be returned to Japan. The position of the military, however, contradicted the non-aggressive war aims of the United States and came at a time when American support for the principles of the United Nations to maintain peace and promote international justice ran high.

Because of these conflicting interests, the United States entered into a unique agreement with the Security Council of the United Nations, under Article 82 of the United Nations Charter, for a "strategic" trusteeship over Micronesia. The trusteeship differs from others in that, under Article 83(1) of the Charter, the Security Council, rather than the General Assembly exercises the functions of the United Nations relating

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to the area, including action on "the terms of the trusteeship agreement and their alteration or amendment". Both the Security Council and the General Assembly, however, make use of the Trusteeship Council to assist them in carrying out their responsibilities for trust territories.

While the basic objectives of the trusteeship system, set forth in Article 76 of the Charter, apply in the strategic trusteeship as well, the United States is authorized, under the terms of the agreement, to close all or portions of the Trust Territory for security reasons and to determine the extent to which it will report on such areas or open them for inspection. The agreement was approved by the Security Council on April 2, 1947, and by a Joint Resolution of the Congress on July 18, 1947.

In 1947, the Trust Territory of the Pacific Islands was one of eleven United Nations trusteeships. However, with the rapid postwar movement toward independence for former dependent areas, only three trusteeships remain today. In addition to our own, there is Nauru, a small island south of the Marshalls which is inhabited by only 2,000 people whom Australia plans to evacuate to its own shores in the near future thus terminating the trust. Finally, there is a trust area in northeast New Guinea, which Australia administers jointly with its own territory of Papua on the same island, all of which, according to reports, Australia is steering toward independence under an arrangement in which Australia would be responsible for the new nation's defense and foreign relations.

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Thus, looking at the events of the past decade and a half, international trusteeship has almost become extinct as a device for fostering the development of dependent peoples.

The Need For a Plebiscite

Mandates and trusts have played a useful role in the development of the new world community. They have had an effect upon the improvement of all colonial policy. But it would be difficult to demonstrate that the administering powers have done more or less for their trust territories than they have done for their own colonies or possessions.

There is, therefore, a fundamental question as to whether trusteeship remains the best device for integrating the Micronesian people into the strenuous political and economic conditions of the modern world. The emphasis of our trusteeship has been on protection, not adaption and development, for example, the protection of local languages against English, which offers superior means of communication in the world today; the protection of local subsistence economy against American capital and management that could improve low-income levels, inadequate transportation and wretched housing. The indefinite, but obviously long-term nature and vague goals of the trusteeship contribute greatly to that protective attitude.

The true responsibility of the United States is to provide for a rapid systematic adaptation of Micronesia to the environment of modern society. It is a fundamental conclusion of the Mission that international trusteeship, as applied to Micronesia, is not suited to the achievement of that

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end because it has resulted in an aimless drift in which no goal is immediately or readily apparent. It does not excite the energies of the people themselves, and it has actually retarded the development of institutions and resources that permit the people to take their best place in the modern world because of its resulting emphasis on protection. The legal form of trusteeship is a delusion if it condemns the Micronesians to live in poverty without the stimulus of outside aid or contact. The administrator who works in the drift of trusteeship, with the possibility of independence in the distant future, is confounded. The less sophisticated Micronesian simply wonders where all the fuss is leading him.

It is true that the United Nations has--through its debates, criticisms and other pressures--sought to use the trusteeship vehicle to push the more rapid development of Micronesia. But, insofar as the United Nations pressures are aimed at eventual creation of an independent Micronesia, we believe that they will sooner or later result in even greater frustration and will postpone work toward a realistic goal. Independence of Micronesia would only be possible, given the various United States and Micronesian needs, on the unreliable and undependable basis for both parties of an arrangement involving continuing United States subsidies on the one hand and "permanent" ceding by Micronesia of exclusive defense and military use rights to the United States on the other hand. Nor will continuing United States subsidies alone satisfy the Micronesians in the long run because certain inflexible economic limitations

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of the area and the increasing population pressure must eventually compel substantial emigration of Micronesians.

Thus, the Micronesians would inevitably end up pressuring the United States, or if refused by the United States, some other major power for a special association that would involve both parties in the substance of a territorial relationship, but would not satisfy either party's need for a permanent dependable association.

There is also, of course, the further likelihood that the continuation of the United States trusteeship will be seriously challenged in the United Nations. If we are left with the sole trusteeship in the world, the United Nations pressures for action will grow. Both our enemies and the uncommitted or emerging nations can be expected to become increasingly critical. Our embarrassment could become acute and our prestige in the world community is certain to suffer; a very difficult situation might result over which we would have little or no control.

Given the factors outlined above--(1) the United States need to retain control of Micronesia for security reasons; (2) the increasing possibility that our trusteeship will be challenged; (3) the lack of a clear United States policy and the need for a goal around which to build a realistic development program; (4) the conclusion that continuation of the trusteeship tends to reinforce our present custodial attitude and aimless policy; and (5) the impossibility of true independence for Micronesia--it is the conclusion and recommendation of the

Mission that the United States should take the initiative now in action that would result in a termination of the trust agreement and the permanent affiliation of Micronesia with the United States. A plebiscite among the Micronesians is essential to such action and should be held as soon as possible in the interests of the Micronesians and the United States.

B. Territory-wide factors affecting a plebiscite

Before any meaningful discussions can be presented regarding the timing, terms, and mechanics of the plebiscite and the steps required to bring about the desired result, it is necessary to take into account six major factors that shape the current attitudes of Micronesians and the present and future development of political institutions and leadership in Micronesia. These interrelated factors essentially affect any analysis of political forces, their care, capture and control.

1. Existing governmental organization

The government of the Trust Territory, with the exception of the clan and familial government traditionally exercised by the chiefs, has been created under the authority of the trusteeship agreement with the Security Council (approved by a joint resolution of the Congress on July 18, 1947) and the Act of June 30, 1954, as amended (48 U.S.C. 1681), of the Congress. Article 3 of the agreement provides that the United States will "have full powers of administration, legislation, and jurisdiction over the territory" subject to the provisions of the agreement. The Act of Congress vests all executive, legislative and

judicial authority necessary for the civil administration of the territory in, and provides for the exercise of that authority by such persons and in such manner as the President may direct.

The President currently, under Executive Order No. 11021 of May 7, 1962, has delegated his authority to the Secretary of the Interior subject to certain policy guidance from the President and collaboration with other departments with respect to carrying out the obligations of the United States under the trusteeship agreement. Previously, the President had vested authority over first all and then parts of the Trust Territory in the Secretary of the Navy. The 1962 order brought Saipan and the northern Marianas under Interior and again united the Trust Territory under one agency.

The Secretary of the Interior, in turn, has delegated his executive authority to the High Commissioner of the Trust Territory and his judicial authority to the Chief Justice of the Trust Territory. The former has been appointed by the President, the latter by the Secretary.

The High Commissioner has, through the years, issued various orders and a code for the Trust Territory which comprise the basic laws of the area (the need to clarify his legislative authority is discussed in Part III of the report), and he and his staff have served as the executive branch of the government. This central government, with headquarters now in Saipan, has been organized around its major programs to include the departments of public safety, public works, education, public health, agriculture and fisheries, communications, property and supply and various staff offices.

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The Trust Territory has been divided into six districts -- the Mariana Islands, Yap, Truk, Ponape, Palau and the Marshall Islands -- with their district centers being Saipan (Marianas), Kolonia (Yap), Moen (Truk), Kolonia (Ponape), Koror (Palau) and Majuro (Marshalls). The departments of the government of the Trust Territory function in each of those districts subject to the general coordination and control of a district administrator appointed by the High Commissioner. Similarly, judges of the district courts are appointed by the High Commissioner. Appeals from district court decisions or original cases are heard by the High Court, whose members are appointed by the Secretary of the Interior but whose budget is controlled by the High Commissioner. The Trust Territory government employs some 2,200 personnel in district and headquarters administration, of which almost ninety percent are Micronesians, only one of whom holds a post above the level of department head at the district level.

A considerable effort has been made by the Trust Territory government to sponsor and develop local government with limited legislative powers in districts and municipalities. Each of the districts has a legislature of varying composition and method of selection chartered by the High Commissioner. They are unicameral and generally popularly elected, although the traditional chiefs also have representation in the Marshalls and Palau. These legislatures do have certain legislative powers in district matters, the power to impose certain taxes and to appropriate the revenues. However, their slight revenues (\$242,000 in fiscal 1962) do not

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provide the possibility for financing significant programs and are generally used for local education, to supplement particular territorial government activities, or support small projects of interest to the district legislatures. All their legislation is subject to the approval of the district administrator or the High Commissioner.

A major campaign has been underway to complete the chartering of all Micronesian municipalities with the objective of having a complete scheme of local government throughout the Territory. They vary in size, however, from Saipan which constitutes one municipality with 8,000 people, down to communities of less than a hundred souls. Generally, their charters provide for an elected magistrate with minor powers and a council, also with minor taxing and other powers. The exercise of those powers is severely limited in most areas of Micronesia since such municipal governments are operating at a level where the existing clan government usually prevails.

At the territorial level, the Council of Micronesia has now been created, evolving out of an interdistrict advisory council of Micronesian leaders that began meeting regularly in 1956. The Council is composed of two representatives elected by popular vote from each district (except in Ponape where they are selected by the legislature, and in the outer islands of Yap where they are selected by the Chiefs or the district administrator). The Council held two sessions in 1962 and 1963. It passes declarations, resolutions, and recommendations for such action as the High Commissioner deems necessary, but it has no legislative powers.

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2. Distance, transportation and communications

Micronesia consists of a series of small islands scattered over an area of the Pacific as large as the mainland of the United States. Even in the best of circumstances, this means that the islands and districts of the area are isolated little communities. The largest center of population is the Truk atoll with some 15,000 inhabitants. Other relatively sizeable district centers exist, such as Ponape with 11,500 people, Saipan with almost 8,000, Koror with 4,100 and Majuro with 4,000, but they are remote from one another, the outside world and the other half of the Trust Territory population which lives in smaller communities in the outlying islands.

Saipan, the headquarters of the Trust Territory government, is less than an hour's flight from Guam, the gateway to the Territory, but it is necessary to go through Guam at present to go from headquarters to any of the other district centers by Trust Territory plane. To go from Guam to Yap, the nearest district center, it is necessary to fly 460 miles, and from Yap to Palau another 253 miles must be covered. In another direction from Guam lies Truk, 554 miles away, thence to Ponape, another 382 miles, Kwajalein, another 583 miles, and finally Majuro, the district center of the Marshalls, another 263 miles.

The problems of transport and communications from a technical point of view are discussed more fully in another part of the report, but the great distances separating the islands, the slowness and infrequency of transportation from one district to another and the awkwardness and expense of wire

and radio communication, almost all of which is governmental, frustrate a reasonable integration of the economy, political and social life and prevent a normal diffusion of central ideas that might serve as unifying political principles. There is a danger of continued provincialism and separatism unless transport and communications difficulties can be overcome.

3. Diversity of cultures

The historical remoteness of the islands from one another has produced a diversity of cultures in Micronesia. Political, social and economic patterns and institutions vary significantly almost on an island to island basis. Nine major languages and several dialects are used. Until recently, even the concept of a single united district comprising a group of neighboring islands was foreign to their traditions.

Neither the Spaniards nor the Germans, although exercising sovereignty over the islands, brought them under a cohesive administration; while the Japanese, except for teaching their language in the lower grades, created no political or social institutions that would stimulate the self-consciousness of the Micronesians as a related people. The Japanese governed the mandated territory from Koror in Palau, making it an attractive, prosperous capital; the United States, mixed up between Navy and Interior Department administration, has governed the Territory from Honolulu, Guam, and now rather awkwardly from Saipan where the people have an intense attachment for Guam but rather little regard for the culturally different people of the other districts. However, the United States, in its action to establish a territory-wide Council of Micronesia, the first in all Micronesian history, has begun to bridge the traditional isolation of the islands.

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Given the conglomeration of peoples, languages, cultures, isolated atolls and islands, the subdivision of the area into district administrations, first by the Germans and Japanese, and now by the United States, has had to be rather arbitrary. The present districts are not culturally homogeneous. The Marianas are most homogeneous, despite a Carolinian minority that remains somewhat culturally and politically distinct from the Chamorro majority. But the Ponape District, for example, contains two Polynesian, rather than Micronesian, islands, and Kusaie, which speaks a different language than Ponape Island, believes it is equal to, or better than Ponape and has petitioned for a district of its own. In some cases, especially in the eastern Carolines, the outlying islands near district boundaries have a closer affinity for the neighboring district than they do for parts of their own.

The selection of district centers and their consequent, more rapid advancement and closer ties to transport and communications facilities has also resulted in friction with the outlying islands. Significant differences in levels of development now exist, for example, between the Palau district center at Koror and the outer islands such as Peleliu. In the Yap District, the outer islands have yet to gain representation in the district legislature. In many ways, the outer islands have come to feel that they are being outdistanced and overwhelmed by the district centers.

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What Micronesia lacks most is a long common experience with shared institutions. To be under four foreign powers in less than seventy years, each using its own language, economic and political standards, and to have four capitals in thirty years hardly helps develop that necessary experience and denies any hope for the immediate cultural cohesion of Micronesia.

4. Familial and clan patterns

Except in the Marianas, the familial or clan patterns of life throughout Micronesia are an important political factor. Families and clans are the objects of primary allegiance in many areas and the centers of basic authority. Large areas of land, indeed, sometimes whole islands, often classified as in "private ownership," are in reality controlled by a clan, with use rights being apportioned through historical practice, communal agreement and the intervention of the elders or chiefs of the clan. (A curious and important factor tending to perpetuate the power of the traditional chiefs in many communities where terribly complicated structures of land rights exist is their uniquely authoritative knowledge of boundaries and rights.) Land is the tie that binds families and clans together; the right to occupy and use land, guaranteed by family membership, is the security of young and old, and the index of hierarchical patterns. In Yap, for example, all useful land is held by the families except for a little held by religious missions and used by the government--the public domain land consists of mangrove swamps.

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In the Marshalls, Ponape, Truk and Palau, although the United States is encouraging homesteading of the public domain, leasing and registering of private land transactions and other devices designed both to clarify title and increase individual ownership of homes and farms, the family-clan pattern with its many chiefs is omnipresent. Urbanization, with the movement of young men to district centers and the increase in a cash economy, of course, tends to break down clan and chief authority. But the young men working for the government and the trading companies, speaking English and absorbing western ideas still have an emotional attachment to their family and clan, and to their chiefs who, after all, are relatives, often close ones, and often men of character and leadership.

Whereas the Germans and Japanese tended to utilize the chiefs as their agents in the administration of the territory, the United States has attempted increasingly to introduce representative, democratic government based on the electoral process. Even in this new system, the chiefs, in many instances, have simply become the magistrates, being "elected" by their clans. The tendency to select men other than the chiefs as magistrates occurs mainly in the larger, more urbanized municipalities. Nevertheless, when this occurs it is still generally true that the elected magistrates must be sure to retain the traditional chiefs' support.

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The traditional chiefs tend to be men over 45 years old; they are not likely to have a working command of English, although they may speak Japanese; they are naturally more conservative and rooted in local interests than the younger Micronesians working for the government. This does not mean that they are reactionary, particularly in their concern for "more education" for the younger people which all Micronesians feel is the magic key to raising their incomes; indeed, a number of them have extraordinary leadership qualities and receive profound respect from the people. In many responses from ordinary, non-English-speaking Micronesians, and in rank and file conversations with Micronesian women, it was obvious that they knew their chiefs and magistrates personally and by name, whereas they did not usually know their representative in the district legislature unless he was the same man. Such people rarely knew anything about the Council of Micronesia and the delegates to it from their district. They never knew the names of the delegates from other districts.

5. The Young Leaders of Micronesia

According to the figures in the 15th annual report to the United Nations in 1962, the Trust Territory government and other United States agencies in the area employ 65 percent of all the Micronesians who work for wages, and this figure excludes elementary school teachers, the majority of whom secure supplementary bonuses from the

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Trust Territory government. In this pool, occupying positions as department heads or assistant department heads in the district administrations and special staff positions in headquarters are the overwhelming number of potential leaders of Micronesia. Many of these men, mostly in their thirties and selected for their knowledge of English and their formal high school education, are also doing double duty as members of the district legislatures and the Council of Micronesia. In fact, they dominate most of those bodies.

These are the men who are most fluent about western ideas and American administration; these are the men who are easiest for Americans to talk to and who seem to deal in concepts meaningful for an American investigator. Neither their capacities nor their influence in Micronesia, however, should be exaggerated. First, they are young by Micronesian standards, so that neither their age nor clan status carries much weight with the masses of the people. Over the next few years, of course, as they enter into positions of larger responsibility in the administration, or as the legislatures in which they serve stabilize and increase their functions, these men, growing older, will increase in influence. Some will also achieve increasing importance in their clans. Second, their education and experience is quite limited. A mere handful have college degrees and none, it is believed, from a mainland United States college. In Truk, for example, there is not a single Micronesian with a Bachelor of Arts

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degree. In 1962, there were 78 Micronesians studying at the College of Guam, 13 at the University of Hawaii and 12, of which 2 were girls, in mainland colleges. Out of that group, of course, many will not have political leadership capacities. It must also be recognized that the high school education of those young Micronesians who were snapped up by the Navy and Interior administrations was hasty and laid upon a weak base of elementary school education during and just after World War II.

Despite those drawbacks, the best leadership potential exists in this group. What is required now for them is not more formal education, but rather special training and development through visits to the United States, visits to other districts and to headquarters for discussions of common problems such as health, public works and education, and improved tutorial relationships between themselves and their American supervisors. In too many cases, these people have been moved into what would appear to be fairly responsible jobs only to be assigned year after year routine repetitive work.

6. Interest Groups in Micronesia

Because of the wide-scale subsistence economy, because of the paucity of private businesses and individual merchants, because there is no organized labor, because of the lack of professional persons, with no Micronesian lawyer in practice, and because the religious orders are dominated by Americans, it is almost impossible to speak in

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western political terms of Micronesian "interests." The execution of an economic development program and the improvement of education will in the course of time contribute much to the diversification of life in Micronesia and, by creating institutional changes, begin to create other sources of independent leadership and foster interest groups.

However, one group which deserves special mention at this time is the trading companies. Apart from one shipping company, all the principal private businesses in the Trust Territory are import and export firms. In the Marshall Islands Import-Export Company, the Truk Trading Company, the Yap Trading Company, and so forth, are to be found men who have an important standing in their community and earn their income from private enterprise. In several cases, they have traveled outside Micronesia to the Philippines, Japan and the United States. The best of them have participated in government as magistrates, members of district legislatures and delegates to the Council of Micronesia. They bring to government an outside view, considerable experience, and a perspective typical of their financial independence, as well as a realistic appraisal of the economy and the community with which they deal every day on a bread-and-butter basis. In light of the absence of any other interest group to balance the galaxy of government employees now occupied with legislative work, it is sound political sense for the United States to encourage their training and participation in public affairs.

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C. District Political Patterns, Problems and People

Generalizations about an area so geographically vast and culturally diverse as Micronesia are bound to be roughly approximate. Even forthright statements about districts, which comprehend many islands, some of which see a ship three or four times a year, and which contain very small, scattered populations, can also be misleading. There are in each district, however, a few key political problems and a few key political figures.

THE MARSHALL ISLANDS

The most dramatic impact upon Micronesia by Americans has been in the Marshall Islands. With good reason, for no other district has had so much cause for suspicion, doubt and resentment toward the United States. In 1946, the United States transferred 167 people off Bikini in preparation for nuclear tests; in 1947, another 137 people were moved from Eniwetok; and in 1954, the people of Uterik and Rongelap were affected by radioactive fallout from nuclear tests, so that 236 of these Islanders were transferred to other places. Resettlement of the Bikini and Eniwetok people has since taken place in Kili and Ujelang, while the Uterik and Rongelap people have returned to their islands.

To make room for a military base, the people of Kwajalein Islands have also been removed to a barren, dirty slum on another islet in the atoll Ebeye -- some thirty minutes away, where a polio outbreak

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last year, allegedly left to run rampant for lack of vaccines, attacked infants and children. Twenty are still crippled. Moreover, no settlement has been reached between the natives of Kwajalein Island and the United States on the terms of the Navy's lease of their homeland. This constantly rankles feeling. They can work on their home island, but they cannot live there. It is ironical that the Trust Territory government has the poorest public relations on Kwajalein where the Federal Government's payroll supports an above-average Micronesian standard of living. The territory's resident representative lives in the Federal base at Kwajalein Islands, goes to Ebeye infrequently and has little rapport with the people.

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Koror Island, in the Palau district, once was the thriving capital of Micronesia; it has memories of fine buildings, good roads, shops and bustling urban life under the Japanese. All these are largely gone. Across a narrow stretch of water from Koror, thirty minutes by boat, lies the largest island of Micronesia, Babelthaup, with space for expansion and economic development. But transportation and communication pose a bottleneck to action.

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In a vote held in 1961 under the auspices of the Saipan legislature, about 63 percent of the voters favored becoming United States citizens in affiliation with Guam, 36 percent favored becoming citizens in a separate territory and only one percent favored the status quo. While the Mission was in Saipan, the district legislature again passed by a large majority a resolution asking for affiliation with Guam and termination of the trust.

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D. Attitudes Toward Affiliation

How do the individuals and groups identified in the preceding pages see the future government of their people, and where do they believe that their interests lie?

First, common throughout the triumvirate of traditional chiefs, the younger bureaucracy and the businessmen is the strong conviction

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that Micronesia cannot "go it alone" and that the United States is the source to which they must look for aid. Second, they all generally feel that education oriented to the modern world is the key to a better future, which is generally equated with higher cash income and less dependence on a subsistence economy. (In this connection, the NSC Task Force and the Congress made a wise choice in selecting education as the initial area for mounting a large-scale United States development effort in Micronesia.) This "better future" is at present rarely equated with the concept of an eventually independent Micronesia since the time involved before serious thought could be given to independence is believed to be so great that even those who might emotionally be disposed toward the idea shy away from any real consideration of it. Third, these people are generally confused as to the relationship between Micronesia and the United States in a variety of ways. They do not know whether our interest in the area is permanent or temporary. If our interest is permanent, they do not know whether the United States wants Micronesia to join it, and, if they were to join the United States, they are not clear as to what that would mean to their present vested interests. There is a tremendous area of underlying, inchoate uncertainty and fear that is formulated only when they are forced to face the issues. They would prefer to think of these matters as too far distant in time to be considered.

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The traditional chiefs feel ignorant of what "coming under American laws" would mean to their restricted land tenure systems and the associated social structure and culture in which they have so prominent a role. The younger bureaucrats are more concerned with the highly emotional and tangible issue of equalizing the Micronesian and American pay scales in the Trust Territory government, but they have few views as to how joining the United States might affect that issue. The businessmen are concerned that affiliation with the United States would mean that they would be swamped by American business with which they could not compete. Both the chiefs and businessmen frequently referred to the case of the native Hawaiians who lost control of their lands and were displaced in the commercial and political arena. They believe they must be better educated before they can be expected to compete.

Fairly widespread also, although varying from district to district in intensity -- with the strongest emphasis in the more aggressive districts of Palau and Marianas, is doubt as to the quality of individual American administrators. The leaders are confused, particularly by the administrators' great concern with fostering numerous local political institutions and their lack of concern in the eyes of the Micronesians with more immediate and tangible problems and needs. Although much of this "strangeness of American ways" cannot be blamed upon American officials, the Mission was

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offered and has information in its files on quite a few cases of officials misdirecting their own and community efforts and funds in ill-planned projects with unfortunate political impact.

The man-in-the-street has also given little thought to the future status of Micronesia, while the Trust Territory government has done nothing so far to suggest any potential course of action. As one woman on Yap replied to a query about the future, "That's a far, big question." Again and again in discussions with Micronesians when asked about the next five or ten years, the reply never left the range of local economic problems: "Things are getting better"; "We need more money for our copra"; "Better roads and more ships would help" -- or the range of social improvements: "Education is better in American times"; "More business in Japanese days, but we like the American way, American schools, letting us into government" -- or the range of local political changes: "We're learning about government"; "It'll take a long time"; "The people don't know much about their district legislatures yet". Only after tedious and delicate questioning could most Micronesians be led to frame for themselves the possibility of changing the status of the Trust Territory and then it was obvious, except for the Saipanese and very few elite Micronesians, that the chance of becoming part of the United States had simply not entered into any rational analysis.

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On the basis of six weeks of traveling to some eighteen islands in the Trust Territory, discussions with seven assemblies of local people, eight meetings with legislative committees, seven meetings with municipal councils, three meetings with women's associations, at least twenty-five interviews with American missionaries, and no fewer than forty-five private interviews with Micronesians, as well as complete briefings by the High Commissioner and the six district administrators, it is the conclusion of the Mission that there is no important hard core of resistance to affiliation with the United States either among the leaders or the people of Micronesia. If the people of Micronesia were offered a simple choice between self-government in affiliation with the United States or independence, we believe an overwhelming majority would favor self-government in affiliation with the United States. Because of various concerns and fears that have been expressed by Micronesians, however, there might be considerable abstention from a plebiscite unless attention is focused on the issue and the meaning of affiliation with the United States is clarified.

E. Timing and Terms of a Plebiscite

Having concluded that a plebiscite leading to permanent affiliation with the United States in the near future is in the best interests of the Micronesians and the United States, and having identified the factors that would most affect it, consideration must be given

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to the key questions of timing and the actions needed to prepare the Micronesians for the plebiscite, including the inducements required to secure a highly favorable result. Study must also be given to the actions needed to prepare the United States and United Nations for the plebiscite.

While it is the opinion of the Mission that the great majority of Micronesians would favor affiliation at this time, we must overcome the Micronesians' doubt about the unknown and overcome their natural fears regarding their status and their future in any affiliation with the United States. We must also take into account the interests of the United States and the United Nations.

In that regard, we may be in somewhat of a dilemma since it is difficult to provide an arrangement and program which will, on the one hand, satisfy the United States -- particularly the Congress -- and, on the other, be acceptable to the Micronesians and the United Nations. The Congress -- indeed the Federal Government as a whole -- will require adequate protection of the United States interests in the area and an assurance that effective use is made of Federal resources. However, we must also assure the Micronesians and the United Nations that adequate provision will be made for the development and interests of the native population. This will require fairly concrete action, before the plebiscite, to make known the form of territorial governmental organization which would apply under affiliation with the United States.

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The Mission has aimed at presenting an integrated and realistic program -- in the political, social and economic area -- to be followed in the next few years leading up to and subsequent to the plebiscite. Our basic objectives have been to maximize our chances of securing a favorable vote at an appropriate time, to provide a program acceptable to all the parties concerned, and to produce in the Trust Territory the most effective situation and machinery for the further development of its people and resources.

Timing

Micronesia has been under United States control since shortly before the end of World War II, a period of almost twenty years, and under the trusteeship agreement for over sixteen years. As was pointed out to the Mission by several Micronesians, during a comparable period, the Japanese were able to create a relatively prosperous economy and a more developed infrastructure of public works than now exists.

We have noted that our attitude in Micronesia has tended to be largely custodial, that initiative has been stifled, and that our administration and the indigenous population have drifted rather aimlessly. All of these factors argue for a plebiscite in the immediate future, the next few years, not the next decade. In the Mission's judgment rapid action is now required to check the ever-increasing apathy in the area and the psychological pattern of dependency and feeling of transiency on the part of Micronesians.

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We have noted too that both the Nauru and New Guinea trusteeships are on their way towards termination and that the United States might be left as the sole administering power of a United Nations trusteeship. This politically embarrassing situation ought to be avoided as early as possible.

However, we cannot act immediately, for there has not been sufficient preparation in the Trust Territory. A period of some years will ideally be required for preparation for the plebiscite by the implementation of the Mission recommendations which we believe are prerequisites. Some years, moreover, will be needed to convert the Council of Micronesia into a true legislature with some experience with legislation and to establish a solid basis for a Micronesian administration along the lines of the Mission's recommendations. If those steps are not taken first, the Micronesians will still have considerable doubts as to the meaning of "self-government in affiliation with the United States" and the United States might be unable to persuade the United Nations that the area has achieved a sufficient degree of self-government.

Finally, it will take several years to implement the higher priority capital investment programs for economic and social development proposed in this report. Those programs would be largely implemented by 1968 if the Mission's recommendations are followed. As is pointed out elsewhere, however, it is the Mission's conclusion that those programs and the spending involved will not set off a self-sustaining

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development process of any significance in the area. It is important, therefore, that advantage be taken of the psychological impact of the capital investment program before some measure of disappointment is felt.

Therefore, it is the recommendation of the Mission that the plebiscite should be held early in 1968. The time could be advanced to 1966 by compressing the schedule for the establishment of the Micronesian legislature and reducing the period in which it would gain pre-plebiscite experience. A 1966 date would be feasible, but not ideal.

Announcement:

One of the most critical questions to be answered in the very near future is the timing of the announcement of the plebiscite. From a strictly Micronesian point of view, the Mission would recommend that the plebiscite should be publicly announced only a few months in advance. This would provide time for most of the preparatory ground-work needed to reduce the shock of the announcement. It would also reduce the time in which any opposition -- either in Micronesia or the United Nations -- could campaign against affiliation.

On the other hand, we believe it would be advantageous if the entire program leading up to the plebiscite could be laid before the Congress when it is asked to authorize and appropriate the increased funds that will be required to carry out the recommended development program. If that advantage, or strategy with respect to the United Nations requires

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an announcement in 1964 of the timetable leading up to a 1968 plebiscite, the anticipated shock in Micronesia should not block that action.

Terms to be Offered:

Given the operation of the trusteeship system of the United Nations, it is essential that the Micronesians be offered a choice of complete independence versus affiliation with the United States. The Mission has no doubts about the outcome, but we must take into account the attitudes of the United Nations, our friends as well as our enemies and the developing nations. It is extremely doubtful that they would accept any more limited choice. Our friends could not defend it, nor could we, and our enemies would have a prime opportunity to denounce the United States as a colonial power.

It would also be possible to introduce alternatives which go beyond the simple issue of affiliation with the United States, such as, for example, the question of affiliation with Guam or even Hawaii. In our judgment, those options should not be considered, first, because they introduce complicated factors regarding which no guarantees can be made. Second, such alternatives would introduce side issues into the plebiscite which are apt to create confusion and, in certain districts, negative attitudes. Certainly, the Carolinian majority in Micronesia (which constitutes roughly two-thirds of the total population) would be influenced by the present reaction of the Marianas Carolinians against merger with Guam.

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It would also be possible and perhaps necessary to offer a third choice in the plebiscite: continuation of the trusteeship. Such an addition, we believe, would reduce the majority in favor of affiliation by a substantial portion of the total vote because it would be attractive to those who would still have doubts regarding affiliation and who might shrewdly conclude that trusteeship offers the Micronesians the greatest leverage in dealing with the United States. However, because of the constant UN pressure to end trusteeships, it presumably would be most difficult for the UN to insist on adding the third choice.

Given the above factors, it is the recommendation of the Mission that two alternatives should be offered in the plebiscite: (1) Do you wish to become an independent nation?; and (2) Do you wish to become permanently affiliated with the United States? If required by the United Nations, the second question might be made more specific by including a simple or descriptive reference to the proposed post-plebiscite form of local government organization discussed below.

F. Preparation for a Plebiscite:

The Congress and the United States

Nothing, of course, could be worse than an adverse congressional reaction after the plebiscite is announced and before it is held -- or, assuming a favorable result in the plebiscite -- if the Congress

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were to fail to take action to recognize the results. Failure to recognize in some appropriate form the outcome of the plebiscite could place the United States in a difficult position and would have a devastating effect among the Micronesians. As will be discussed below, it is recommended that the minimum action of the Congress would be to grant to the Micronesians the status of United States nationals to provide clear evidence of their acceptance within the American system. The indispensable need for consultation with the appropriate committees regarding the proposed program need not be further stressed.

As an alternative, it would, of course, be possible to involve the Congress directly now, before or immediately after the plebiscite in enactment of organic legislation for the territory. An organic act was actually before the Congress in the late 1940's and early 1950's but failed of enactment. The High Commissioner has suggested that it might be appropriate again to approach the Congress with an organic act at the time the Council of Micronesia becomes a legislative body in 1964 or 1965, thus giving the Congress the opportunity to ratify the arrangement and give the Micronesians the assurance of law regarding the organization of Trust Territory government.

However, it is the recommendation of the Mission that such action not be taken in the near future because it might pose later difficulties, largely because of the rapidity with which events would be taking place in the Trust Territory in the next few years. An

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initial congressional enactment and subsequent delays in amendment would prevent the accomplishment of later steps in the process of developing the government of Micronesia. Such delays might also have an adverse effect on Micronesian attitudes. Presidential and Secretarial orders have been utilized to date (and are also the source of action in American Samoa) and provide the necessary flexibility to meet the expected rapid changes in governmental organization. The submission to Congress of an organic act, which should be the culmination of Micronesia's movement toward affiliation, should come after the plebiscite when it is judged appropriate in view of the territory's development.

In addition to the consultations with the Congress regarding the program for Micronesia, the White House and the Executive Branch should begin to prepare the American people for the forthcoming affiliation long before the plebiscite is publicly announced. Few Americans know where the Trust Territory is, let alone have judgments about its people, their resources and the advisability of making Micronesia a territory of the United States. Without a planned information program, some American critics might be able to discredit the idea of affiliation on the basis of "colonialism" and the subsidization costs that are involved. Others might unknowingly assume that the plebiscite would lead to independence and criticize accordingly.

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The Mission recommends that responsibility for developing and carrying out a necessary program of informing the American people about Micronesia should be assigned by the White House to the Departments of the Interior and State and such other agencies as may be able to provide useful services. The program might include the mentioning of Micronesia and its importance to the United States in public addresses by the President and other officials, circulating to American interest groups and civic associations literature and pictures about Micronesia, making arrangements for an increased number of visits by Micronesian leaders to the United States and giving them the opportunity to talk to American groups and publicizing their visits, possibly arranging for visits by Micronesian choral groups, some of which are excellent and, if thought advisable, having the Department of Defense stress United States security interests in the area through its information programs.

The United Nations

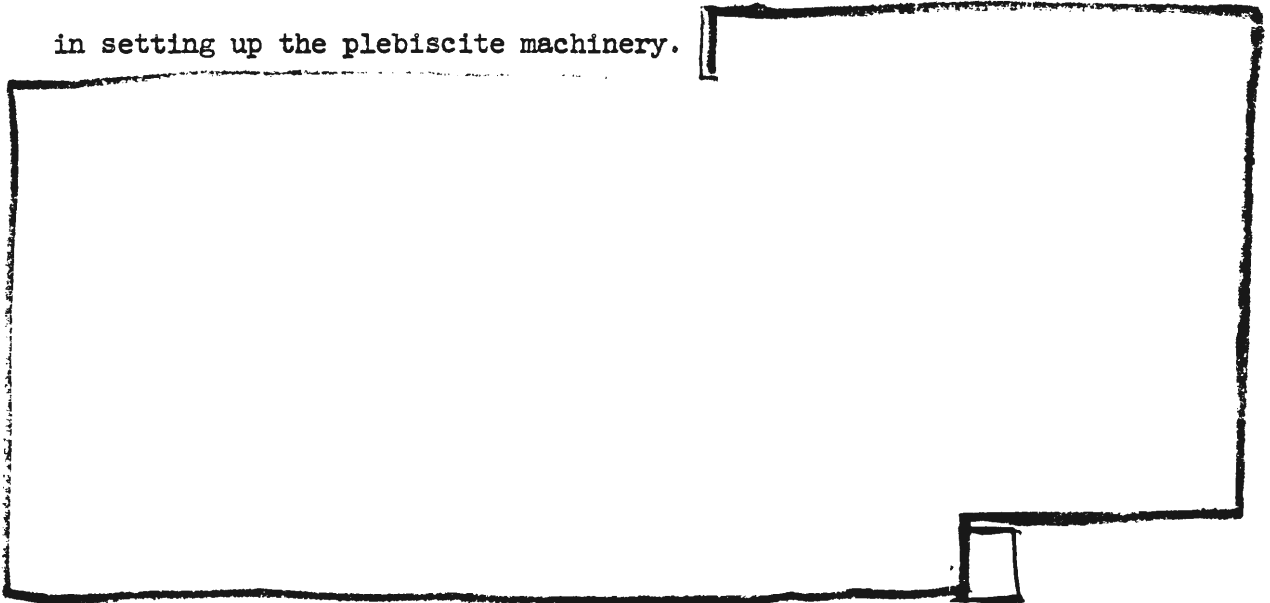
While Article 83(1) of the Charter reserves to the Security Council the exercise of all United Nations functions relating to strategic areas such as Micronesia, including the alteration or amendment of trusteeship agreements, it is silent on any steps -- such as a plebiscite -- which might be taken prior to an alteration or amendment of the agreements. The Charter says, however, the Security Council "shall call" upon the Trusteeship Council for assistance in carrying out its responsibilities. Article 76 of the Charter, moreover, distinguishes

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self-government from independence and states that the objective of the trusteeship system shall be to promote the progressive development of the territories "towards self-government or independence as may be appropriate to the particular circumstances of each territory and its peoples and the freely expressed wishes of the peoples concerned . . ." Thus, the views of the Micronesians clearly are to be freely expressed and taken into account, but the machinery for determining those views is apparently left to the discretion of each administering power in the absence of any restriction in the Charter.

Based on an examination of previous UN trusteeship plebiscites, the Mission sees no reason why the Trusteeship Council would not as usual authorize the framing of the alternatives to be offered in the plebiscite and join the United States as the administering authority in setting up the plebiscite machinery.



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At a minimum the granting of United States national status (which on the surface appears permissible under the wording of Article 3 of the trusteeship agreement although there is some question by legal counsel of state), is necessary to give the Micronesians the assurance that their political future has been resolved. The question of additional steps to make the trusteeship agreement a dead issue (such as the discontinuation of reporting to the UN completely or by reporting to the Committee on Non-self-governing Territories rather than the Trusteeship and Security Councils) is one that can be decided only at the appropriate time given the over-all situation at that time.

The Micronesians

The United States must begin preparing the Micronesians for the plebiscite immediately. Our preparation must take into account the factors and attitudes previously discussed in section B:

(1) The fact that essentially all legislative powers for the territory are still concentrated in the High Commissioner, that the all-important central and district administration is still in the hands of Americans, and that existing local legislatures are lacking in power and resources;

(2) Distance, transportation and communications problems frustrate a normal diffusion and exchange of ideas;

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(3) The islands of Micronesia are culturally diverse, essentially still quite provincial in outlook, segregated into artificial districts and lacking in common experience;

(4) In most islands the hold of the traditional chiefs and land tenure systems remains strong and respected;

(5) While young leaders are emerging in the bureaucracy, they require additional development and training;

(6) Normal "interest" groups are lacking save for a small business community generally engaged in export-import enterprises;

(7) Special local problems exist such as the question of land rights in the Marshalls and the Marianas' desire to affiliate with Guam; and

(8) While there is no hard core of resistance to affiliation now, there has been very little thought given to the possibility, and what little thought is given raises concerns, doubts and fears about the unknowns of affiliation and what it would mean to vested interests.

It is obvious that the problems implicit in the above listing cannot be solved overnight and that some of them require very delicate handling so as to lessen fears rather than heighten them. It is also in the United States interest, we believe, to proceed in stages to solve some of the problems so as to secure the maximum propaganda advantage out of the moves made to solve the problems. Further, while

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it would be wise and indeed necessary to indicate by concrete action our good intentions with respect to the development of Micronesia, and, for example, to spell out clearly the type of government that would exist under affiliation with the United States, it also makes good sense at the time of the plebiscite to have some inducements left to offer as a reward for a favorable vote.

Thus, as will be detailed in the next section, we believe action should be taken in 1964 to convert the Council of Micronesia into a true legislative body. This action is a necessary first step in the time-table of Micronesian political development. Subsequently, when the plebiscite is announced, a Presidential Executive order (see Appendix B for proposed draft) could be issued promulgating the Micronesian government to take effect on a specified date after the plebiscite (irrespective of the plebiscite results). The creation of the office of the Chief Micronesian Executive in that order, even though subject to limitations explained later in this report, together with the promise of recognition of the areas as a United States territory and a grant of the status of United States nationals to the citizens of the Trust Territory would constitute a set of generally attractive inducements for permanent affiliation with the United States. The other more specific inducements and reassurances that would impel the three groups of political leaders to organize a large favorable vote and that the Mission believes are appropriate are described below.

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The other factors which pose problems in preparing Micronesia -- the lack of common experience, provincialism, the diversity of cultures and the lack of trained personnel, can largely be solved only by time and experience. However, certain steps can be taken now to broaden the perspectives of the Micronesian leaders and people and to correct a general unawareness of the possibility of union with the United States. In this regard the Mission recommends that there be a concentrated effort made to bring the leaders of Micronesia together for discussions and conferences on matters of broad interest and for the exchange and dissemination of information, including information about the United States and its interests and activities in the Trust Territory. To the extent possible, these men and women should be exposed to the affairs of the territory as a whole and to the districts other than their own. Special emphasis, we believe, should be given to the promising young bureaucrats and younger businessmen who are the major potential for Micronesian leadership. It is recommended that the young leaders of Micronesia should be given further opportunity to develop through leadership grants which will enable them to go to the United States. An administrative training program should be established in Micronesia by contract with an American university noted for its work in that field. Also groups of Micronesians should be selected by the High Commissioner and the district administrators to be sent as a group to an American university to be trained for political and administrative leadership.

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At the same time the United States must create in the average people of Micronesia a political consciousness about the United States, its strengths, interests and concerns. The people of Micronesia are not unintelligent -- far from it, even among those living in small villages, under thatched roofs, without water or electricity or toilets and only half-dressed by American standards. There is a good native intelligence, a dignity of person and high standards of civil behavior. But there is little or no understanding about the United Nations trusteeship, the role of the United States or the possibilities for future political development.

Knowledge about the United States, of course, is greater in the urbanized district centers where some of the best educated Micronesians work. The ways of the West, with alcoholic beverages, cha-cha dancing, cowboy movies, supermarket grocery stores and the habits of American family and social life are evident there. On Kwajalein Island, hundreds of Marshallese can see a full-blown American community, almost a reproduction of a California suburb. But, the majority of Micronesians, outside the district centers, have had little or no contact with world news, United States policy and the American government.

In developing the educational curriculum, the United States has studiously avoided pressing knowledge about the American political system. Perhaps indicative of the attitude is the lack of American flags, pictures and displays. On the other hand, United Nations posters

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appear frequently. Most significantly, the delay in teaching English to the children until the sixth grade, whether justified by pedagogical theory or the lack of English-speaking teachers, has lost precious years in developing a territory-wide medium of communication which is an important means of engendering common interests and institutions and the rapid spread of information.

There is no close count of the privately-owned radios in the Trust Territory. The government estimates that, in 1962, there were some 2,000 sets in indigenous homes. In any case, the number is constantly increasing, and radios represent the quickest and easiest means for the dissemination of ideas. The Saipanese listen to the Guam radio; the Marshallese receive a strong signal from Kwajalein, but unless they understand English they are closed out to news interpretation and must rely on their own, weaker station broadcasting in Marshallese. Ponape is planning a radio transmitter. Yap has no transmitter but can hear the Palauan radio which broadcasts almost exclusively in Palauan. In both Palau and Truk the overwhelming portions of the programs are music, with little or no English broadcasts. Palau radio broadcasts the news three times a week. Japanese, Chinese and Moscow broadcasts can be heard clearly in the Carolines and Marianas although the Mission was unable to identify any sentiments that might derive from those sources. The Voice of America is not heard clearly in most areas, but local stations do use the tapes and material of the United States Information Service.

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Newspapers in local languages are nonexistent in the territory and the few mimeographed sheets in English distributed by the district administrations are really "house organs", narrowly circulated among the Americans and a small Micronesian clientele with no editorial opinion on public issues. There are commercial theaters in most districts showing American films. The theaters in Saipan and Palau show Japanese films as well. But, there is little use of documentary or training films by the government, especially outside the district centers.

This paucity of systematic communications, hinging upon the lack of personnel, difficult distances to be covered, lack of funds for equipment and the weak embryo of a common language must be overcome as much as possible during the preparation for the plebiscite, and the Mission program for communications improvement has been developed with this and other criteria in mind.

However, technical frustration is not the only problem. A sound orientation of the information to be conveyed, a knowledge of the most efficient means of gaining political impact and a gift for the evaluation of attitudes is also indispensable to maximize communications during the preplebiscite period. This requires sensitive and continuous handling by the United States administration, and it is recommended that (1) a public affairs officer should be added to the staff of the High Commissioner and each of the district administrators to develop continuing contact with the elite groups of Micronesians

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and to run the information, radio programming and adult education program in the district; (2) an information-adult education specialist should be added to the headquarters staff to develop programs to influence mass attitudes; and (3) the Peace Corps volunteers (proposed program in the Community Action program of Part II, Section B of this report) should be utilized to help implement the adult education and information programs at the community level as part of the proposed community action program. It is strongly suggested that Americans who have the needed skills and experience be recruited with the help of the United States Information Service (or possibly through the help of the Department of State) for these Public Affairs or Information officers in the Trust Territory. They should be responsible for the development of favorable political attitudes toward the United States through a systematic program of information through various communications media. They would assist in the selection of persons for educational tours in Guam, Hawaii and the mainland and act as reporters and evaluators of all activities and attitudes that might have an important bearing on the outcome of the plebiscite in Micronesia.

G. Present and Post-Plebiscite Territorial Government

The current government organization of the Trust Territory, as noted earlier, consists of the United States financed and directed government under the High Commissioner with its field structure extending down through the districts and three layers of Micronesian government -- the territorial advisory Council of Micronesia, the district legislature and the municipal

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magistrates and councils -- superimposed on the traditional clan organization. The High Commissioner's government is unusual -- even among the United States territories -- in the degree to which it dominates the field, accounting for well over ninety percent of the governmental expenditures in the area.

A considerable effort has been made by American officials to copy democratic institutions which have little political relevance in the situation. Those officials have been urged on in that direction by the United Nations which has also exaggerated the theme of self-government, pushing complex democratic forms upon a Micronesian community that had no experience therewith and a minimum economic capacity to support them. The product is an apparently greatly "over-governed" community of only 81,000 people of which easily 1,000 serve in one or more legislatures and municipal councils, aside from the traditional clan councils and the 2,200 Micronesians in the Trust Territory Government.

The present Council of Micronesia is still no more than the inter-district advisory committee from which it grew. The new name was chosen in 1962. It has no legislative power, no executive counterpart and merely passes declarations, resolutions and recommendations to the High Commissioner for such action as he deems appropriate. No laws prescribe its functions or the manner of the selection of members; instead, each year the High Commissioner has announced that there

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will be a meeting of the advisory body at a certain time (usually the Spring) and place and invites the districts to send representatives. In response to, or in anticipation of the invitation, the districts each select two representatives, usually by popular election, although the district legislature selects the members from Ponape. Tradition apparently calls for certain subdistricting so that, for example, Saipan elects one of the Mariana members and the other is elected by Tinian and Rota, and Yap Island selects one of the members from that district while the district administrator selects the representative of the outer islands in that district.

We have already discussed the need for a more meaningful Micronesian central government, not only to dispel Micronesian doubts as to the shape of their government in affiliation with the United States but also to offer inducements to the Micronesians to vote for affiliation. The present feeble structure, in the Mission's opinion, does not satisfy those needs. As important is the need to satisfy the world community -- our friends to whom we must look for assistance in the matter of affiliation as well as the new nations and the neutrals -- that we would be providing Micronesia with a reasonable degree of self-government. Without that, we would be defenseless against charges that we are grabbing Micronesia to thrust it into a colonial status without consideration of the interests and rights of its people.

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The question then is: How can the existing weak institution be converted or developed into a meaningful central government for Micronesia in the short time before the plebiscite? It is the conclusion of the Mission that a central government for Micronesia can only become effective through the transfer to it of some of the executive, legislative and judicial powers of the High Commissioner and the United States government for the Trust Territory. Such transfer, however, must be accompanied by adequate protection of the United States interests in the area and its government and the United States funds involved.

The Legislature:

The first step in the right direction is already underway in that the High Commissioner announced to the United Nations that by 1965 the Council of Micronesia will become a legislative body. A draft order outlining the creation of a Congress of Micronesia has been prepared by the Department of the Interior and was discussed at the meeting of the Council in the Spring of 1963.

The path to the formation of a Congress, however, is strewn with many obstacles. No one who has visited the territory, stopped at the isolated atolls and district centers, can be blind to the separateness of the Marianas from the Marshalls, the Yap Islands, Ponape, Truk and Palau. There has been no common historical heritage in the area, no common language, religion or economy to raise transcending problems that require solution in a single territory-wide legislature.

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By some standards the establishment of a central legislature might seem premature, especially since it will have few resources to work with and little control over the bulk of the funds spent in the territory and the executive machinery which spends those funds and enforces the laws.

If regarded solely as a law-making body, in its first years it might seem to have too little to do for all the effort and expense of creating it. But most institutions have an educational value beyond their functional operations. Legislatures are extraordinary educational bodies. The opportunity of bringing together regularly elected representatives of the people from all the islands, having them concentrate on emerging and gradually increasing common problems, indeed, creating issues, and training them in political leadership, responsibility and the practice of democracy cannot be missed. Moreover, as soon as legislative power is transferred the Micronesian Congress will be able to tax -- and the responsibility for taxation is the surest way of teaching statesmanship.

It is therefore the Mission recommendation that, as the first step toward the creation of an effective Micronesian central government, the Council of Micronesia should be converted into a legislative body with the delegated authority to legislate on all territorial matters. That conversion should take place in the Fall of 1964. In the Mission's opinion, deliberations on the composition of the legislature and other outstanding problems should be completed during the session of the current Council of Micronesia in the Spring of 1964. Action should

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then be taken promptly to promulgate an order setting forth the powers, membership, election and procedures of the legislature.

That order should be issued in time to permit the election of the first legislature in August or September 1964 and the convening of the legislature in November 1964. This would give the legislature the maximum experience possible, and, on the basis of a three-year term, permit the election of a second legislature for a term beginning in the Fall of 1967. Depending on the situation at that time, the announcement of the plebiscite to be held in the Spring of 1968 could be made either before or after the 1967 election.

It is the further recommendation of the Mission that the legislature should be established by a Presidential order or an order of the Secretary of the Interior approved by the President in order to lend to it as great a prestige as possible and to provide for necessary interagency coordination.

Briefly, the draft order prepared by the Department of the Interior provided for the establishment of a single house of twenty-one members to be apportioned among the districts roughly on the basis of population (with the smaller Yap and Mariana districts receiving slightly excessive representation) with a reapportionment every ten years. Legislators would have to be at least twenty-five years old, citizens of the Trust Territory and residents for two years prior to their election. They would be elected for two-year terms by the residents of their districts who are Trust Territory citizens at least eighteen years old, and they

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would receive a salary of \$2,080 annually. They could have no other gainful employment. Provision would be made for two regular sessions each year and for special sessions.

Under the Interior draft, the legislature would be granted the power to legislate on all rightful matters of legislation not inconsistent with the treaties, international agreements and laws of the United States or the Trust Territory bill of rights. Their enactments would be subject to approval by the High Commissioner, but, in the event they overrode his veto by a two-thirds vote, the final decision on an enactment would be made by the Secretary of the Interior. The High Commissioner would also be given the authority to promulgate urgent laws unilaterally with the approval of the Secretary. On the key question of Federal funds, the legislature would be allowed to review and make recommendations on the High Commissioner's budget before it goes to the Secretary.

Although a working committee of the Council of Micronesia suggested only slight changes in the Interior draft, the Council itself, in March 1963, came up with recommendations as to organization which varied substantially from the draft. Primarily, the Council proposed a bicameral legislature consisting of a lower house, the Assembly, of sixteen members very roughly based on population, and an upper house, the House of Delegates, composed of two members from each district. The latter were to serve for four years and be at least thirty years old. The Council further proposed a review of the bicameral system after the

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first year by the Assembly. Only the holding of other government positions was to be barred and salaries were to be provided by law. Other minor changes were also proposed from the Interior proposal.

The key issue that requires resolution appears to be that of the membership of the legislature. The Council voted for a bicameral legislature by a narrow margin apparently with the idea in mind of either preserving the upper house for the traditional chiefs or of minimizing the proportional representation which the large districts, particularly Truk, would enjoy in a legislature based strictly on population. However, the debate was rather indecisive and, as one member said, "I voted for the bicameral system, because nobody seemed to give any reasons why it should be unicameral".

In the judgement of the Mission, it would be a grave error to allow a bicameral system to take root in the territorial legislature. Micronesia has only 81,000 people who must already support a sizeable legislative superstructure. They should not be called upon to support an additional house in the legislature. In addition, the shortage of Micronesians with real leadership talent makes it necessary to concentrate the supply. To find even twenty, let alone a much larger number capable Micronesians to elect to the legislature will be a challenge. The institution of two houses will also call for a higher degree of leadership and parliamentary skill than appears available -- it will be enough of a strain to get a single house functioning with a semblance

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of order -- and no doubt will call for longer sessions and more staffing, another commodity in short supply.

The larger goal, moreover, is not to perpetuate the rigid island sectionalism which in the particular setting of Micronesia will be fostered by the bicameral scheme, but to develop a sense of community interest in Micronesia. The Micronesians must realize that all the districts form part of the same entity. The United States must consider the Micronesian legislature as the first step toward an affiliation with the United States after the plebiscite. Since the leaders of the first legislature will inevitably have a voice in future arrangements, these also will proceed more smoothly if the Micronesian leaders are working together in one body.

In addition, it is the judgement of the Mission, that the members of the legislature should be elected from single-member subdistricts insofar as practical rather than at-large from the existing districts. This will provide for better representation of all the people of the territory. In Ponape, for example, it will be very important to have Kusaie as a separate subdistrict; in Yap, the outer islands should be a subdistrict. Without such subdistricting it is certain that almost all the members of the legislature would, in effect, be elected by the people living in the more populous district centers. We believe the advantage of giving certain outlying areas the right to elect members

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of their own outweighs the disadvantage which may result in some cases from the fact that the subdistricts will contain differing numbers of people.

Based on the above, it is the recommendation of the Mission that the Micronesian legislature should consist of a single house of about twenty members to be elected to the extent practical from single-member subdistricts rather than at-large from the existing districts. If, for some reason, it is impossible to convince the Council of Micronesia along those lines at its next session it would be our alternative suggestion, as a temporary measure, that the legislature be set up initially in the same manner as the current Council, with two representatives from each district and with appropriate subdistricting to allow the outer islands to have representation.

The Mission found itself at variance with the proposals of the Department of the Interior and the Council of Micronesia regarding the legislature in several other respects. First, we believe the minimum age qualification should be set as low as twenty-one years for membership in the legislature. In our opinion this is necessary to encompass as many educated Micronesians, especially those few who are now graduating from colleges, as possible in the potential group from which the legislature may be chosen. Second, we believe a term of three years is more realistic than a term of two years under Micronesian conditions. Third, we believe

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that a salary of \$3,000 annually is more in keeping with the amount required to attract the best people to service in the legislature. That amount would equate with the salary now received by Micronesians serving as department heads at the district level. Fourth, we believe it is unrealistic to require at this time that the members drop all other gainful employment in order to serve in the legislature for very limited periods during each year. We also believe it is unrealistic to require at this time that the legislators terminate their service in the Trust Territory government. We would certainly support such a requirement a few years from now unless a clear distinction is created between those legislators who would hold political appointments in the executive branch and the career civil servants, but as we have noted, most district legislatures are now dominated by government employees and we believe it will be necessary to rely on that group for much of the potential membership in the legislature of Micronesia. We do feel, however, that the members of the legislature should not receive dual compensation during periods in which they serve in the legislature -- those who are government employees should be put on leave without pay for such periods.

Finally, we believe that action should be taken by the High Commissioner with the approval of the Secretary of the Interior to perfect the existing Trust Territory code before the Micronesian legislature receives the power to amend the Code with its own laws. What is particularly needed are laws spelling out the functions and duties of various government

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legislative power with respect thereto to the Micronesian legislature would be awkward and would severely limit the concept of self-government in Micronesia.

We, therefore, recommend that, at the time the Chief Executive is established, the executive departments and agencies now in the office of the High Commissioner should be transferred to the government of Micronesia and placed under the general supervision of the Chief Executive with adequate safeguards of the United States interests involved. As noted above, the powers and duties of those departments should be spelled out now in law to limit the discretion of the executive in administering them. In addition to supervising those activities and others that might be added by the laws of Micronesia, the Chief Executive would carry on the generally accepted executive functions of appointing the heads of departments and agencies and the district administrators, approving the enactments of the Micronesian legislature and executing the laws of Micronesia. The need to move Micronesian bureaucrats into more responsible positions and to train them in anticipation of such a change is obvious.

The end product of the shift of the operations and executive powers from the High Commissioner would be a government organization in which the High Commissioner continues as the United States representative with the power to exercise certain controls over the

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Micronesian government to protect the United States interests. He would retain a small personal staff to carry out his control functions and probably to provide technical advice to the Micronesian government. We would visualize the continued employment by the Trust Territory government of a cadre of American personnel until such time as trained Micronesians are available. None of these shifts would affect the operations of other Federal agencies in the area.

It is obvious that the transfer to the Micronesian government of responsibility for carrying out a program which is financed for the most part with Federal funds must be accompanied by controls which adequately protect Federal interests, not only in the funds, but also in the government of Micronesia generally. Any number and variety of controls could be visualized. We concluded that the control which would, on the one hand, be the most effective, and, on the other, be the most defensible, would be a control over the Federal funds to be used by the Micronesian government. Without those funds, a government of Micronesia would be impossible. We would envision a continuation of the system of securing the comments and recommendations of the Micronesian government on the budget that is submitted to the Secretary of the Interior -- indeed the Chief Executive and his departments and agencies should be quite directly

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involved in the preparation of that budget -- and an allocation of those funds once appropriated by the High Commissioner to the local government. However, we would recommend that the High Commissioner should have the authority to review the use of Federal funds by the government of Micronesia and to withhold or withdraw those funds when he believes they are being used improperly. That power standing by itself, we believe, would be enough to compel any Micronesian government to follow the wishes of the High Commissioner in most matters. Withdrawal of funds could certainly be used, for example, to force the resignation of a Chief Executive who might be acting contrary to United States interests. Such power alone, however, might still permit situations which would be highly embarrassing to the United States and inimical to its interests. For example, the legislature might refuse to elect a Chief Executive or to elect one which the High Commissioner would consider appropriate. The legislature might also enact laws which would be in conflict with United States interests or which would so reshape the executive machinery as to create severe problems on the expenditure of funds. To overcome those problems, we recommend that the High Commissioner should have the additional power of appointing an Acting Chief Executive in the event of a vacancy or in case the legislature does not elect a satisfactory Chief Executive within a reasonable period of time. Such an appointed Chief Executive should serve until the legislature

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does elect a satisfactory Chief Executive, with disputes as to the approval of a Chief Executive being referred to the Secretary of the Interior. Further, where United States security or interests are involved, he should have the power to approve the Chief Executive's major appointments and to veto or annul legislation and to remove public officials.

The above views of the Mission regarding the proposed organization of the government of Micronesia and the office of the Chief Executive are embodied in a draft executive order which we have prepared and attached (Appendix B). The extent to which that order spells out the structure of the Micronesian government would, of course, in itself constitute a control over the actions of the Micronesian government. It would also serve to allay certain other fears through the inclusion of a bill of rights preserving local customs and prescribing the manner in which -- if at all -- non-Micronesians can acquire property and business interests.

H. Additional Plebiscite Inducements

In addition to issuing the executive order which would establish the office of the Chief Executive after the plebiscite, as we have mentioned earlier, several other inducements for a favorable vote in the plebiscite should be made known in the appropriate form. The most important of those, we believe, would be the announcement

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that action will be initiated to secure the status of United States nationals for the Micronesians in the event they choose to affiliate with the United States. The benefits that go with that status as well as its symbolic meaning would go a long way toward assuring a favorable vote if carefully explained. As noted earlier, this is, of course, a matter on which the Congress must be thoroughly consulted beforehand. The Mission believes that citizenship, however, cannot now be considered because of the threat it poses to certain of the vested rights of the Micronesians, particularly their restrictive land tenure system and restrictions of entry of American business. Action must be taken on the latter restrictions before citizenship will be feasible.

Additional inducements that are also appropriate to offer at the time of the plebiscite would be (1) the extension of the social security system to wage and salary earners in Micronesia and (2) the completion of action to equalize American and Micronesian government pay schedules (discussed further in Part III).

The Mission believes it is too early to make a definite recommendation on steps to be taken after the plebiscite and the establishment of a Micronesian Chief Executive. As noted earlier, we do believe that subsequent to those actions consideration could appropriately be given to confirming the then existing organization

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through an organic act. It is not too early, however, to begin consideration of an eventual merger of Micronesia and the Territory of Guam. In the long run this would be logical because of cultural, racial and other ties between the territories and because it would result in administrative economics and probably stimulate the economic development of both areas.

I. Government at the District Level

Elected district legislatures have been established in all six districts of the Trust Territory. The achievement of creating those bodies in the space of half a dozen years, given that lack of Micronesian experience with such institutions and the problems of transportation and communications, deserves great praise. The American administration has been in a tutelary position, taking the initiative in suggesting the chartering of district legislatures, helping in parliamentary procedures, the drafting of bills and giving general counsel on subjects of legislation, appropriations and other legislative matters. The enactments of the district legislatures have been subject to approval by the High Commissioner on the recommendation of the district administrators.

The real problems of the district legislature lie in (1) their lack of any significant revenues with which to work to develop programs of district interest, (2) the lack of an executive

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counterpart -- their laws being enforced by the district administrator who is a representative of the central government, (3) memberships made up in large part by the employees of the district administration, (4) the non-elective representation of traditional chiefs in some districts, and (5) their general lack of political experience and leadership.

The history of modern legislatures revolves around appropriations by consent. Without power to tax and spend public funds, the role of a legislature is severely limited. The district legislatures of Micronesia have some control over the resources in their areas, but not much. The Marshall Islands district, for example, collected the most taxes in 1962, about \$93,000, while Yap collected only \$31,000. United States funds for just the operations, not the capital improvements in those districts in 1963 ran to about \$825,000 and \$385,000 respectively. All the districts -- and the municipalities in Micronesia -- collected only \$750,000 in taxes and other revenues in 1962 as contrasted with the \$6,304,000 in United States funds appropriated for the area in the same year. In 1963, the \$15,000,000 Federal appropriation will overshadow local revenues even further.

The current circumstances in which the vast majority of the funds spent for governmental purposes in the districts come from the

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United States and are spent through the machinery of the central government under the control of the High Commissioner can be expected to continue indefinitely, even after a partial shift of responsibility to a Micronesian Chief Executive. Further, because of the small amount of district revenues, it makes little sense to create a distinct district executive arm apart from that of the central government. The Mission recommends, however, that the district legislatures should be consulted and their recommendations should be sought in connection with the preparation of the budgets of the district administrators and on the allocation of funds. Those budgets should cover the use of United States as well as district funds. They should be able to determine how their own funds will be spent, but their appropriations should be included in a consolidated district budget. This would enable the district administrator to secure the legislature's knowledge of local needs and their evaluation of his program. The most important objective is to bring the district administrator and the district legislature closer together in thinking about the needs of the district. Too often the district administrator now seems to be running one government while the legislature is operating another--even to the point of having a district treasurer, selected and paid by the legislature, to collect taxes and, in some cases, to make separate disbursements. This practice, in effect creating a minor executive arm of the

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legislature, should be stopped. All district tax collections and all disbursements of district funds should be made by the district administrator or his agents. This principle is beginning to receive recognition in some of the districts as exemplified by Public Law 4-63 of the Palau legislature in which a grant of \$4,250 was made to the municipalities "to be administered and controlled by the District Administrator, who is further authorized under this resolution to make any change he sees necessary and justified to insure that public funds are properly handled and used wisely". This practice should be clarified and enforced in all districts.

The scarcest resource in Micronesia is skilled manpower. The lack of administrators and political leaders in the Trust Territory is serious. One consequence has been to extend the lean talents available over two or more responsibilities, asking the few keen men, usually with good English-speaking ability, to serve two masters or to do more than they can realistically manage. The drive to establish legislatures has put a heavy burden on the administration to find competent legislators. The brighter young men, familiar with American ideas of government, are to be found working mainly for the district administration and headquarters. These have been the natural candidates to fill many legislative seats in all six districts, but the number of those seats (79 in the Marshalls, 40 in Ponape, and so forth) has drained all the Trust Territory

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talent. The problem of the oversized legislature is currently being solved through headquarters efforts to reduce the membership in those legislatures, but there is still a premium on talent.

In all district legislatures the number of administration employees runs upwards of 30 or 40 percent of the total membership and in some districts they constitute a majority. In Yap, for example, three members of the legislature work for one private enterprise, three are unemployed and fourteen are either teachers or otherwise work for the government. The domination of a legislature that has the power to tax and appropriate money and which must learn to criticize the use of executive power by men working for the executive is plainly unhealthy. In addition, the administration suffers from the interruption of its work during legislative sessions, from a confusion of roles among some of its key employees and a lack of healthy criticism.

No quick remedy is suggested. If all administration employees were denied seats in district legislatures this year chaos would ensue because the legislatures would be depopulated. The stipends of legislators are so small that no Micronesia government employee would opt for a legislative post. It is not too early, however, to lay down some fundamental principles and planning for the following years. The Mission recommends that (1) no district administrator or assistant district administrator should now be permitted

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to hold a seat in the district legislature and (2) within two or three years no department heads at the district level should be permitted to hold a seat. Other employees who continue to hold seats should gradually be given a choice between their legislative and executive functions, but for the present should be placed on leave without pay during legislative sessions.

It must be recognized that the development of independent district legislatures in Micronesia, where sessions last one or two months a year, requires individuals who have sources of income from the private sector and who can earn enough from their salaries as legislators to make ends meet. A good legislative system in Micronesia is not conceivable until relatively independent skilled legislators can be found. To help foster that development, the district legislatures should provide for adequate compensation of their members on a per diem basis and, to help ease the burden on the districts, the administration should provide free transportation for members to legislative sessions.

With an increase of power over municipal functions (as is proposed below), greater access to and discussions of the district budget, a continuing reduction in membership, and greater tax resources if the economy thrives, the district legislatures can be raised to

a more useful role. (In that connection, note should be taken of the Taxation Policy section, II-B-8, of the Mission report dealing with taxes in which it is recommended that, on the one hand, the districts be barred from taxing exports and imports while, on the other hand, the district's remaining educational functions would be transferred to the central government with the net effect of increasing the amounts of funds available for other district activities.) To help in that direction, it is recommended that each district legislature should appoint an executive committee of three to five members to perform legislative functions during the periods when the legislature is not in session -- to study legislation, scrutinize the budget, investigate executive actions, transmit petitions and prepare the agenda for the sessions of the legislature. The members of such committees should receive additional compensation at a rate equivalent to that of a district department head.

J. Government at the Municipal Level

In June 1963, the headquarters political affairs officer wrote to the High Commissioner:

"Our local governments need attention ... Some confusion and misunderstanding exists on the part of local officials regarding their duties and responsibilities. Financial problems are present also, due to limited

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local revenues, relatively high salaries, tax collection difficulties and management. Charter provisions are frequently violated. Elections are often improperly administered. Many municipalities have simply 'gone bad' ... local government is not receiving the support of the people which it must have. Criticism is mounting in the municipalities. Further deterioration will weaken the foundations of our active political development program ..."

Beginning in 1957 in Metalanin, the Trust Territory embarked upon an intensive program of chartering municipalities with an honest desire to bring self-government down to the smallest village. In the previous Japanese administration, of course, neither legislatures nor a democratic expression on policy had existed, with the commands of the Japanese passing to village chiefs for execution. The current chartered municipalities consist of an elected magistrate, an elected council, sometimes an elected treasurer and secretary, and they have the power to pass ordinances, tax and collect revenues subject to the approval of the district administrator. Their power to tax is fairly limitless with the result that they frequently duplicate district and even territory taxes.

With the zeal for pushing the responsibility for local government upon Micronesians, including the responsibility for roads, schools,

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police, and so forth, some of the plain political and administrative facts that promote government efficiency were overlooked. The largest municipality in the Marshalls, for example, has just over a thousand electors. They elect a magistrate and ten council members from four precincts. Another municipality has only 238 electors voting for a council of 16 with nominations and voting carried out by a primitive house-to-house canvass. Three other municipalities, with potential electorates of 460, 200 and 80 could not even have their elections supervised by the district because the transportation problems were so difficult.

In Ponape district, four municipalities with electorate of a little more than a thousand people in each had to elect 11, 17, 20 and 21 officials. Members of the town council of Kolonia, the district center on Ponape, were elected by precinct, the second precinct having only 57 inhabitants.

In Truk only five municipalities collected revenues of more than \$1,000 in 1962. The municipality of Parem used nine different taxes to collect \$220 of which \$32 was spent for transportation and office supplies, \$36 for police and the rest for the salaries and expenses of the magistrate, council and secretary. The largest municipality of Palau, with a total budget of \$15,502 in 1964, will spend an estimated \$8,062 for salaries of the magistrate, council,

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clerks, tax collector, high chief, chiefs, and district congressman. In Malekeiok municipality, \$640 in salaries were paid to officials out of \$845 in revenues, and in Ngardman the only expenditures made during the year were \$10 for rental of boat or vehicle and \$1.09 for miscellaneous expenses, the rest of the \$394 in revenues going to the magistrate and his council.

Even with this evidence, generalization about municipalities is misleading. Saipan, for example, which was chartered by the Navy as a single municipality, has revenues of more than \$300,000 and a population of about 8,000. Yap has no chartered municipalities yet on the other hand. Nevertheless there is a pattern of too many municipalities for too few people, too many elected officials with too few responsibilities receiving too large a portion of hard-earned tax revenues for salaries. A complicated governmental unit has been imposed upon a paucity of resources. The result is formal elections, meetings, paperwork and little to show as a product in the way of community improvement. The administration is to be congratulated for its sincere effort to include all men and women in a democratic electoral process, but it is the recommendation of the Mission that the chartering of municipalities ought to be halted until the whole institution is reevaluated.

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The election of municipal magistrates (mayors) by the people is probably a wise introduction of democratic control at the lowest level of government, but they should be the only municipal officials receiving salaries. Councilmen and other part-time appointees, if continued at all, should serve on a honorary basis. Both for purposes of the rationalization of the tax structure (see II-B-8) and to create a link between the municipalities and their district governments rather than continue a completely separate and inappropriate layer of municipal government, the magistrates's salaries should be paid by the district governments. The magistrates would then be responsible for the implementation of district laws and policies at the local level.

Finally, action needs to be taken to terminate municipal taxing authority. Taxing authority below the central government level should be confined to the districts.

The long-range objective should be a reduction of the load of elections and administration on small communities, the better coordination and supervision of municipal programs and activities from the district administrators office and an improved budgeting procedures and taxing procedures stemming from the concentration of authority and responsibility at the district level.

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APPENDIX A

Department of the Interior Order No. _____

Subject: Amendment of the Code of the Trust Territory to provide for the
establishment of a Trust Territory Legislature

1. Pursuant to the provisions of Section 28 of the Code of the Trust Territory of the Pacific Islands, such Code is hereby amended by the insertion of the following new chapter:

CHAPTER 3A

LEGISLATURE

Sec. 51. Legislative Power. The legislative power of the Trust Territory of the Pacific Islands, except as otherwise provided in this Chapter, shall be vested in the Legislature of the Trust Territory which shall consist of a single house of twenty-one members. The legislative power shall extend to all rightful subjects of territorial legislation, except that no such legislation may be inconsistent with

- (a) treaties or international agreements of the United States;
- (b) the laws of the United States applicable to the Trust Territory; or
- (c) sections 1 through 12 of the Code of the Trust Territory.

Prior to his submission of the annual budget of the Trust Territory to the Secretary of the Interior, the High Commissioner shall submit such budget to the Legislature for its review and recommendation. The High Commissioner shall adopt such recommendations of the Legislature as he may deem appropriate, but he shall transmit to the Secretary of the Interior all recommendations he has not adopted. Legislation for the expenditure of

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funds other than as budgeted by the High Commissioner and the Secretary of the Interior and as appropriated by the Congress shall either include revenue measures to provide the needed funds or shall be based upon the receipt by the Government of the Trust Territory of revenues in excess of those estimated in the annual budget as presented to the Congress.

Sec. 52. Membership. For purposes of representation in the Legislature, the Trust Territory shall be divided into the six districts described in section 39 of this Code. Of the twenty-one members of the Legislature, three shall be elected by the qualified voters who reside in the Mariana Island District; three shall be elected by the qualified voters who reside in the Palau District; one shall be elected by the qualified voters who reside on the Yap Islands, Yap District, and one by the qualified voters who reside in the remainder of the Yap District; five shall be elected by the qualified voters who reside in the Truk District; one shall be elected by the qualified voters who reside on Kusaie Island, Ponape District, and three by the qualified voters who reside in the remainder of the Ponape District; and four shall be elected by the qualified voters who reside in the Marshall Islands District. Consistent with the foregoing apportionment, the laws of the Trust Territory shall provide for the further division of each district into a number of subdistricts as nearly as possible on the basis of population equal to the number of members to which the district is entitled, and the qualified voters within each subdistrict shall be entitled to vote for the member

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from that subdistrict. The number of members to be elected from each district and the boundaries of the subdistricts shall be reapportioned as nearly as possible on the basis of population at intervals of ten years beginning in 1980, but no district shall be entitled to less than two members at any time, regardless of population.

Sec. 53. Qualifications of Legislators. No person shall be eligible to be a member of the Legislature who is not a citizen of the Trust Territory, who has not attained the age of twenty-one years, who is not a qualified voter in the Trust Territory, or who has not been a bona fide resident of the Trust Territory for at least two years next preceding the date of his election. No person who has been expelled from the Legislature for giving or receiving a bribe or for being an accessory thereto, and no person who has been convicted of a felony or of a crime involving moral turpitude, shall sit in the Legislature, unless the person so convicted has been pardoned and has had restored to him his civil rights.

Sec. 54. Franchise. The franchise shall be vested in residents of the Trust Territory who are citizens of the Trust Territory, eighteen years of age or over. Additional qualifications may be prescribed by the Legislature: Provided, That no property, language, or income qualification shall ever be imposed or required of any voter, nor shall any discrimination in qualification be made or based upon difference in race, color, ancestry, sex, or religious belief.

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Sec. 55. Elections. General elections shall be held every three years beginning in 1964 on the first Tuesday following the first Monday in November and ending not later than three weeks thereafter. Legislators shall be chosen by secret ballot of the qualified electors of their respective subdistricts.

Sec. 56. Term. Each legislator shall hold office for a term of three years, commencing at noon on the third day of January following his election, except as otherwise provided by law.

Sec. 57. Sessions. There shall be two regular sessions of the Legislature held in each year, one beginning on the third day of January and the second beginning on the first day of July, except as otherwise provided by law. Each such session shall be held at the seat of government of the Trust Territory and shall continue for not to exceed forty-five consecutive calendar days.

The Legislature may meet in special session at the call of the High Commissioner, for such period of time and at such place as the High Commissioner may specify in his call, but no legislation may be considered in a special session other than that specified by the High Commissioner in his call for the special session or in a special message to the Legislature while in session.

Sec. 58. Enactment of Laws; Vetoes. The enacting clause of all bills shall be: "Be it enacted by the Legislature of the Trust Territory of the Pacific Islands", and no law shall be enacted except by bill. The High

Commissioner may submit proposed legislation to the Legislature for consideration by it.

Every bill passed by the Legislature shall, before it becomes a law, be presented to the High Commissioner. If the High Commissioner approves the bill, he shall sign it. If the High Commissioner disapproves the bill, he shall, except as hereinafter provided, return it, with his objections, to the Legislature within ten days (Sunday excepted) after it shall have been presented to him. If the High Commissioner does not return the bill within such period, it shall be a law in like manner as if he had signed it, unless the Legislature by adjournment prevents its return, in which case it shall be a law if signed by the High Commissioner within thirty days after it shall have been presented to him; otherwise it shall not be a law.

When a bill is returned by the High Commissioner to the Legislature with his objections, the Legislature may proceed to reconsider the bill. If, after such reconsideration, two-thirds of all the members of the Legislature present agree to pass the bill, it shall be presented anew to the High Commissioner. If he then approves it, he shall sign it; if not, he shall within ten days after it has been presented to him transmit it to the Secretary of the Interior. If the Secretary approves the bill within ninety days of its receipt by him, it shall become a law; otherwise it shall not.

In the event that the High Commissioner has submitted to the Legislature proposed legislation which he has designated as urgent, and the Legislature

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has failed to pass the same in its original form or an amended form acceptable to the High Commissioner at the session at which it was submitted, the High Commissioner may himself, with the approval of the Secretary of the Interior, promulgate such proposed legislation as a law.

If any bill presented to the High Commissioner should contain several items of appropriation of money, he may object to one or more of such items, or any part or parts thereof, portion or portions thereof, while approving the other items, parts, or portions of the bill. In such case he shall append to the bill, at the time of signing it, a statement of the items, or parts or portions thereof, to which he objects, and the items, or parts or portions thereof, so objected to shall not take effect.

Sec. 59. Procedure. (a) Quorum. The quorum of the Legislature shall consist of eleven of its members. No bill shall become a law unless it shall have been passed at a meeting, at which a quorum was present, by the affirmative vote of a majority of the members present and voting, which vote shall be by yeas and nays.

(b) Title. Every legislative act shall embrace but one subject and matter properly connected therewith, which subject shall be expressed in the title; but if any subject shall be embraced in an act which shall not be expressed in the title, such an act shall be void only as to so much thereof as shall not be embraced in the title.

(c) Amendment and revisions by reference. No law shall be amended or revised by reference to its title only; but in such case the

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act, as revised, or section or subsection as amended, shall be reenacted and published at full length.

(d) Journal. The Legislature shall keep a journal of its proceedings in English and publish the same. Every bill passed by the Legislature and the yeas and nays on any question shall be entered on the journal.

(e) Public sessions. The business of the Legislature, and of the Committee of the Whole, shall be transacted openly and not in secret session.

(f) Procedural authority. The Legislature shall be the sole judge of the elections and qualifications of its members, shall have and exercise all the authority and attributes inherent in legislative assemblies, and shall have the power to institute and conduct investigations, issue subpoenas to witnesses and other parties concerned, and administer oaths, whether the Legislature be in session or otherwise.

Sec. 60. Immunity. No member of the Legislature shall be held to answer before any tribunal other than the Legislature for any speech or debate in the Legislature, and the members shall in all cases, except treason, felony, or breach of the peace, be privileged from arrest during their attendance at the sessions of the Legislature and in going to and returning from the same.

Sec. 61. Compensation; other employment. Each member of the legislature shall receive for his services an annual salary of \$3,000, payable

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at such times as may be provided by law. Each member shall also receive transportation and a per diem allowance at the expense of the Government while on official business within the Trust Territory or in Guam.

No member of the Legislature shall, while on official legislative business, receive any other compensation from the Government.

No member of the Legislature shall, during the year following the expiration of the term for which he was elected, be appointed to any office which was created, or the salary or emoluments of which have been increased, during such term.

Sec. 62. Vacancies. Whenever, prior to six months before the date of the next general election, a vacancy occurs in the Legislature, the High Commissioner shall call a special election to fill such vacancy. In case of vacancies occurring within six months of the next general election, no special election shall be held and the High Commissioner may fill such vacancy by appointment.

2. Pursuant to the provisions of Section 28 of the Code of the Trust Territory of the Pacific Islands, such Code is further amended by the deletion of section 28.

3. The above and foregoing order is subject to and is to be construed in accordance with Presidential Executive Order No. 11021 of May 7, 1962.

4. Existing laws, regulations, orders, appointments, or other acts in effect immediately prior to the effective date of this order shall remain in effect until they are superseded pursuant to the provision of this order.

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APPENDIX B

EXECUTIVE ORDER
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PROVIDING FOR THE ADMINISTRATION OF THE
TRUST TERRITORY OF THE PACIFIC ISLANDS

WHEREAS the Trust Territory of the Pacific Islands was placed under the trusteeship system established in the charter of the United Nations by means of a trusteeship agreement approved by the Security Council of the United Nations on April 2, 1947, and by the United States Government on July 18, 1947, after due constitutional process (hereinafter referred to as the "trusteeship agreement"); and

WHEREAS the United States of America was designated under the terms of the trusteeship agreement as the administering authority of the Trust Territory referred to above; and

WHEREAS the United States has heretofore assumed obligations for the civil administration of the Trust Territory and has carried out such civil administration under the provisions of Executive Orders Nos. 9875 of July 18, 1947, 10265 of June 29, 1951, 10408 of November 10, 1952, 10470 of July 17, 1953, and 11021 of May 7, 1962:

NOW, THEREFORE, by virtue of the authority vested in me by the Act of June 30, 1954, as amended (48 U.S.C. 1681), and as President of the United States, it is ordered as follows:

SECTION 1. Descriptions. The islands formerly held by Japan under mandate in accordance with Article 22 of the Covenant of the League of Nations and placed under the trusteeship system of the United Nations,

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with the United States as administering authority, by the trusteeship agreement between the United States and the Security Council of the United Nations, being the Mariana Islands (other than Guam) and the Marshall and Caroline Islands, shall be known as the Trust Territory of the Pacific Islands (hereinafter referred to as the "Trust Territory"). For administrative and other purposes set forth in this order, the Trust Territory shall be divided into the following six districts:

(1) The Mariana Islands District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area north of 14° north latitude, south of 21° north latitude, west of 150° east longitude, and east of 144° east longitude.

(2) The Palau District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area beginning at a point 2° north latitude 130° east longitude, thence north to a point 11° north latitude 130° east longitude, thence east to a point 11° north latitude 136° east longitude, thence south to a point 2° north latitude 136° east longitude, thence west to the point of beginning.

(3) The Yap District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area beginning at a point 2° north latitude 136° east longitude, thence north to a point 11° north latitude 136° east longitude, thence east to a point 11° north latitude 148° east longitude, thence south to a point 0° latitude 148° east longitude, thence northwesterly to the point of beginning.

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(4) The Truk District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area beginning at a point 0° latitude 148° east longitude, thence north to a point 11° north latitude 148° east longitude, thence east to a point 11° north latitude 154° east longitude, thence south to a point 0° latitude 154° east longitude, thence west to the point of beginning.

(5) The Ponape District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area beginning at a point 0° latitude 154° east longitude, thence north to a point 11° north latitude 154° east longitude, thence east to a point 11° north latitude 158° east longitude, thence southeast to a point 5° north latitude 166° east longitude, thence south to a point 0° latitude 166° east longitude, thence west to the point of beginning.

(6) The Marshall Islands District, consisting of those islands of the Trust Territory, and the territorial waters thereof, which lie within the area beginning at a point 11° north latitude 158° east longitude, thence southeast to a point 5° north latitude 166° east longitude, thence south to a point 0° latitude 166° east longitude, thence northeast to a point 4° north latitude 170° east longitude, thence east to a point 4° north latitude 172° east longitude, thence north to a point 16° north latitude 172° east longitude, thence northwest to a point 19° north latitude 158° east longitude, thence south to the point of beginning.

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SEC. 2. Secretary of the Interior. The responsibility for the administration of all civil government in the Trust Territory is hereby vested in the Secretary of the Interior, and all executive, legislative, and judicial authority necessary for that administration shall be exercised under the general supervision of the Secretary of the Interior in accordance with the provisions of this order. Subject to applicable law, such policies as the President may from time to time prescribe, and, where advantageous, in collaboration with other departments and agencies of the Government of the United States, the Secretary of the Interior shall take such actions as may be necessary and appropriate to carry out the obligations assumed by the United States as the administering authority of the Trust Territory under the terms of the trusteeship agreement and under the Charter of the United Nations: Provided, That the authority to specify parts or all of the Trust Territory as closed for security reasons and to determine the extent to which Articles 87 and 88 of the Charter of the United Nations shall be applicable to such closed areas, in accordance with Article 13 of the trusteeship agreement, shall be exercised by the President: And provided further, that the Secretary of the Interior shall keep the Secretary of State currently informed of activities in the Trust Territory affecting the foreign policy of the United States, and that all relations between the departments and agencies of the United States Government and appropriate organs of the United Nations with respect to the Trust Territory shall be conducted through the Secretary of State.

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In carrying out his responsibility, the Secretary of the Interior shall be guided by the need to provide for, and encourage the development of an effective and responsible civil government in the Trust Territory, based on democratic principles and supported by a sound financial structure, shall make every effort to improve the welfare and well-being of the inhabitants of the Trust Territory, and shall promote the political, economic, social, and cultural advancement of those inhabitants.

SEC. 3. Bill of rights. (a) No law shall be enacted in the Trust Territory respecting an establishment of religion or prohibiting the free exercise thereof, or abridging the freedom of conscience, or of speech, or of the press, or the right of the people to form associations and peaceably to assemble and to petition the government for a redress of grievances.

(b) Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist in the Trust Territory.

(c) The rights of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no warrants shall issue but upon probable cause, supported by oath or affirmation, and particularly describing the place to be searched and the persons and things to be seized.

(d) No person shall be deprived of life, liberty, or property without due process of law; nor shall private property be taken for public

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use without just compensation; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall any person be compelled in any criminal case to be a witness against himself. In all criminal prosecutions the accused shall enjoy the right to a speedy and public trial, to be informed of the nature and cause of the accusation, to be confronted with the witnesses against him, to have compulsory process for obtaining witnesses in his favor, and to have the assistance of counsel for his defense. No crime under the laws of the Trust Territory shall be punishable by death.

(e) No bill of attainder, ex post facto law, or law impairing the obligations of contracts shall be enacted.

(f) Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

(g) All persons shall be bailable by sufficient sureties in the case of criminal offenses, except for first-degree murder and other offenses for which the punishment may be life imprisonment when the proof is evident or the presumption great. No person shall sit as judge or magistrate in any case in which he has been engaged as attorney or prosecutor.

(h) No law shall be enacted in the Trust Territory which discriminates against any person on account of race, sex, language, or religion; nor shall the equal protection of the laws be denied.

(i) Subject only to the requirements of public order and security, the inhabitants of the Trust Territory shall be accorded freedom of migration and movement within the Trust Territory.

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(j) Free public elementary and secondary education shall be provided throughout the Trust Territory.

(k) No person shall be imprisoned solely for failure to discharge a contractual obligation or for debt.

(l) The privilege of the writ of habeas corpus shall not be suspended, unless, when in cases of rebellion or invasion or imminent danger thereof, the public safety shall require it.

(m) No soldier shall, in time of peace, be quartered in any house without the consent of the owner, nor in time of war but in a manner to be prescribed by law.

(n) The laws of the Trust Territory may restrict or forbid the acquisition of interests in real property and in business enterprises by persons who are not citizens of the Trust Territory, and shall give due recognition to local customs.

SEC. 4. Office of the High Commissioner. (a) The Secretary of the Interior shall appoint a High Commissioner of the Trust Territory (hereinafter referred to as the "High Commissioner") who shall be the chief representative of the Secretary of the Interior in the Trust Territory, have the powers and perform the duties assigned to him by the terms of this order, and carry out any powers or duties delegated or assigned to him by the Secretary of the Interior. The High Commissioner shall report to the Secretary of the Interior on the operations of his office and the Government of the Trust Territory. The High Commissioner may, in case of rebellion or invasion or imminent danger thereof, when the public safety

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requires it, suspend the privilege of the writ of habeas corpus, or place the Trust Territory or any part thereof under martial law, until the decision of the Secretary of the Interior is communicated to the High Commissioner. He shall coordinate and have general cognizance over all activities of a civil nature of the departments and agencies of the United States Government in the Trust Territory, except that the President may, by Executive order, provide that any such department or agency shall not be subject to the coordination or general cognizance of the High Commissioner.

[(b) The Secretary of the Interior shall appoint a Deputy High Commissioner of the Trust Territory who shall carry out any powers or duties delegated or assigned to him by the High Commissioner, and have all the powers of the High Commissioner in the case of a vacancy in the office of the High Commissioner, or the temporary removal, resignation, or disability of the High Commissioner, or in the case of his temporary absence.]

(c) The Secretary of the Interior may from time to time designate another officer or employee of the United States Government to act as High Commissioner and carry out his powers and duties in case of a vacancy in the offices, or the disability or temporary removal or absence, of [both] the High Commissioner [and the Deputy High Commissioner].

(d) The High Commissioner, [the Deputy High Commissioner,] and such other personnel as may be deemed necessary to carry out the functions, powers, duties, and responsibilities of the Secretary of the Interior and

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the High Commissioner with respect to the supervision and administration of civil government in the Trust Territory shall constitute the Office of the High Commissioner. The personnel of that office, who shall be citizens or nationals of the United States or of the Trust Territory, shall be considered to be officers or employees of the United States Government. The expenses of that office shall be paid with United States funds.

SEC. 5. Trust Territory Government. The Government of the Trust Territory of the Pacific Islands, which shall have the right to sue by that name, shall consist of three branches: executive, legislative, and judicial. The capital and seat of government thereof shall be located at Saipan in the Mariana Islands District. All officers and employees of the Government of the Trust Territory shall be citizens or nationals of the Trust Territory or of the United States: Provided, That citizens of another nation may be employed with the approval of the High Commissioner. The Government of the Trust Territory shall have jurisdiction, including jurisdiction over all persons, in all of the Trust Territory, except those parts which the President may from time to time designate as closed for security reasons in accordance with Article 13 of the trusteeship agreement and those parts which the Secretary of the Interior shall designate as reservations pursuant to section 14 of this order: Provided, That the Government of the Trust Territory shall always have the right to tax persons and corporations, their franchises and property, on the lands in such parts and to serve civil and criminal process within those

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parts in suits or prosecutions for or on account of rights acquired, obligations incurred, or crimes committed within the Trust Territory but outside the said parts, and that the Trust Territory shall not be prevented from exercising over or upon such parts, concurrently with the United States, any jurisdiction whatsoever which it would have in the absence of the reservation of such parts which is consistent with this order and the United States laws applicable to such parts, and that the persons residing in such parts shall not be denied the right to vote in all the elections in which such parts are otherwise authorized to participate.

SEC. 6. Executive branch. (a) The executive power and authority of the Government of the Trust Territory shall be vested in a Chief Executive, who shall have attained the age of thirty years and who shall have the other qualifications of a member of the Legislature of the Trust Territory. The Chief Executive shall have general supervision and control of all executive departments, agencies, and instrumentalities of the Government of the Trust Territory, and shall faithfully execute the laws of the Government of the Trust Territory. He may grant pardons and reprieves and remit fines and forfeitures against the laws of the Government of the Trust Territory. He shall appoint all officers and employees of the office of the Chief Executive and of the executive branch of the Government of the Trust Territory, except as otherwise provided by law, and shall commission all officers that he may be authorized to appoint. He shall have the power to issue executive regulations which

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do not conflict with law. He shall maintain his residence during his incumbency at Saipan in the Mariana Islands District in a government house free of rent. He shall receive an annual salary of \$17,500 which shall be paid from the funds of the Government of the Trust Territory.

(b)(1) The Chief Executive shall be appointed by the High Commissioner on the basis of a nomination which is made by the Legislature of the Trust Territory and is acceptable to the High Commissioner. If the High Commissioner does not appoint a person who shall have been so nominated, the Legislature of the Trust Territory shall reconsider its nomination and, if the majority of its members shall again nominate such person, the Secretary of the Interior shall approve or disapprove his appointment. The Chief Executive shall continue in office until removed by a vote of the majority of the members of the Legislature of the Trust Territory, unless he sooner resigns or dies.

(b)(2) In the event a vacancy occurs in the office of the Chief Executive and the Legislature of the Trust Territory does not nominate a Chief Executive within a reasonable time whom the High Commissioner or the Secretary of the Interior will appoint, the High Commissioner may appoint a Chief Executive without a nomination. Such appointed Chief Executive shall continue in office until replaced by a Chief Executive nominated and appointed pursuant to paragraph (1) of this subsection.

(b)(3) In the event a vacancy in the office of Chief Executive occurs at a time when the Legislature of the Trust Territory is not in session, the High Commissioner shall call a special session within thirty days for the purpose of nominating a Chief Executive.

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(c) The executive branch of the Government of the Trust Territory shall consist of such executive departments or agencies as may be deemed necessary, but each such department or agency shall be established by law which shall enumerate the powers and functions thereof. The head of each such department or agency shall be appointed by the Chief Executive with the approval of the High Commissioner.

SEC. 7. Legislative branch. (a) The legislative power and authority of the Government of the Trust Territory shall be vested in the Legislature of the Trust Territory (hereinafter referred to as the "Legislature") consisting of a single house of twenty-one members. The legislative power shall extend to all rightful subjects of territorial legislation, except that no such legislation may be inconsistent with (1) the treaties or international agreements of the United States, (2) the laws of the United States applicable to the Trust Territory, or (3) the provisions of this order. The Legislature shall have the authority to select its own officers.

(b) For purposes of representation in the Legislature, the Trust Territory shall be divided into the six districts described in section 1 of this order. Of the twenty-one members of the Legislature, three shall be elected by the qualified voters who reside in the Mariana Island District; three shall be elected by the qualified voters who reside in the Palau District; one shall be elected by the qualified voters who reside on the Yap Islands, Yap District, and one by the qualified voters who reside in the remainder of the Yap District; five shall be elected

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by the qualified voters who reside in the Truk District; one shall be elected by the qualified voters who reside on Kusaie Island, Ponape District, and three by the qualified voters who reside in the remainder of the Ponape District; and four shall be elected by the qualified voters who reside in the Marshall Islands District. Consistent with the foregoing apportionment, the laws of the Trust Territory shall provide for the further division of each district into a number of subdistricts on the basis of population equal to the number of members to which the district is entitled, and the qualified voters within each subdistrict shall be entitled to vote for the member from that subdistrict. The number of members to be elected from each district and the boundaries of the subdistricts shall be reapportioned on the basis of population at intervals of ten years beginning in 1980, but no district shall be entitled to less than two members at any time, regardless of population. The Chief Executive shall make recommendations to the High Commissioner with respect to such reapportionment.

(c) No person shall be eligible to be a member of the Legislature who is not a citizen of the Trust Territory, who has not attained the age of twenty-one years, who is not a qualified voter in the Trust Territory, and who has not been a bona fide resident of the Trust Territory for at least two years preceding the date of his election. No person who has been convicted of a felony or of a crime involving moral turpitude shall be eligible to be a member of the Legislature unless such person has been pardoned and has had restored to him his civil rights. The Legislature

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shall be the judge of the selection and qualification of its members.

(d) All citizens of the Trust Territory, eighteen years of age or over, shall be entitled to vote for the member of the Legislature in the subdistrict in which they reside, except that persons who have been convicted of a felony shall not be so entitled unless they have been pardoned and have had restored to them their civil rights.

(e) General elections of members of the Legislature shall be held every three years beginning in 1964 on the first Tuesday following the first Monday in November and ending not later than three weeks thereafter. Each member shall hold office for a term of three years, commencing at noon on the third day of January following his election.

(f) There shall be two regular sessions of the Legislature held in each year, one beginning on the third day of January and the second beginning on the first day of July. Each of the regular sessions shall continue for not to exceed forty-five consecutive calendar days. The Legislature shall meet in special session at the call of the Chief Executive or the High Commissioner at such time and place as may be specified in the call, but no legislation shall be considered at such session other than that specified in the call or in a special message. All sessions of the Legislature shall be open to the public, and the Legislature shall keep a journal of its proceeding in English and publish the same. Every bill passed by the Legislature and the yeas and nays on any question shall be entered into the journal.

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(g) The Legislature shall have and exercise all the authority inherent in legislative assemblies, and shall have the power to institute and conduct investigations, issue subpoenas and administer oaths whether the Legislature is in session or otherwise.

(h) No member of the Legislature shall be held to answer before any tribunal other than the Legislature for any speech or debate in the Legislature, and the members shall, except in case of treason, felony, or breach of the peace, be privileged from arrest during their attendance at the sessions of the Legislature and in going to and returning from the same.

(i) Each member of the Legislature shall receive an annual salary of \$3,000, payable at such times as may be provided by law. Each member shall also receive transportation at the expense of the Government of the Trust Territory and a per diem allowance at the same rate as other officers of the Government of the Trust Territory while on official business. The salaries and other expenses of the Legislature shall be paid from the funds of the Government of the Trust Territory.

(j) No member of the Legislature may hold another position, except that of Chief Executive, in the Government of the Trust Territory, the Office of the High Commissioner, or the United States Government during his term as member. If a member serves as Chief Executive, he shall receive only the compensation of the Chief Executive during such service. No member shall, during the year following the expiration of the term for which he was elected, be appointed to any office in the Government

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of the Trust Territory which was created, or the salary or emoluments of which were increased, during such term.

(k) Whenever, prior to six months before the date of the general election of members of the Legislature, a vacancy occurs in the Legislature, the Chief Executive shall, within sixty days, have a special election held to fill such vacancy in the subdistrict in which the vacancy occurs.

SEC. 8. Enactment of laws. (a) The enacting clause of all bills shall be: "Be it enacted by the Legislature of the Trust Territory of the Pacific Islands", and no law shall be enacted except by bill. The Chief Executive may submit proposed legislation and messages to the Legislature for its consideration. No bill shall be passed by the Legislature except at a meeting during a regular or special session, at which a quorum of at least eleven members is present, by the affirmative vote of the majority of members present and voting.

(b) Every bill passed by the Legislature shall, before it becomes a law, be presented to the Chief Executive. If the Chief Executive approves the bill, he shall sign it. If the Chief Executive disapproves the bill, he shall return it, with his objections, to the Legislature within ten days after it shall have been presented to him. If the Chief Executive does not return the bill within such period, it shall be a law in like manner as if he had signed it, unless the Legislature by adjournment prevents its return, in which case it shall become a law if signed by the Chief Executive within thirty days after it shall have been

presented to him; otherwise it shall not be a law. When a bill is returned by the Chief Executive to the Legislature with his objections, the Legislature may proceed to reconsider the bill. If, after such reconsideration, two-thirds of all the members of the Legislature present vote to pass the bill, it shall be sent to the High Commissioner. If the High Commissioner approves it, he shall sign it. If he does not approve it within forty-five days after it shall have been presented to him, it shall not be a law. If any bill presented to the Chief Executive should contain several items of appropriation of money, the Chief Executive may object to one or more of such items or any portion or portions of the bill. In such case, the Chief Executive shall append to the bill, at the time of signing it, a listing of the items or portion or portions thereof objected to, and those items or portion or portions shall not take effect. In computing any period of days under this section, Sundays and legal holidays shall be excluded. Copies of all laws enacted by the Legislature shall be transmitted within fifteen days of their enactment by the Chief Executive to the High Commissioner and the Secretary of the Interior.

SEC. 9. United States funds. The High Commissioner shall annually, in consultation with the Chief Executive, develop a budget for the United States funds to be appropriated for the use of the Government of the Trust Territory. That budget shall be submitted to the Legislature for its review and recommendations. The High Commissioner shall adopt such recommendations of the legislature as he may deem appropriate and transmit

the other recommendations together with the budget to the Secretary of the Interior. Upon receipt of an allocation of appropriated funds, the High Commissioner shall allocate such funds for obligation and expenditure among the various activities of the Government of the Trust Territory in accordance with the budget and the actions taken thereon by the Secretary of the Interior, the President, and the Congress. He shall take such steps as may be necessary to insure that United States funds are properly used by the Government of the Trust Territory, and he may withhold any or all such funds for such periods of time as he may deem necessary if they are not properly utilized.

SEC. 10. United States interest. With proper regard for the basic liberties of the people of the Trust Territory and the rights of the government and the people of the Trust Territory and the need to encourage the development of an effective and responsible civil government in the Territory, based on democratic principles and supported by a sound financial structure, the High Commissioner, with the approval of the Secretary of the Interior, may, if such action is deemed essential for the fulfillment of the United States responsibility, for the security of the Trust Territory, or for the security of the United States: (1) veto any bill or any portion or portions thereof which may be presented to the Chief Executive under section 8 of this order; (2) annul any law or any portion or portions thereof enacted under section 8 of this order within forty-five days after its enactment; and (3) remove any public official from office in the Government of the Trust Territory. With the approval

of the Secretary of the Interior, the High Commissioner may assume in whole or in part the exercise of executive and legislative power and authority in the Trust Territory, if such assumption appears mandatory for security reasons.

SEC. 11. The Judicial Branch. The judicial power and authority of the Government of the Trust Territory shall be vested in a High Court for the Trust Territory, a District Court for each of the six districts described in section 1 of this order, and such local courts as may be established by law from time to time. The High Court shall have jurisdiction over the entire Trust Territory, and shall consist of a Chief Justice and an Associate Justice, who shall be appointed by the Secretary of the Interior, and such temporary and special judges as the Secretary of the Interior may designate from time to time. The High Court shall consist of a Trial Division and an Appellate Division. The Trial Division shall consist of the Chief Justice and Associate Justice, except that sessions may be held by either judge alone, and shall have original jurisdiction to try all civil cases where the amount claimed or value of the property involved exceeds one thousand dollars (\$1,000), all admiralty and maritime matters, all civil cases involving the adjudication of title to land or any interest therein, and all criminal cases in which the maximum punishment which may be imposed exceeds a fine of two thousand dollars (\$2,000) or imprisonment for more than five years or both. The Trial Division shall have jurisdiction to review on appeal the decisions of the district courts and to review on the record the decisions of

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district and local courts in which no appeal is taken. When a murder case is assigned for trial, the judge of the High Court assigned to preside at the trial shall assign two of the special judges appointed for the district in which the trial is to take place to sit with him in the trial thereof. The special judges shall participate with the presiding judge in deciding, by majority vote, all questions of fact and the finding and sentence, but the presiding judge alone shall decide all questions of law involved in the trial and determination of the case. The Appellate Division shall consist of three judges assigned by the Chief Justice from among the temporary judges designated by the Secretary of the Interior, provided that either the Chief Justice or the Associate Justice may also sit as a member of the Appellate Division in a case which he has not heard as a judge in the Trial Division. The Appellate Division shall have jurisdiction to review on appeal the decisions of the Trial Division in all cases originally tried in the High Court, cases decided by the High Court on appeal from a district court involving the construction or validity of any law or regulation or written enactment intended to have the force of law, cases decided by the High Court on review of a district or local court decision in which that decision has been modified or reversed, and cases on appeal directly from a district or local court involving the construction or validity of any law or regulation or written enactment intended to have the force of law. The concurrence of two judges shall be necessary to a determination of any appeal by the Appellate Division of the High Court, but a single judge

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may make all necessary orders concerning an appeal prior to the hearing and determination thereof, and may dismiss an appeal for want of jurisdiction, or failure to take or prosecute it in accordance with applicable law or rules of procedure, or at the request of the appellant. Each district court shall consist of a presiding judge and may include one or more associate judges, all of whom shall be appointed by the Chief Executive for a definite fixed term to be prescribed in law. The jurisdiction and manner of operation of the district courts and local courts shall be prescribed in law.

SEC. 12. District government. (a) The chief executive and administrative official of the Government of the Trust Territory in each of the six districts described in section 1 of this order shall be a district administrator who shall be appointed by the Chief Executive with the approval of the High Commissioner. The district administrator shall, under the general supervision of the chief executive, assist in the faithful execution of the laws of the Trust Territory in his district, shall perform such duties as the Chief Executive may assign, and shall be responsible for the coordination of the activities of the departments and agencies of the Government of the Trust Territory in his district. He shall also faithfully execute the laws of the district legislature of his district and shall consult with such legislature.

(b) The legislative power and authority within each district shall be vested in a district legislature which shall be established by law of the Trust Territory. The membership of such a legislature shall be

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determined by law, but shall be elected in such manner as to provide for fair representation of all the people of the district on the basis of population. The power of the legislature shall be set forth in law, but shall not extend to matters which are within the jurisdiction of the Legislature of the Trust Territory nor shall it enact laws which are inconsistent with the laws of the Trust Territory, the treaties and international agreements of the United States, the laws of the United States applicable to the Trust Territory, or the provisions of this order. Every bill passed by the district legislature, before it becomes a law, shall be presented to the district administrator. If the district administrator approves the bill, he shall sign it. If the district administrator disapproves the bill, he shall return it, with his objections, to the district legislature within ten days after it shall have been presented to him. If the district administrator does not return the bill within such period, it shall be a law in like manner as if he had signed it, unless the district legislature by adjournment prevents its return, in which case it shall become a law if signed by the district administrator within thirty days after it shall have been presented to him; otherwise it shall not be a law. When a bill is returned by the district administrator to the district legislature with his objections, the district legislature may proceed to reconsider the bill. If, after such reconsideration, two-thirds of all the members of the district legislature present vote to pass the bill, it shall be sent to the Chief Executive. If the Chief Executive approves it, he shall sign it. If he does not approve it within

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forty-five days after it shall have been presented to him, it shall not be a law. In computing any period of days under this section, Sundays and legal holidays shall be excluded. Copies of all laws enacted in the districts shall be transmitted within fifteen days of their enactment by the district administrators to the Chief Executive and the High Commissioner. The salaries and expenses of the district legislatures shall be paid from the funds of their respective districts.

SEC. 13. Municipal government. The Government of the Trust Territory may, by law, charter such municipal governments as are deemed appropriate and desirable based on the wishes of the people concerned and the need to provide for an effective government. Such charter shall provide for the organization of the municipality to exercise governmental, economic, and social functions not inconsistent with this order or the law. The charter shall provide for legislative, executive and judicial instrumentalities as appropriate which shall exercise such powers as may be assigned to them by the charter. Each charter shall provide for the election of a magistrate by the residents of the municipality. The magistrate shall assist the Chief Executive and the district administrators in the execution of the laws of the Trust Territory and the districts, for which he shall receive such reimbursement as may be provided in the laws of the Trust Territory.

SEC. 14. Federal reservations. The Secretary of the Interior is authorized, from time to time to designate portions of the Trust Territory as Federal reservations for the use and purposes of Federal departments and agencies.

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SEC. 15. Savings provision. Except as they may be inconsistent herewith, the laws, orders, proclamations, regulations, ordinances, and other directives heretofore issued by the Secretary of the Interior, the High Commissioner, the Government of the Trust Territory, or other public officials and bodies in the Trust Territory in effect immediately prior to the effective date of this order shall continue in force and effect until modified, revoked, or superseded under the authority of this order. No proceeding, either civil or criminal pending in any court in the Trust Territory on the date of this order shall abate by reason of this order; and any such proceeding shall be conducted and concluded in accordance with the laws, orders, proclamations, regulations, ordinances, and other directives in effect immediately before the date of this order. Nothing in this order shall be construed as modifying the rights or obligations of the United States under the provisions of the trusteeship agreement or as affecting or modifying the responsibility of the Secretary of State to interpret the rights and obligations of the United States arising out of that agreement.

SEC. 16. Superseded order. Executive Order No. 11021 of May 7, 1962, is hereby superseded.

SEC. 17. Effective date. This order shall become effective _____.

THE WHITE HOUSE

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REPORT BY THE U. S. GOVERNMENT SURVEY MISSION
TO THE TRUST TERRITORY OF THE PACIFIC ISLANDS

Volume Two

- Part II. The Economic and Social Development
of Micronesia
- Part III. Administration of the Trust Territory

A Report by the U. S. Government Survey Mission
to the Trust Territory of the Pacific Islands

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PART II

THE ECONOMIC AND SOCIAL DEVELOPMENT OF MICRONESIA

Section A

Private Sector Economic Survey and Recommendations.

ECONOMIC DEVELOPMENT IN MICRONESIA

This part of the Survey Mission's Report describes briefly the economy of the Trust Territory and sets forth the Mission's recommendations for economic advancement in Micronesia. It is divided into six chapters. Chapter 1 sets out in broad terms the economic problems which face the Trust Territory now and in the near future and suggests the general lines along which solutions should be drawn. Chapter 2 describes the Micronesian economy, to the extent it can be done, in quantitative detail. The major features of its population, output, income, and foreign trade are set forth. Chapter 3 provides a more detailed discussion of the labor force, attitudes toward work, labor mobility, and related topics.

Chapter 4 considers the major actual and potential producing sectors of the economy: agriculture, fishing, mining, and manufacturing, and makes recommendations on their further development. A separate part of the Report discusses agriculture in greater detail. Chapter 5 considers commerce, finance, and savings habits in the Trust Territory.

The Mission's recommendations have been incorporated into the discussion of each issue as it comes up, in order to indicate directly their relevance. The major recommendations are also summarized in Chapter 6.

Chapter 1

THE BROAD ISSUES

The economy of Micronesia is based largely on food gathering and on subsistence agriculture and fishing. Of an adult population of about 45,000, fewer than 10 percent are regularly employed for wages and salaries, although at least an equal number work from time to time at preparing dried coconut meat, copra, for export. The labor force is at a low level of educational and technical skill, with less than 20 percent of the adult population having completed more than 6 years of schooling.

Despite the importance of subsistence production in Micronesia, there is a growing desire for money income to use for purchasing wanted imports. In many areas a taste has been cultivated for rice, sugar, tobacco, beer and other items typically consumed in market economies; and outboard motors, motor scooters, gasoline, and kerosene are rapidly becoming "necessities" in and around the district centers of Micronesia. Largely because it is viewed as a channel to desirable employment and higher money incomes, more and better education is everywhere extolled and is widely coveted by the young.

Subsistence production can support adequate living standards only so long as land resources are ample. Rapidly growing population -- nearly 4 percent a year (see Table 1) -- is beginning to press against land resources in some parts of Micronesia. Throughout the

Table 1
Population Growth in Micronesia

Age Group	1953	1958	1962	1967 <u>a/</u>	1972 <u>a/</u>
Under 15	19,796 <u>b/</u>	30,173	35,690	41,260	48,000
15-64	34,321	37,009	40,606	47,500	56,200
65 and over	3,725 <u>b/</u>	3,412	4,784	6,130	8,200
Total	57,842	70,594	80,980	94,890	112,400

a/ Projected from 1962 assuming no change in the numbers of live births per thousand of adult population aged 15-64 and no change in the death rates experienced in 1962.

b/ These reported population figures seem inconsistent with later census results.

Note: The population of the Trust Territory rose 40 percent in the nine years 1953-1962, or 3.8 percent a year.

Trust Territory the population density is only 121 per square mile; but several large volcanic islands, now virtually inaccessible in the interior, account for most of the unused land. On some coral atolls in the Truk District rural population densities exceed 500 per square mile. With one of the fastest growing populations in the world, living standards in Micronesia may well fall in the coming years. Indeed, using the Trust Territory government's data, imports per capita appear to have fallen by nearly 20 percent since 1957. Neither the political nor the humanitarian interests of the United States are served by permitting this malthusian squeeze of population against land to depress Micronesian living standards. A two-pronged program which will raise productivity and facilitate mobility is required to prevent the number of people from out-running the availability of productive resources.

Proper education plays a critical role in any program for economic development. Education is necessary to provide the minimum skills required to raise productivity and to provide sufficiently common background to make successful migration possible. But greater education will in turn stimulate further the demand for money incomes and imported goods. Secondary education at boarding schools attracts teen-agers from the rural into the urban and semi-urban centers of the Trust Territory and Guam and exposes them to a way of life substantially different from that to which they are accustomed. The same education which prepares

Micronesians for absorption into the modern world often generates dissatisfaction and impatience with traditional modes of existence. The students become too sophisticated in their tastes to go "back to the farm". An expanded and improved educational system will, unless care is taken to prevent it, increase not only the desire for more cash but will raise unrealizable expectations for salaried employment.

While secondary education -- particularly as it is improved -- prepares students for more modern life and more modern employment, it does not automatically provide them with jobs. The demand for better educated Micronesians will not rise spontaneously to absorb the increased supply of them. Unless jobs are available for graduating students -- or unless the educational program is designed to discourage unrealistic expectations for salaried employment -- many reasonably well-educated students will be disappointed when they reach the job market. Already in Palau there are substantial numbers of men and women willing to work but unable to find jobs, and in Ponape and Truk "urban" unemployment in the District Centers is reported as beginning to appear. Provision of employment opportunities becomes more urgent as the school system is expanded and as it is centralized in areas of urban populations; special efforts will be required to assure that employment opportunities are adequate.

School enrollment is expected to grow rapidly in the near future (Table 2). In 1962 there were only 84 Micronesians graduated from high school, and fewer than 600 graduated from junior high school. Total high school enrollment is expected to double between 1963-1967 and to quadruple in the next 10 years. The number of graduates will increase by tenfold over the same 10 years. While there now seems a shortage of qualified personnel in most districts, this situation will rapidly change to a surplus unless employment opportunities are increased in step with the numbers leaving school after six or more grades.

The Trust Territory government, now the major employer with over half of the total estimated wage and salary earners in Micronesia, will absorb some of these additional graduates -- partly through new programs and partly through the gradual replacement of less qualified personnel now working for the government. The construction program and associated rise in operating costs recommended by the Mission will provide ample job opportunities in most districts during the next few years. Thereafter, government employment will decline while the total demand for jobs continues to grow.

The provision of additional jobs is imperative from a political as well as a social and humanitarian viewpoint. The young people are keener than their elders to become a part of the modern world, and partly

Table 2

Projected School Enrollment

	Grades 1 - 8	Grades 9 - 12	High School Graduates	College Graduates
1952	8,261	585	12	*
1955	8,728	658	20	*
1960	14,556	1,042	100	*
1963	17,581	1,492	100	*
1964	17,985	1,717	150	18
1965	18,495	2,074	275	22
1966	19,012	2,515	375	27
1967	19,634	3,030	450	34
1968	20,259	3,567	535	42
1973	23,000	6,900	1,000	125

* In 1963 there were 21 Micronesians with bachelors degrees, all graduated since 1955. In September 1963, 125 Micronesians will be enrolled in institutions of higher education.

for this reason they tend to be more receptive to closer association with the United States. It is the younger generation which is less insistent and less fearful of changing the present status of the Trust Territory, for it has less psychological commitment to the status quo. Yet the absence of job opportunities following secondary education may disillusion the younger generation with modern existence, with education, and with the United States as administering authority. Dissatisfied with traditional ways of life, this important political group will feel caught between a traditional life to which they cannot return and frustrated hope for a more modern mode of living.

The basic characteristics of Micronesia, its vast distances and its paucity of resources (including, ironically, labor), limit sharply the rise in living standards which can take place even with extensive assistance, and this fact should be recognized frankly. The ultimate solution for those Micronesians who aspire to ever increasing living standards is emigration from the Trust Territory, and partial preparation for such emigration should be one objective of U.S. policy in Micronesia. But extensive emigration from Micronesia, even if it were financially and legally feasible, cannot be regarded as a near-term solution to the problem of inadequate incomes and prospective unemployment in the territory. It will be years before any but a few exceptional Micronesians would be able to compete openly and effectively in the

sophisticated labor market of the United States. More could find unskilled work on Guam, but the labor market there is limited too. In the meantime, some improvement in employment opportunities is possible within the Trust Territory, and this should be sufficient to serve both U.S. objectives and Micronesian interests in the near future. However, several impediments stand in the way of marked increase in private employment outside the traditional agriculture sectors: Lack of capital, lack of entrepreneurial initiative, lack of adequate technical knowledge, and, not least, the lack of obvious profit-making opportunities.

There is evidence everywhere of the lack of capital, both public and private capital, both fixed and working capital. Often expensive construction equipment sits for weeks for want of spare parts; much time is lost in areas where there are roads because vehicles have no spares; and even more time is lost in other areas because there are no roads or vehicles. Produce and fish cannot be marketed for lack of chilling facilities and ice. Copra is not produced because small stores have insufficient capital to stock the trade goods wanted. And small manufacturing ventures cannot be launched because of inadequate working capital.

Even when capital is available -- and there is some local capital, especially in Saipan and Koror -- few ventures are undertaken

due to lack of technical knowledge and the lack of managerial initiative in acquiring practical knowledge of markets and production techniques. As in most underdeveloped countries, "business" means "trade" and few Micronesians even think in terms of non-agricultural production for sale. In a few cases where initiative has been demonstrated, it has been stifled by conflict with regulations or administrative practice in the Trust Territory. Especially in western Micronesia, historical channels for trade and technical assistance have been with Japan, and because of the small scale of operation in Micronesia, technical advice can sometimes be found in Japan when it cannot be found in the United States. Yet until July 1, 1963, it was against regulations for Japanese to visit or reside temporarily in Micronesia even on a consultant basis. Even if all the ingredients discussed above -- potential markets, capital, technical knowledge, and initiative -- are present, surface and air transportation as it exists today within the Trust Territory hampers the development of continuing relationships between Micronesian producers and foreign buyers or buyers in the other districts. The transportation system is inadequate and irregular. For economic development of Micronesia, first priority should be given to improvements in transportation. Recommendations of the Survey Mission are outlined in a separate part of this Report.

The United States must overcome the years of neglect of the Trust Territory which is evident everywhere -- in the roads, the public buildings, the schools, the water and sewer systems. To overcome some of the present deficiencies the Mission recommends a substantial public works construction program, outlined elsewhere in this Report. In addition to these public expenditures, however, the Mission feels that some mechanism must be found to overcome the formidable impediments to economic development in the Trust Territory, a catalyst to economic activity which will work effectively to provide jobs when they are needed. Moreover, the timing of any public construction program is critical when viewed as a provider of local employment rather than as a program to get things built.

To program public construction expenditures and to act as a catalyst to business in the Trust Territory, the Mission recommends establishment of a Programming and Development Unit within the Trust Territory government, to be staffed with highly qualified technicians provided on contract by a firm with extensive economic and engineering experience in underdeveloped areas. The full responsibilities of the Programming and Development Contractor are set out in Chapter 4 below. They would include planning the timing of public capital expenditures to achieve the most desirable impact on local employment and income consistent with accomplishing the job efficiently, assisting private

businessmen with capital and technical advice, and initiating certain promising commercial ventures which Micronesians are not yet ready to start on their own.

Public capital expenditures in Micronesia must serve two objectives: (a) to get the job done quickly and efficiently, so the services from the construction project will be available without undue delay; and (b) to generate local employment and income. Although usually these two objectives will converge, in some instances they may conflict (for example when the fastest and cheapest method of getting a job done is to bring in sophisticated equipment and highly skilled labor and management from outside the Territory). In such cases the timing of a project should give heavy weight, in the view of the Mission, to the impact on local employment except in those cases where the indirect effects on local employment were judged so favorable that the project should be undertaken as quickly as possible. Only a continuously functioning Programming and Development Unit can make the needed judgements.

What is necessary in Micronesia is a sense of progress toward better living standards and social services, not a large one-step improvement. It would be a mistake to attempt to make up in a short period of time for more than a decade of U.S. negligence in the area. Indeed a too rapid increase in U.S. activity in the area could have two consequences which are better avoided: (1) local employment, a by-product of any

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program to enlarge social capital such as schools, roads and docks, would be created in abundance during construction and then would be largely eliminated upon project completion, leaving workers with no alternative employment. (2) A pattern of expectation for a pace of future improvement which cannot be sustained may be created. Both consequences would have an unfortunate political impact on Micronesian attitudes toward the U.S.

For these reasons a "crash" program of public construction is not appropriate for Micronesia. Rather, a program of public construction and assistance to private enterprise should be paced to generate as smooth and continuous a rise in employment and incomes as is consistent with efficient programming. Instead of a crash investment program in all the sectors, it is preferable from the viewpoints both of employment and of intelligent planning to move ahead with the educational program quickly, and while the actual construction of schools and teachers' housing is taking place, the rest of the public construction program could be planned. Construction on these projects would begin as school construction tapers off, releasing workers. By the time total employment generated by the public construction program began to decline, employment in commercial ventures undertaken with the help of the Programming and Development Contractor should be on the increase. This recommended sequence of planning and implementation corresponds, the Mission feels, to the practical timing possible for intelligent use of funds. And it should succeed in providing a steady increase in Micronesian employment and incomes.

Chapter 2

THE ECONOMY IN PROSPECTIVE

The largely self-sufficient character of Micronesia's subsistence economy has hindered the systematic collection of statistical information for the area. Even statistics collected as a by-product of normal government operations, such as tax and duty collections, are often of doubtful quality, as are those deliberately collected for information to be included in official reports. For this reason careful quantitative economic analysis is not usually feasible. Despite the varying quality of the basic data, the Mission has worked with quantitative information on the labor force, production and foreign trade survey of the economic problems of Micronesia. However, many of the figures set forth below should be regarded as rough estimates or indicating orders of magnitude rather than as precise measurements.

Because of a period of sustained and rapid growth in population since the war (annual average, 3.8%), there are a large number of children in Micronesia -- in the Marianas district persons under 15 years of age make up over 50 percent of the total population, and for Micronesia as a whole the percentage is nearly 45 (see Table 3). This large percentage of children, even more pronounced here than in most other underdeveloped areas, places a heavy economic burden on the relatively small working

Table 3
Age Structure of Population

Age Group	(Percent)	
	Micronesia, 1962	USA, 1960
Under 15	44.1*	31.1
15 - 64	50.8	60.0
65 and over	5.1	8.9
Total	100	100

* The percentage of population under 15 is probably understated due to an under-reporting of births.

adult population. Of the total adult population of nearly 45,000, only 4,100 worked for wages and salaries in mid-1962. To these should be added the 5,000 who in the 1958 census reported themselves as "copra producers" and perhaps another 1,000 who through part-time producing or selling of artcrafts and produce should be considered at least partially in the monetary economy of Micronesia -- a total of around 10,000 or only one-eighth of the total population.

Over half of those working for wages and salaries are directly employed by the Trust Territory government. Table 4 lists employment by type of employer.

Over 65 percent of all wage earners are reported as employed by government agencies, but even this figure is low and should be increased by a large number of teachers and domestic servants in households of U.S. Government employees. Employment in manufacturing establishments of any kind is notable by its absence.

Large-scale hiring by trading establishments or firms manufacturing for the local market is precluded by the miniscule size of local markets and the vast distances which separate them. Quite apart from the low purchasing power of the average Micronesian, there is no concentration of population (including children) large enough to be considered a city.

Table 4

Employment of Micronesians for Wages, by Type of
Employer, Fiscal Year 1962

	Number of Employees	Annual Wages ('000)
Trust Territory Administration	2,325	2,297
U.S. Post Office	4	7
U.S. Coast Guard	8	6
U.S. Weather Bureau	40	30
Naval Station, Kwajalein	174*	231*
Other Government Agencies	135	118
Trading Companies	426	332
Other Wholesalers	146	82
Other Local Business	234	60
Private Households	309	171
Missions	212	76
All Others	92	102
Total	4,105	3,513

*As reported in the 1962 Report to the United Nations. By mid-1963 Kwajalein employment was about twice as high as reported here.

While "urban" areas are developing around the district centers, none is larger than a small American town (see Table 5). The wide dispersion of population and labor force hampers efficient division of labor and precludes a volume of sales in local markets large enough for efficient, low cost operation. Only by turning to export markets can Micronesia hope to achieve the scale of production necessary for modern efficiency --even though, as discussed further in Chapter 4 below, there are some instances in which it would be feasible to substitute local production for imports.

The major source of money income, apart from wages and salaries, comes from the production and export of copra, the dried meat of the coconut. In addition, limited amounts of fruits and vegetables, fish, trochus shells (for buttons), and handicraft are exported from Micronesia, while some produce and fish is sold locally. Any estimate of the total money income for the area, following national income accounting concepts, is necessarily hazardous, but a crude attempt for 1962 is made in Table 6. Since national income data are not collected on a systematic basis, some component data are available only for calendar years (or parts thereof) and some for fiscal years. Some data do not exist at all. The computation here must be regarded as a rough guess for a 12-month period around 1962. It shows total national income of about \$9.4 million for 1962. If U.S. employees of the Trust Territory government are excluded, money income was \$7.3 million, or around \$90 per capita, placing Micronesia, in

Table 5

Geographical Dispersion of Population, June 1962

	Population	Adult Male Population
Marshall's District	15,710	4,126
Majuro	3,933	1,026
Kwajalein	1,971*	468*
Ponape District	17,224	5,132
Kolonja	1,247	367
Kusaie	3,019	802
Truk District	22,564	6,677
Truk Lagoon	15,541	4,598
Moen	3,903	1,263
Yap District	5,931	1,825
Yap Islands	3,530	1,086
Palau District	9,965	2,540
Koror	4,111	1,080
Marianas District	9,586	2,298
Saipan	7,830	1,874

*As reported in the 1962 Report to the United Nations. By mid-1963 about 2,600 people were living on Ebeye alone. Recorded figures were consistently lower than those generally accepted in the District Centers. For the sake of consistency, we have used the recorded figures.

Table 6

Total Money Income, 1962

Wage and Salary Compensation		5,984,000
Trust Territory Government	4,397,000	
U.S. Employees	2,100,000	
Micronesian Employees	2,297,000	
Other	1,587,000	
U.S.	371,000	
Micronesian	1,216,000	
Income from Unincorporated Business		2,659,000
Copra Exports	1,662,000	
Other Exports	247,000	
Production and Sale of Local Goods and Services	750,000	
Corporate Income (before dividends)*		500,000
Income from Property		115,000
Rent	50,000	
Interest	65,000	
TOTAL		9,358,000

*Includes estimated income from sale of imports by unincorporated businesses.

terms of money income, among the poorest areas of the world along with Afghanistan, Bolivia, India, Nigeria, Pakistan, and Tanganyika.

Comparisons of money income can be deceiving unless they are accompanied by comparisons of the non-monetary sector of the economy.

Except in a few over-crowded atolls land has not been scarce under the U.S. administration of Micronesia, and during most of the time subsistence foodstuffs -- notably taro, breadfruit, fish, and the all-purpose coconut have been in abundance. Well-informed observers state that production of these subsistence products has grown along with the population growth -- again with the exception of a few over-crowded areas such as the Mortlock Islands -- so consumption standards have not deteriorated. Those relying on subsistence production with little cash income are subject, however, to periods of acute food shortage after heavy storms in which wind and salt spray have temporarily ruined the staple food plants. Inadequate communication and infrequent visits to some of the more remote islands sometimes results in long periods of great deprivation.

There is some non-agricultural production and even exchange which takes place outside the money economy. Houses are frequently built communally on a cooperative basis, but sometimes they are "bought" through traditional modes of exchange. The same is true of other durable goods such as canoes. In addition, many community projects such as school and

road maintenance are undertaken through labor contributions not involving the use of money. All such economic activity makes the computation of money national income represent only a shadow of the whole economy. A crude estimate based on available labor and usable land and on consumption places the value of subsistence production at $1-1\frac{1}{2}$ times the value of money national income, so total national income including subsistence production (but excluding household services) would be \$15-18 million a year. But money is required for imported goods, which are in ever greater demand, so to an increasing degree tracking the evolution of the monetary sector is appropriate for following changes in living standards -- so long as developments in the subsistence sector are not neglected entirely.

The paucity of accurate statistics prevents careful study of recent economic growth in Micronesia, but Table 7 sets out data for earnings from employment and exports and expenditures on imports since 1954.

It was stated above that subsistence food production has probably kept pace with population growth in most of Micronesia, but it can be seen from Table 7 that after a sharp increase from 1953-1957, imports seem to have risen very little in the past six years despite an increase in the population by one-fourth during the same period. At the same time, however, money incomes from wages and salaries rose about one-third, and export proceeds also rose about one-third. Under these circumstances the stability in imports is puzzling. Assuming the figures reflect the

Table 7

Employment and Foreign Trade

Fiscal Year	Total Employment for Wages	Micronesian Wages		Exports	Imports
		Total	T.T. Govt.		
		(\$'000)			
1954	2,407	1,291	953 *	3,343**	2,258
1955	2,799	1,581	1,165*	4,302**	2,488
1956	3,939	2,276	1,404*	1,733	3,175
1957	4,201	2,604	1,342	1,649	4,158
1958	4,999	2,915	1,815	1,653	4,338
1959	4,196	2,981	1,980	1,241	4,009
1960	4,273	2,990	1,966	1,891	3,747
1961	4,207	3,345	1,778	2,130	4,560
1962	4,105	3,513	2,297	2,125	4,139

*Assuming average annual compensation of \$630 per employee.

** Includes exports of phosphate totalling \$2,049,900 in 1954 and \$2,744,500 in 1955.

trends accurately, this behavior can be accounted for only if the Micronesians are spending more on local goods and services -- if so the domestic monetary sector must have grown very rapidly in the last few years -- or if they are saving more. We have been told that savings have indeed increased, but they are not likely to account for the full difference between the higher money incomes and stable imports.

A rough check on Trust Territory import data is provided by recorded exports to the Trust Territory from the United States and Japan, which together normally provide over 90 percent of imports into the Trust Territory. Official U.S. and Japanese export figures (Table 8) suggest quite a different trend for imports into the Trust Territory, and one that corresponds more closely to expectations based on the recorded rise in Micronesian wage earnings and exports: a rise of over 30 percent between 1957 and 1961, and a trebling between 1954 and 1961, compared with increases of less than 10 percent and 100 percent for the corresponding periods recorded by the official import statistics.

The two series are conceptually different both in coverage and definition -- U.S. and Japanese exports exclude ocean shipping costs for example -- but the sharp divergence in their trends points up the need, critical if the economic development of the area is to be properly programmed, for more accurate and more complete economic statistics.

Table 8

Exports to the Trust Territory from the United States
and Japan, 1954-1962

<u>Calendar Year</u>	<u>United States</u>	<u>Japan</u> (\$'000)	<u>Total</u>
1954	910	866	1,776
1955	1,217	900	2,117
1956	1,843	813	2,656
1957	3,051	877	3,928
1958	2,505	625	3,130
1959	1,974	772	2,746
1960	3,675	909	4,584
1961	4,106	1,086	5,192
1962	1,538	n.a.	n.a.

Sources: Statistical Abstract of the United States; and Japanese Ministry of Finance, Foreign Trade of Japan (annual).

Even though official import statistics show a relatively stable total for several years, they show some shift in the geographical origin of imports away from the United States toward Japan, although the United States remains the dominant supplier (Table 9). In 1958-59 Japan supplied 15 percent of imports into the Trust Territory; by 1962-63 this share had risen to 22 percent. Steady Japanese advancement into world export markets with low prices is probably the main reason for the rising importance of imports from Japan, but the price advantages have been fortified by more frequent trips by Trust Territory ships to Japan, both for servicing and for regular logistical runs, and by favorable freight rates between Japan and the Trust Territory. The political implications of this and other growing ties with Japan are discussed briefly elsewhere in the Mission's Report.

Along with most underdeveloped economies, Micronesia's exports are concentrated heavily on a few products while its imports are rather diversified (Tables 10 and 11). Copra alone accounts for about 80 percent of the exports from the Trust Territory, and the remaining exports are all primary products except for a small amount of handicraft. Imports include a much wider range of goods, including several important products such as canned fish and such starchy foods as rice and flour which compete with local products.

Table 9

Origin of Imports

(Percent)

	1958	1959	1960	1961	1962	1963*
United States	75.5	76.4	74.1	70.9	64.8	70.8
Japan	15.3	14.7	17.7	19.5	22.4	21.6
Other	9.3	8.9	8.1	9.6	12.8	7.6
Total	100	100	100	100	100	100

* Estimated on the basis of incomplete returns.

Table 10
Composition of Exports

	(\$'000)					
	1957	1958	1959	1960	1961	1962
Copra	1,488	1,423	968	1,588	1,776	1,662
Scrap metal	n.a.	n.a.	n.a.	n.a.	133	217
Trochus	76	149	175	148	64	34
Handicraft and shells	27	17	13	21	23	32
Vegetables	54	57	61	105	69	95
Fish, crab meat, etc.)	5	5	19	27	66	85
Charcoal		2	5	2	--	--
Total	1,649	1,653	1,241	1,891	2,130	2,125

Table 11
Composition of Imports

	(\$'000)		
	1958	1961	1962
Food	2,189	2,329	1,883
Rice	566	613	481
Flour	159	166	141
Sugar	217	231	200
Canned Meat	262	257	194
Canned Fish	210	205	232
Other	774	857	636
Beverages	328	385	365
Tobacco and Products	262	307	293
Clothing and Textiles	518	603	585
Building Materials	283	239	217
Boat Parts and Gas	122	116	97
Machinery	75	81	79
Petroleum Products	201	151	155
All Other	358	347	465
Total	4,335	4,560	4,139

Financing the substantial excess of imports over exports (see Table 7) requires other external sources of funds. The main source, of course, is that part of the annual appropriation by the U.S. Congress which finances the local wage bill of the Trust Territory government. Other sources and uses of funds in transactions with the rest of the world are difficult to trace because of the paucity of statistical information. Since U.S. currency is used throughout the Trust Territory, foreign exchange transactions do not provide information as they do in countries with a separate currency. But Micronesian families do receive remittances from relatives living on Guam and elsewhere abroad, and sales to visitors also contribute to the total receipts of Micronesia from outside the territory. Against these receipts must be set various outpayments, such as direct mail order purchases by individuals, travel abroad, and new savings deposited in banks which hold their funds in the United States. Also, many government expenditures do not get into the Micronesian economy, for they go to purchase goods or services outside the Territory. Direct government purchases from abroad are not included in the recorded imports, nor are Micronesian purchases in the stores of Kwajalein.

In estimating the total economic impact of additional expenditures in Micronesia, such as would result from the Mission's recommendations, it is necessary to know roughly how much of the additional local

income will be spent on imports of goods and services, how much will be spent on domestic goods and services, and how much will be saved. Again inadequate statistics make a large amount of guesswork necessary, but it probably would not be far wrong to estimate that somewhat more than half of additional money income would be spent on imports, while perhaps 40 percent would go to purchase local goods and services (including the wholesale and retail markups, usually around 40 percent, on imported goods). Savings would probably be under 5 percent, while municipal and district tax collections might tap 5-10 percent of the additional money income. Because of the heavy leakage of additional incomes into imports, any secondary ("multiplier") effects of additional expenditures on Micronesian incomes and employment would be small. (For every three jobs resulting directly from an increase in government expenditures, perhaps $1-1\frac{1}{2}$ to 2 additional jobs would be created locally.)

It would be a mistake to suppose that average figures for exports, imports, and wage and salary compensation for the Trust Territory as a whole could be applied with accuracy to all areas within the Trust Territory. Substantial differences in per capita trade and wage compensation exist among districts (see Table 12), and within districts the differences between the district centers and the outer islands is undoubtedly even greater. Per capita exports are highest in the Marshalls, the major copra-producing area of Micronesia and an area where the Trust Territory

Table 12

Wages and Foreign Trade by District, 1962

	<u>Micronesian Payroll</u>		<u>Foreign Trade</u>	
	<u>Total</u>	<u>T.T. Govt.</u>	<u>Exports</u>	<u>Imports</u>
		(\$'000)		
Marianas	1,157	816	422	1,064
Marshalls	728	280	702	963
Palau	542	384	170	546
Ponape	417	334	415	575
Truk	431	326	347	706
Yap	237	157	69	284
Total	3,513	2,297	2,125	4,139

Per Capita Payroll and Foreign Trade by District, 1962

	<u>Micronesian Payroll</u>		<u>Foreign Trade</u>	
	<u>Total</u>	<u>T.T. Govt.</u>	<u>Exports</u>	<u>Imports</u>
		(dollars)		
Marianas	120.69	85.10	44.08	110.99
Marshalls	46.34	17.85	44.68	61.30
Palau	54.39	38.49	17.06	54.79
Ponape	24.21	19.41	24.09	33.38
Truk	19.10	14.45	15.38	31.29
Yap	39.96	26.43	11.63	47.88
Total	43.38	28.36	26.24	51.11

government payroll adds much less per capita than in most other districts. Yap, by contrast, enjoys a relatively high government payroll per capita, and exports are much lower. The Mission also received the impression that subsistence living standards are probably higher in the Yap Islands than in any other district of the Trust Territory, and it is well known that the Yapese have resisted the intrusion of foreign customs and tastes more than other districts. Nonetheless, imports per capita do not differ greatly from the average for the entire Territory.

The Marianas District, including Saipan, clearly enjoys the greatest financial benefit from the presence of government, and per capita exports are also much higher than average. As a result, imports into the Marianas (where subsistence agriculture and fishing, while present, is far less prevalent than other areas of Micronesia) are more than twice per capita imports for the Territory as a whole.

In terms of money income, Truk is clearly the most depressed district, ranking lowest both in wage compensation per capita and in imports per capita. As mentioned earlier, parts of Truk District are already pressing the limits, with existing methods of production, of agricultural output, and some observers suggest that the living standard may have fallen in parts of the district in recent years.

No description of Micronesia's economy would be complete without discussion of the transportation system, which alone makes it possible even to speak in terms of a "Micronesian economy" rather than half a dozen to a dozen separate "economies" with broadly similar problems. Transportation facilities in the Trust Territory are discussed in detail in another part of the Mission's report. It should be mentioned here, however, that the infrequency of port calls by inter-district vessels prevents extensive trade between districts, much less economic integration. While the similarity of population and resources in many districts naturally points to closer trade links with the outside world than between districts, there are nonetheless a number of promising possibilities for inter-district trade, and developing these lines of activity awaits first of all more frequent, more regular shipping and air connections.

Programming and following through on a development program requires a continuing back-flow of reasonably accurate statistical information about the economy -- production and trade, financial flows, size and skills of labor force. While the Trust Territory now does a commendable job in collecting as many statistics as it does for its annual reports, neither the coverage nor the accuracy is adequate to the requirements for tracking the economic development of the area. The statistics which do exist are often not analyzed as fully as they could be. Several suggestions for improving the statistical coverage are:

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a. Import data should be extended to include direct mail order purchases, purchases at Kwajalein which are not made through currently reporting import firms, and as a separate entry, imports into the Territory by the government which are not made through reporting firms. Special care should be taken to assure that the landed price, excluding all local mark-ups, is recorded.

b. Greater detail on imports should be reported where there is some possibility of substituting Micronesian production for imports, for example; soaps, cooking oil, hardwood lumber, fiber board, non-carbonated soft drinks, and so on.

c. Some attempt should be made to estimate other payments to outside the Territory and receipts from outside the Territory -- remittance from Guam and elsewhere, travel abroad, movements of capital to and from the Territory (especially through the U.S. bank branches which operate in the Territory) and so on.

d. Systematic collection of monetary statistics should be undertaken, including demand and time deposits in banks (and annual changes therein), bank loans in the Territory, bank clearances in the Territory, credit union deposits and loans outstanding, and, if possible, currency in circulation.

e. The major components of national income should be collected. The most important omissions at present are business income and rental income. Such statistics would be a useful by-product of a territory-wide income tax, consideration of which is recommended elsewhere in this report.

Chapter 3

LABOR

A critical element in the economic development of the Trust Territory is its labor force. Labor productivity, or output per man per day, is exceedingly low. Climatic conditions are often given as the main reason for low output in the tropics; but Micronesia lacks the stultifying heat of the tropical continents and climate alone does not begin to explain the low level of output. Perhaps a more debilitating factor than climate is the general health of the working population. Even though health conditions are much better than in many other underdeveloped areas, intestinal parasites, respiratory diseases, and unbalanced diets all take their toll in human energy. In some areas as much as 90 percent of the population has stomach worms, for example. Moreover, the shortage of capital in all its forms -- including shipping -- lowers the level of output. Unreliable and infrequent visits to outlying islands fail to provide the incentive for extensive and well-planned copra production. And men trained to do construction work with heavy machinery cannot work when aged machinery is continually breaking down and when it is kept unusable for prolonged periods for lack of spare parts. Recommendations to correct these deficiencies are made elsewhere in the Mission's Report. This chapter will focus on three further factors which limit productivity, however, and will suggest measures to reduce these barriers to higher output. Inadequate labor skills, conventional

attitudes toward work (and the closely related question of adequate work supervision), and relative immobility of the working population all inhibit increases in production. Improved living standards in Micronesia require that these obstacles to higher output be overcome. Moreover, in view of the proposed increases in government pay scales, productivity needs to be increased to avoid getting wage costs in Micronesia far out of line with those of other countries. Finally, this chapter considers briefly the impact of the Mission's proposed public construction program on employment in the Trust Territory.

Labor Skills

Modern skills and technical knowledge are almost non-existent in the Micronesian labor force. The population census of 1958 showed only 10 percent of the population over 14 years as having technical, managerial or clerical skills. Educational attainment, shown in Table 13, was exceedingly low even when no allowance is made for the fact that in many schools the fact of physical attendance is a misleading measure of the education actually acquired. Less than a third of the adult population has a minimum command of English, and there is no technical literature in the indigenous languages which are taught in the schools. Among adults, knowledge of Japanese is probably about as common as English in the Trust Territory as a whole. The lack of technical skills and the poor educational

Table 13

Educational Attainment in Micronesia and the
United States, 1958
(Percent of Population over 25 Years)

Years Completed	Trust Territory (Percent)	United States (Percent)	Years Completed
None or not reported	39.0		
One - three	25.5	8.3	Less than five
Four - six	16.0	13.8	Five - seven
Seven - nine	12.8	17.5	Eight
Ten - eleven	3.5	19.2	Nine - eleven
Finished high school	0.6	24.6	Finished high school
College: one -three	0.4	8.8	College: one - three
four or more	0.1	7.7	four or more
Special school: one- three	1.1	n.a.	
four - six	<u>0.9</u>	<u>n.a.</u>	
Total	100.0	100.0	

background (making advanced on-the-job training difficult) hinder the introduction of production processes or techniques which deviate sharply from tradition. Improvements in the educational system budgeted in the past year and further improvements recommended by the Mission should provide the basis for a more highly skilled working force as graduates from the improved system leave school.

Improvements in the school system must be complemented, however, by a program for on-the-job training of those now working and by a program of adult education in the evenings and special vocational programs in fisheries and agriculture. Recommendations for general adult education are discussed in the Mission's report on education. On-the-job training provides a direct and visible way for raising labor productivity. Such training has been a natural by-product of Micronesian employment in the public works departments of all districts. It is also taking place at the Pacific Missile Range located on Kwajalein. But on-the-job training should become a more deliberate part of the over-all educational program in the Trust Territory. The Texas Transport Company, servicing contractor at Kwajalein, estimates that it can train (including instruction in English) 115 Micronesians for \$40-50,000 a year to cover lost production time. At \$340-430 per trainee per year, this is an inexpensive form of vocational training. Such training will open up additional jobs for Micronesians as they become competent to replace higher priced American

personnel now filling many positions not requiring very sophisticated skills. In addition, there is a substantial demand for skilled and semi-skilled labor on Guam. The Mission recommends that on-the-job training programs, both at Kwajalein and by arrangement with the Navy on Guam, be explored fully to assess their contribution to adult education and to employment. In such training, particular attention should be paid to the building trades and to general mechanics, skills which are needed in the Trust Territory itself.

Attitudes Toward Work

Micronesian attitudes toward work vary from district to district. It has been said on more than one occasion that Micronesians are erratic workers and work only enough to satisfy their immediate needs for cash. If true, this would imply that higher wages would actually reduce the number of hours worked, for given cash needs could be satisfied more quickly. This attitude toward cash income may still exist in some parts of Micronesia -- particularly where population density is low and subsistence living is relatively easy -- but it is certainly not a valid generalization for the entire territory. Where it is valid, it affects the timing of new programs rather than their direction, for in all but the remotest areas of Micronesia work attitudes are likely to change substantially over the next decade or two. In Palau, attitudes toward

regular work are decidedly modern. Yap is perhaps at the other extreme, where possibilities for cash income (e.g. copra production) seem to go unexploited for want of incentive. (It should be added that the Mission was told of instances where cash income was foregone for lack of labor time rather than economic incentive; community projects in Yap frequently create heavy demands for voluntary labor -- sometimes as much as two weeks a month.) Employment opportunities should be geared, among other things, to work attitudes. Big projects should be especially carefully scrutinized for their political and economic impact in those areas where an adequate labor force is not available. Resentment against or contempt for the United States as administering authority is perhaps as likely to be generated by employment-generating projects which fail or are obviously bungled -- for whatever reason, including poor labor cooperation -- as they are by failure to provide employment opportunities for those wishing to work.

Labor turnover rates, one indication of attitudes toward wage employment, are not exceptionally high in Micronesia by comparison with young, clerical and junior professional working groups in the United States (Table 14). The very high turnover rate for Marianas indicates not only reduction in force of 55 (without it terminations would have been 37 percent of total employees in the Marianas), but also the use of Trust Territory government employment as a stepping stone to higher paying

Table 14

Trust Territory Employment and Terminations, FY 1963

	<u>Trust Territory</u>	<u>Marianas</u>
Total employment	2,209	430
Terminations	465	213*

Termination as a percent of employment by district

Marianas	48*
Marshalls	24
Truk	22
Total Trust Territory	21
Yap	20
Palau	16
Ponape	6

* Includes a reduction in force of 55 after the Navy turned Saipan's administration over to Interior; excluding these, the termination rate was 37 percent.

Note: Total Trust Territory employment fell by 16 during the year.

jobs in Guam, where an estimated 1500 Saipanese are now living. Ninety terminations gave search for employment in Guam as the reason for leaving. The Mission was informed, however, that absenteeism is high throughout the Trust Territory, in some places as much as 20 percent of all working days. Moreover, "loafing on the job" has been reported in some districts.

Discipline through firing is at present difficult in some districts because of the limited availability of labor, so fired employees sometimes must be re-hired. Much of the "loafing" seems to result from inadequate supervisory personnel, for with proper supervision most Micronesians are capable of working hard and efficiently. For example, building productivity in the Metalanum Housing Cooperative, where close supervision is provided, seems to be several times as high as building productivity in some district public works departments, where supervision is inadequate. Most Micronesians are apparently not yet able to follow a general set of instructions; detailed supervision and guidance is needed. Moreover, custom often prevents aggressive supervision of Micronesians by another Micronesian from the same area. In the Marshalls, for instance, conventions of behavior prohibit one Marshallese from "ordering" another Marshallese to do something; similar inhibitions exist in some other districts. In those areas where such conventions impede efficient work (and foster poor working habits), the Mission recommends that Micronesians be brought from other districts as supervisory personnel where practicable; and where this would

not work effectively (because of traditional antagonisms between different groups of Micronesians, for example), the Mission recommends that additional U.S. supervisory personnel be brought into the Territory.

A potential problem in Micronesia, as in many underdeveloped areas, is the attitude of the "educated" toward manual work, including agricultural work. The view is widespread that education, and virtually education alone, is the route to good jobs and higher incomes. Usually this means government jobs. So long as the policy of replacing U.S. employees with Micronesians as rapidly as possible is in full swing, this favorable attitude toward government employment is not entirely undesirable; it assures that the best-trained Micronesians are attracted into government service, where they are badly needed. With a new emphasis on more and better schooling for more Micronesians, and with less emphasis on the rapid replacement policy, it will no longer be desirable that qualified graduates look only to the government for jobs, disdaining "blue-collar" forms of employment.

The educational system should itself help to generate a more useful attitude toward work. Secondary education can in part be oriented toward skills which can be usefully applied to traditional occupations, viz. agriculture and fishing, and toward the practical arts such as carpentry and mechanics. Such orientation need not be "vocational" in the narrow sense; but it can provide the subject-matter focus on which

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other more academic training is based. For example, agricultural training would involve a heavy dose of biology, plant ecology, etc. as well as more practical training in modern agricultural techniques suitable for the local environment. The object of such a program would be threefold:

a. To train students in proper techniques of farming and fishing and the reasons for the difference between these and more traditional methods.

b. To instill the notion that proper agricultural techniques are continually changing with new knowledge and new products and that modern agriculture requires extensive post-school professional reading.

c. To teach the "scientific" approach and to carry enough academic content so that those students close to graduation are sufficiently equipped to face a real occupational choice of going on in scientific-technical pursuits or returning to agriculture, trained to approach it a modern way and without shame. Such an orientation can minimize the post-graduation disillusionment which is bound to occur if government jobs are not available in sufficient quantity and if newly acquired standards of job acceptability preclude alternative forms of employment.

Developing favorable work attitudes is desirable on many grounds, but the educational program must still have enough academic content so that the brighter students can reasonably be encouraged to go on to college; there is likely to be adequate demand in the Trust Territory for qualified college graduates for some years to come, and in addition those who choose to do so will be well prepared to emigrate to the United States or elsewhere.

Labor Mobility

Over-all productivity can be improved by encouraging movement from low productivity to higher productivity forms of employment. Migration out of over-populated atolls into areas of urban employment is one way of accomplishing this. If manufacturing, even on a small scale, is to operate efficiently, the dispersed labor force of Micronesia must somehow be concentrated. Within districts the availability of jobs will itself attract labor from the outlying islands, and within some districts mobility is already high, facilitated by the customary and prolonged hospitality to even distant relatives who move in. Yap, and to some extent Ponape, represent exceptions since the out-islanders are not related to those living in the district centers.

Mobility between districts is much lower; only 39 Micronesians are reported to have moved from one district to another in fiscal year 1962. Some inter-district migration has taken place: a number of Trukese reside on Ponape (and more were brought in under the homestead program), and a Palauan community exists in Yap. People from the over-crowded Mortlocks in the Truk District have expressed a desire to move to highly-populated Tinian near Saipan in the Marianas but the Chamorros living on Tinian are reluctant to accept the move. Several dozen government employees work outside the district of their origin, largely in headquarters on Saipan. But on the whole the geographical horizon of most Micronesians is limited to the district in which they were raised;

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in many instances other districts are regarded as no less foreign than foreign countries.

Inter-district mobility should be increased, for several reasons. First, such mobility will help reduce the wide regional differences in population densities within Micronesia, thereby raising output and incomes. Second, it should provide labor where larger working forces are needed, as may be the case in the future in urban areas that develop processing industries, or in certain agricultural areas that develop large labor-using production. Third, it will help to break down traditional patterns of behavior which inhibit raising living standards -- patterns which many younger Micronesians now resent but are unable to avoid in their own districts. Finally, it will reduce the parochial attitudes now fostered within each district and will increase dependence on a common culture based around the English language and American ways.

One way of increasing mobility would be through a conscious policy of placing some qualified Micronesian government personnel as well as some secondary school boarding students outside their home districts. A valuable service performed by the Pacific Island Central School and by Xavier High School at Truk is to bring together intelligent Micronesians from all districts where the only common language is English and where students can learn about the rest of Micronesia through their informal contacts

with other students. With the expanding high school programs in each district, PICS will probably cease to be a Micronesian-wide school. Placing government employees in other districts will serve somewhat the same function, and will have the additional advantage of insulating those government employees from traditional obligations and responsibilities which might result in conflict of interest or, as discussed further in Chapter 5, inhibit personal savings.

International mobility, while greater than inter-district mobility, is also low except in the case of Saipanese in Guam. In fiscal year 1962, 100 Micronesians are reported as having emigrated from the Trust Territory; of these, 60 were Saipanese and 32 were Palauans. Half of the total went abroad in search of further education. It is in the long-run interests of the United States and of Micronesians seeking higher living standards that such emigration, particularly to Guam and the United States, be encouraged. It would increase personal contact between Micronesians and the United States and it would provide qualified Micronesians with much wider opportunities for education and employment. Guam alone, with large U.S. military installations there, provides many more employment opportunities than are presently available in the Trust Territory, and Micronesians are prized there as workers. In addition, Micronesians (especially Trukese men and women) have a reputation as providing excellent domestic help. At present the Trust Territory has an annual immigration quota into the United States (including Guam) of only 100, and this

limits emigration sharply. The mission feels that this quota should be greatly enlarged, and that a program should be set up to facilitate hiring Micronesians as domestic help in the U.S. If Congress is reluctant to permit increased emigration to the United States, at a minimum freer migration to Guam should be permitted and, indeed, aided. In addition an expanded scholarship program for higher education in the U.S. is recommended in the Mission's report on education.

Pay Scales

Raising productivity is not only necessary to raise living standards, but also to compensate for scheduled increases in government pay for Micronesians, designed to reduce or eliminate the remaining gap between government wage rates in Saipan and elsewhere in Micronesia and to reduce the difference between pay for Micronesians and U.S. citizens in identical jobs. Still further increases in Micronesian pay are likely in the next few years. The discrepancy between Micronesian and U.S. salary scales for seemingly comparable jobs is a source of considerable resentment, and some attempt to mitigate this source of friction should be made. The Council of Micronesia has recommended that professional (C-Scale) pay for Micronesians be increased by more than 50 percent. As the opportunity and interest in emigrating to the United States increases, government wages for Micronesians will have to be raised enough to keep the desired number of qualified and capable Micronesians at home. The required professional

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wage scale is therefore linked to U.S. policy regarding emigration from the Trust Territory. In the Personnel section of Part III of this report, the Mission develops recommendations for both a new transitional "D-Scale" in the interim before the plebiscite and for the long-run objective in the post-plebiscite period.

Government pay increases, while raising some incomes directly and injecting more purchasing power into the economy, will also tend to raise the general wage level and make competition of Micronesian products in world trade more difficult, or it will perpetuate the favored position of government over other kinds of employment. While political and equity considerations require some upward adjustment in pay, corresponding efforts to raise productivity should be made. At present, financial incentives are often insufficient to encourage higher productivity. The government practice of paying time wages does not provide a financial incentive to greater effort. There is a striking contrast in the number of concrete blocks laid per day between those on time wages and those on piece wages, for example. The Mission recommends that, wherever practicable, the government contract out jobs on a payment-for-work-done basis, even when government supervisory personnel are involved. This could be done in many construction jobs, such as the building of schools, teachers' housing, and other public buildings.

Employment Effects of Proposed Program

As already emphasized in Chapter 1, the need for additional wage employment in Micronesia will grow as the large number of postwar babies enter the labor force, as education is improved, and as Micronesians are increasingly attracted to the goods and services money will buy. To provide adequate employment opportunities or to accomplish successful emigration will be a major task. In the near future, however, the large public works and educational construction program recommended by the Survey Mission will generate enough additional jobs -- and in a few instances more than enough -- to satisfy the near-term demand for them.

The precise impact of the program on Micronesian employment cannot be estimated in the absence of more precise estimates of total expenditures and of their timing. But Table 15 sets forth rough estimates of the local labor requirements, on the assumptions specified in the note to the table, for that part of the capital expenditure program which can be allocated by districts. As a practical matter the expenditures will not be spread evenly over the four years 1965-1968, but will probably rise toward the end of the period. Some disbursements will probably take place after 1968. Both prospects are consistent with future employment requirements.

Over-all labor requirements of the program can be satisfied, even when allowance is made for rising requirements over the period, except possibly in the Yap District. In Yap labor requirements may possibly exceed the need for jobs in the next five years, and in that event it would be desirable either to stretch out capital expenditures in these districts so that jobs will be provided over a longer period, or to import labor from Truk or Palau, where both population and the demand for jobs are greater. The employment requirements in the final column of Table 15 should be compared with the adult male population in each district shown in Table 5 (page 19).

The incomes generated by expenditures on the construction program will result in higher expenditures on imports and on local goods and services. Some of these expenditures will create additional local employment. For reasons discussed in Chapter 2, this "multiplier" effect will not be large -- every two additional persons working on public projects might create enough local demand for one additional job or a little more -- but it should also be borne in mind when programming public expenditures.

The four-year capital expenditure program will provide time during which employment opportunities in business-type operations can be developed, and with adequate programming four years should allow

Table 15

**Estimated Labor Requirements for Proposed Capital Expenditure
Program, by District, 1965-68**

	<u>Capital Expenditure*</u> (\$'000)	<u>Micronesian Payroll</u> (\$'000)	<u>Man-hours</u> ('000)	<u>Men Per Year**</u>
Marianas	2,050	717	1,792	224
Marshalls	6,250	2,187	5,467	683
Palau	3,700	1,295	3,237	405
Ponape	5,900	2,065	5,162	645
Truk	5,100	1,785	4,462	558
Yap	<u>3,700</u>	<u>1,295</u>	<u>3,237</u>	<u>405</u>
Total	26,700	9,344	23,357	2,920

* Excludes ships and other equipment.

** Assuming 2,000 working hours per year, and 4 full years.

Note: Total payroll is assumed to comprise half of capital costs, and Micronesian payroll is assumed to comprise 70 per cent of total payroll. The average hourly wage for Micronesians is assumed to be \$.40.

ample time. As the labor requirements for the capital expenditure program taper off after 1968, commercial operations (discussed in the next chapter) in agriculture, fishing, manufacturing, and services should be ready to absorb the released workers.

Chapter 4

PRODUCTION SECTORS:

AGRICULTURE, FISHING, MINING, AND MANUFACTURING

Agriculture

The economy of Micronesia is largely agricultural, and agricultural production takes place largely for local consumption. The crop composition varies somewhat from district to district, especially as between the high volcanic islands and the low coral islands, but virtually everywhere the coconut, taro, breadfruit, and pandanus are found, and the first three are the major food crops in Micronesia. Pandanus leaves are used for weaving, and the fruit is only a supplementary food. In general the most efficient agricultural techniques are not used. Land use -- plant selection, spacing of plants, and inter-cropping -- is poor, and virtually no fertilizer is used in the Trust Territory despite the great improvement in yields which would result. But outside of a few areas the land and the surrounding water produce enough to feed most island populations adequately most of the time, although there is frequently some malnutrition (due to lack of a balanced diet) and, especially in certain densely populated areas where the breadfruit is important, there is an annual cycle of feast and famine.

In many parts of the Trust Territory land is held communally -- an extended family, or clan, claims ownership -- but use rights are often

allocated to individual adult members of the family. Sometimes the use rights of an individual piece of land will remain with an individual throughout his life, reverting to the clan for reallocation on his death.

In other places the land is reallocated more frequently, so a person does not use a particular piece of land for an extended period. Land use rights often cover many small, widely scattered pieces of land, with the resulting loss of time in moving from one to another. These land practices are not conducive to individual investment in land, and they probably reduce agricultural productivity. Some individual homesteading of land has been done in Ponape, Palau, and the Marianas, but it is too early to test the success of the program. The homestead program provides little other than land and certain specifications regarding planting; however, there is insufficient technical guidance and none of the financial aid which is required to get homesteaders into efficient agricultural production. Moreover, no account is taken of land quality in the homestead program, so productive land varies widely among homesteads. Finally, some land is under lease from the government. Since in many cases the future status of these leases is uncertain, Micronesians holding the leases do not know whether they will be allowed to take title to the land, whether the leases will be affirmed and continued, or whether they will be moved off the land. This problem seems especially acute in Ponape.

The main market crops in Micronesia are the coconut (in the form of copra), fruits and vegetables (especially from the Marianas), and, increasingly, cacao. In addition, produce such as taro and sweet potatoes are sold locally in the district centers, and some beef cattle are slaughtered and sold in Saipan.

Economic progress in agriculture can be divided into the development of new commercial crops and the improvement in production and marketing of existing crops. There has been too much attention paid in the Trust Territory to new crops and not enough to the commercial development of existing crops. Cacao, pepper, and ramie have all been introduced and passed through a period of experimentation to the point at which some small amount of output is now being marketed. Other products, such as coffee, tobacco, and various fruits and nuts are still in the stage of experimentation. While it would be desirable to find products which will do well in Micronesia and for which there is a substantial world market, it is doubtful whether the administration of the Territory is equipped to do this kind of work efficiently and whether the Micronesian farmers have yet reached the stage of agricultural sophistication where they can take on new crops and make them a commercial success.

It is not sufficient that a product grow well in Micronesia to warrant the expenditure of substantial resources toward its development; it must also be profitable to grow it. More critical attention should be

paid to the economic prospects of new products in the area; most such products must compete for land and labor with the coconut and other products which are known to be marketable at a profit. Considering the substantial technical assistance and persuasion required to introduce a new crop among uneducated farmers, the pay-off to such a crop must be high relative to improvements in crops which they know in order to warrant devoting resources to the new crop. There is a tendency to hope that there is agricultural gold or oil around, and it is just a question of finding the right product. The Trust Territory is not staffed to do the kind of agricultural and market research required to develop new products successfully. Recommendations in the Mission's report on agriculture suggest transferring agricultural research to a university or research institution interested in tropical agriculture. The Programming and Development Contractor, discussed later in this section, would include qualified personnel in agricultural economics. When a new agricultural product does look profitable on a commercial basis it might be established as a direct government venture to be transferred to private enterprise (e.g. a farmers' cooperative) once it was well established.

Several undeveloped possibilities for marketing products which are known to do well in the Trust Territory seem to exist. For example, the market for produce and meat is very large compared with production in the Trust Territory. There are 11,000 U.S. Navy personnel and 8,200

Air Force personnel on Guam, in addition to 50,000 other residents. The Navy alone provides a large relatively unexploited market. Demand for meat and produce on Kwajalein is also substantial, and can be expected to grow rapidly in the next few years. Tables 16 and 17 indicate roughly the size of these markets. In addition, there is substantial unsatisfied demand for fish and produce in several of the district centers within the Trust Territory.

These markets far exceed the potential output of Micronesia for some time to come. The principal obstacles to development of these markets revolve around quality control and reliability of supply. Produce quality must meet whatever U.S. legal standards are required and must meet the standards of uniformity which are available in purchases in the United States, or else compensate adequately with lower prices. Achieving high, uniform quality in commercial crops is not an easy job, and it will require close guidance by U.S. personnel until Micronesian businessmen or cooperatives can take over the job of policing agricultural sales and inducing the farmers to improve quality and reliability of production supply. The main obstacles to reliable supply, however, are the transportation system and the absence of adequate chill storage capacity. Shipping schedules are neither frequent nor regular enough to permit the development of continuing commercial relations. The Mission's report on transportation spells out recommended improvements in the system of surface

Table 16

Produce Consumption by the U.S. Navy

<u>Fruit or Vegetable</u>	<u>Guam Unit Price</u>	<u>Monthly Demand in Pounds</u>	
		<u>Guam</u>	<u>Pacific Missile Range, Kwajalein</u>
Papaya	.15	300	n.a.
Avocados	.23	500	800
Pineapples	.04	4,000	n.a.
Cucumbers	.07	5,000	1,500
Bananas		n.a.	2,500
Broccoli	.16	200	n.a.
Cabbage	.04	35,756	4,800
Cabbage, Red	.06	1,650	n.a.
Garlic	.41	1,032	200
Lemons	.13	11,891	2,000
Lettuce (leaf)	.12	29,180	9,000
Limes	.59	350	250
Onions, dry	.04	25,937	10,000
Onions, Yellow	.11	9,786	n.a.
Onions, White	.11	1,000	n.a.
Onions, Green	.14	2,520	1,200
Parsley	.16	444	100
Peppers	.13	3,920	1,600
Potatoes	.04	147,425	40,000
Potatoes 10# bag	.05	4,960	n.a.
Radishes	.11	2,760	400
Romanine	.08	4,560	1,000
Rutabagas	.06	340	n.a.
Turnips	.07	1,020	n.a.
Yams	.08	1,400	n.a.
Grapefruit	.11	7,322	2,100
Grapefruit, Pink	.11	1,020	n.a.
Honeydew Melon	.09	6,000	2,000
Nectarines	.21	2,000	n.a.
Oranges	.14	33,806	7,500
Orange, Temple	.14	3,000	n.a.
Orange, Val	.21	9,000	n.a.
Tangelos	.21	4,000	2,000
Watermelons	.05	25,000	8,000

n.a. - not available

Table 17

Meat and Poultry Consumption by the U.S. Navy

	Guam		Pacific Missile Range Kwajalein
	<u>Pounds Per Month</u>	<u>Unit Price</u>	
Beef	80,000	.36 - .39	33,000
Pork	27,000	.40	9,000
Ham (canned)	24,000	.45 - .65	7,500
Bacon	18,000	.39 - .45	3,000
Poultry	115,000	.27 - .34	15,000
Eggs	39,000*	.49 - .78	15,000*

* In dozens

and air transportation. It is sufficient to mention here that such improvements are essential if the Trust Territory is to capitalize on the existence of substantial potential markets for Micronesian agricultural products within Micronesia.

A separate part of the Mission's report treats in greater detail the land ecology in Micronesia, the possibilities for agricultural improvements, and the functioning of the Trust Territory's department of agriculture. The major recommendations of the agricultural report are brought together here, however, because of the central role which agriculture must play in the steady development of the Micronesian economy. More extensive discussion of these recommendations can be found in the agricultural report, where the agricultural program is considered district by district. Here the recommendations are grouped into three categories: (A) those which will produce results in the relatively near future, say by 1968; (B) those whose payoff will require a longer period of time; and (C) administrative changes.

(A) 1. An undetermined but large amount of copra, coconut, and other usable products is lost through rodent and pest damage. A rat control program should be undertaken at once in those areas where the limits on output are land rather than labor, and should be extended gradually to other areas. Programs to control or eliminate the Marianas beetle and harmful fruit flies should also be instituted. Finally, a more extensive

quarantine program should be inaugurated, especially at Kwajalein where hundreds of tons of food products enter Micronesia annually without inspection. Like human diseases, plant diseases and harmful insects can enter Micronesia and do tremendous damage.

2. Production of cacao beans is expected to rise sharply in the next few years, and enlarged fermentaries at Ponape and Truk are essential to prepare the beans for market.

3. The program for introducing carabao as beast of burden into Palau should be enlarged. Moreover, beasts of burden such as burros should be introduced into rugged high islands such as the northern Marianas and Ponape to haul copra.

4. Micronesians should be encouraged to use organic fertilizers. The tropical soils are poor and agricultural output could be increased substantially with the use of fertilizer. This will require some increase in agricultural extension work and some experimentation with the use of local products, particular marine life, as fertilizer. Effective use of imported chemical fertilizers should also be encouraged where the crop is sufficiently marketable to pay for the imports.

5. Local livestock and poultry should be improved with the introduction of pure strains, and livestock feed crops should be encouraged. At present swine and poultry are left entirely to scavenge

for themselves, with resulting inefficiency in meat and egg production. This too will require more extension work.

(B) 1. The present program for replanting coconuts should be continued for another four years, during which time an estimated 800,000 trees can be planted, primarily in Ponape and the Marshalls.

2. A program of afforestation should be started on most of the high islands. These islands once supported substantial stands of commercially valuable hardwoods, but uncontrolled cutting and other factors have reduced the forests to scrub and scattered individual trees. Afforestation is desirable for soil protection as well as to generate a local source of building materials for houses, boats, furniture, and so on.

3. On many low islands windbreaks to reduce salt spray are necessary before badly needed vegetables can be grown. A program for planting salt-resistant trees as windbreaks should be inaugurated, especially in the Marshall Islands.

4. New, disease-resistant varieties of citrus trees should be introduced where they will grow, with the ultimate objective of replacing the numerous citrus trees now plagued by citrus canker.

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5. Castor beans should be introduced on a pilot basis on the low coral islands to provide an alternative cash crop to copra. If successful, an extensive tree planting program could be undertaken.

6. The possibility of growing bananas in exportable quality and quantity should be explored in detail, and the feasibility of rice cultivation with a view toward reducing the more than \$500,000 annual imports of rice should be undertaken.

7. The Farm Institute (agricultural training program) should be expanded from its present capacity of 12 students to at least 50 students, with the understanding that it is an agricultural training school and not a school exclusively for training agricultural extension agents which will automatically lead to a government job for all graduates. In addition, a mechanism for disseminating information to agricultural extension agents and other interested parties should be established -- perhaps a monthly circular containing information useful to Micronesian agriculture.

(C) 1. The Department of Agriculture should be reorganized so the Director of Agriculture has direct authority over District Agriculturists and can coordinate the agricultural program in the entire Trust Territory. This is also in line with the Mission's recommendations in Part III regarding the administrative organization under the High Commissioner. Moreover, the District Agriculturists should be absolved of their present

responsibilities for cooperatives, credit unions, and other development efforts -- a Cooperatives Officer should take over those functions in each district -- and of their research responsibilities. Finally, new agricultural substations for propagation and agricultural extension work should be established in several of the districts.

2. Basic agricultural research should be placed in the hands of a qualified research organization. The College of Tropical Agriculture of the University of Hawaii has expressed through a letter from the President of the University a general interest in establishing a research facility in the Trust Territory under contract, and suggested a short-term contract to study the feasibility and recommend the location and scope of such a facility. This possibility should be pursued. In addition to a general arrangement bringing a research institution into the area, the Director of Agriculture should have a Specialist Fund for hiring agricultural specialists, including those at the research facility, on a short-term basis.

The total annual budget required to implement the recommended agricultural program is about \$800,000, of which \$515,000 is for personnel. This compares with a total agricultural budget of \$705,000 in fiscal 1964. The contingency fund of \$100,000 for hiring specialists is not included in this estimate. In addition, \$250,000 is recommended for a revolving loan fund to provide small loans to farmers, and \$60,000 is recommended

to establish a small pool of agricultural equipment for lease to farmers in the Marianas.

Several commercial-type agricultural operations seem to offer enough promise to warrant detailed exploration: a ramie plantation at Palau, a cattle ranch and slaughterhouse on Tinian, a large produce farm on Rota, etc. While agricultural, these operations would be commercial in intent and should be operated by the development contractor (see below) -- with the objective of transferring them to private hands as quickly as feasible -- rather than by the department of agriculture. These business operations are discussed further later in this chapter.

Fishing

While the marine resources in the Trust Territory have never been thoroughly surveyed, the presence of Japanese fishing ships in open water and the large inshore catches by Micronesians indicate an abundance of fish and other edible marine life. Despite this, there is a shortage of sea food in the area. The Trust Territory imports over \$200,000 in canned fish annually, and the demand for fresh lagoon fish in such "urban" areas as Ebeye, Majuro, and Moen (Truk) often goes unsatisfied.

Two types of fishing are possible in Micronesia, and each presents separate problems. The first is inshore fishing, generally within or just

outside the barrier reefs, by net, line, or spear gun. The second is off-shore fishing of pelagic species, notably tuna, from boats of 50 or more feet in length. Lagoon fish are desired fresh; but except in a few places fresh tuna is not liked.

There seems to be three bottlenecks to catching and marketing inshore fish in greater abundance: ice, chill storage capacity, and transportation to markets. These factors are not all lacking in all districts; in Majuro, for example, a reefer is being used to store canned goods because there is not enough fresh fish or produce to use it. But both in Ponape and Palau inshore fishing is periodically stopped because the modest limits of cold storage capacity are reached before the fish can be exported to other areas. Transportation from areas of excess supply -- Palau and sometimes Ponape -- to areas of excess demand -- Majuro, Kwajalein, Truk, and above all Guam -- is inadequate and irregular. Development of commercial inshore fishing could proceed much further if these obstacles were eliminated.

In Ponape and Palau fisherman's cooperatives have been organized as clearing houses for keeping production records, arranging for storage, marketing the fish, and paying the fishermen. These organizations still need further guidance, particularly with respect to record-keeping and general management, but on the whole they seem to be very promising.

When the cooperatives are capable of extending their operations they could be encouraged to provide other services to the fishermen, such as stocking fishing supplies and perhaps arranging for the care of small boats. Similar cooperatives might also be started in Truk and Majuro, where the local demand for fish would justify better organized systems for catching and marketing than now exists.

In addition to improvements in inshore fishing, there is some possibility of developing the modern industry of deep-sea fishing. World demand for edible pelagic fish is expected to double to 800,000 tons annually in the next decade, and a substantial part of this increase will apparently have to be supplied with the smaller and less desirable skipjack tuna, a species abundant in Micronesian waters. Successful skipjack tuna fishing depends on plentiful sources of live bait within the vicinity of the fishing zones, so many more fishing bases are required than for larger tuna, which can be caught with frozen bait. Parts of Micronesia are well suited to skipjack fishing, and it is known that live bait sources were sufficient to support a substantial Japanese tuna fleet in the area just before World War II. Unfortunately Micronesians today have neither the equipment nor the technical skill to undertake deep-sea fishing, although 28 Micronesians are now training in Hawaii.

The Van Camp Company has been given a contract to establish a tuna fishing base and freezing plant at Palau, where it will land and

freeze fish for shipment to canneries in American Samoa or the United States. The letting of this contract seems to have raised unrealistic expectations, especially in Palau, about the amount of employment and income which will be brought into the Trust Territory in the near future from tuna fishing. The Shore-side employment requirements of a freezing plant, once it is built, are not high; servicing the fishing boats could also generate some employment -- if the facilities and skills were there -- but again the resulting employment is unlikely to be great. In the absence of a cannery, the most important impact on employment would result from staffing the fishing boats with Micronesians. At present very few Micronesians are trained in the kind of fishing required, and the Van Camp contract fails to specify the number of Micronesians to be trained, although the clear understanding apparently exists that as rapidly as possible the Okinawan fishermen brought in to supply the fish will be replaced by Micronesians. The Mission was told, however, that fishermen's wages on the Okinawan boats which Van Camp plans to use are so low that Micronesians will probably not be willing to work on them in significant numbers and consequently will never replace the Okinawan fishermen. By contrast, Hawaiian tuna fishing techniques, using more expensive Hawaiian-type tuna boats, permit incomes which would attract Micronesians into tuna fishing.

A second defect of the contract is that it fails to specify any rule for determining the price which will be paid for landed fish. As a monopolistic buyer in Palau, Van Camp will be able to set the lowest price consistent with the volume of fish required. A greater flow of income into the Micronesian economy could have been assured by linking the buying price to some widely recognized world market price (e.g., the Tokyo price).

Finally, the contract's stipulation that the live bait resources shall be reserved for the people of Micronesia is inconsistent with Van Camp's present plans for establishing skipjack tuna fishing with Okinawan boats and crews.

It is now too late to re-write the entire contract, but the High Commissioner (subject to Defense Department veto) does control the entry into Trust Territory ports of Okinawan fishermen and of foreign freighters, as well as Japanese fishing vessels (from whom Van Camp is interested in buying the larger size tuna). He should use this leverage to assure that the long-run interests of Micronesia are served by training Micronesians to fish and by conserving their sources of live bait. At a minimum, a "statement of objectives" should be agreed in writing between Van Camp and the Trust Territory government. Such a statement would stipulate that the tuna operation is to be for the mutual

benefit of Van Camp and the Micronesian people and to that end Van Camp will purchase equipment and use fishing techniques suitable for the speedy employment of Micronesians. Such an agreement would provide a rationale for punitive action if Van Camp seemed to be relying indefinitely on Japanese and Okinawan boats and fishermen for its skipjack. In addition to such a statement of objectives, it would be highly desirable to get a firm agreement from Van Camp on the rate at which Micronesians are to be trained as skipjack fishermen.

It should be recognized that a commercial fishing operation requires large volume if it is to be successful. No operation, particularly one which relies on training Micronesian crews, will generate substantial volume rapidly. It is commercially advantageous, and possibly essential, to use the excess freezing capacity while catches of skipjack are still small to freeze yellow-fin tuna caught in the area by Japanese fishermen. Van Camp's request to permit Japanese tuna boats to land their catches is not unreasonable. To permit Japanese boats to land without bringing into play Article 8 of the Trusteeship Agreement, requiring that equal treatment be given to all UN members beyond the administering power, a contractual arrangement between Van Camp and certain Japanese fishermen could be worked out and only specified boats would be permitted to land their fish.

Additional employment could be generated by establishing a factory in Palau to can tuna. The Mission has been told that the main obstacle to opening such a fish cannery is the 45 percent U.S. duty on fish prepared in oil. As a general recommendation, the Mission favors a change in U.S. tariff laws to permit products with 50 percent or more of the value added in the Trust Territory to enter the United States duty-free, and the extension to the Trust Territory of the same legislation covering the landing of fish in Guam and American Samoa. Such a change would facilitate greatly development of Micronesia's marine resources in a way which would provide maximum benefit for the Micronesians. The Mission is aware that there is domestic resistance from Pacific Coast fishermen on this point, but in addition to other considerations, the greater the economic development of the Trust Territory, the smaller the financial burden on the United States. Certainly it would be most discriminatory to maintain this situation if this area were to become a U.S. territory.

Large scale commercial offshore fishing should be encouraged in other areas of Micronesia. There are three ways this might be done:

- a. The Fisheries Project could buy or build fishing boats and hire Japanese or Okinawans to train the Micronesians in offshore fishing techniques.

- b. Along the lines of the Van Camp contract, a private firm would be invited to build facilities to service the catch of its own fleet manned by Okinawans, but with stipulated responsibilities for training Micronesians and phasing out the Okinawans.
- c. Main emphasis could be placed on dockside employment for processing fish landed by selected foreign fishermen over the indefinite future. This would result in some employment benefit (e.g., at Truk) from long-line and other types of fishing which the Micronesians are not likely to be able to do successfully in the near future.

These three possibilities are not mutually exclusive and could to some extent be combined, using different approaches in different districts or sharing dockside facilities in the same district. All should be considered in planning the commercial development of Micronesia's marine resources, a development which will require such "infra-structure" as wharves, fresh water lines and dredging and marking channels. Only the higher priority of these kinds of public works that also have important general use are included in the Mission's recommended capital investment program through Fiscal Year 1968. It is envisioned that the Programming and Development Unit would bear in mind additional infra-structure needs and, where appropriate, would provide loan capital for ice-making and cold storage capacity.

Given the potential importance of fishing in the Micronesian economy, the Mission feels that the Trust Territory's Fisheries Project should receive greater budgetary support than it is now getting. In fiscal year 1964 the final budget request for fisheries was \$52,000 (plus \$15,000 for boat-building), compared with over \$700,000 for agriculture. This budget covers the operation of a fisherman's school, support to local fishermen's and boat building cooperatives, and the main job of fisheries research and market development. The Fisheries Project has requested a budget of \$140,000 for fiscal year 1965, a budget which provides for additional U.S. personnel and equipment, and which also provides for opening a second Fisheries Station, at Truk. The Mission feels that a budget increase of this magnitude is justified, although it would place fisheries research outside the Fisheries Project, as discussed below. Fisheries Stations outside of Palau would lay the basis for larger scale and more efficient inshore fishing in other districts.

Detailed fisheries research is not a responsibility which should be placed on the Fisheries Project. It lacks qualified staff and its other responsibilities are too numerous and too important to be diluted by the requirements of a major research effort. Yet systematic research is required in Micronesia if sound conservation practices and optimum exploitation of the marine resources are to be achieved. The Mission recommends that some qualified research organization be invited into

the area to establish a station for the use of scholars and graduate students pursuing marine research. If the Trust Territory wished specific studies to be performed, it could then contract for them using the facilities of the research station. Tentative approaches to the Marine Laboratory of the University of Hawaii (which already has a small facility on Eniwetok) suggested that a mutually satisfactory arrangement could be worked out for the study of inshore marine resources. The Mission was told that the U.S. Bureau of Commercial Fisheries, based in Hawaii, was best equipped to study offshore pelagic fish, so the Trust Territory government should discuss with the Bureau the possibility of extending its research into Micronesian waters. In addition, the Scripps Oceanographic Institute has indicated it would be interested in working with the Bureau of Commercial Fisheries if it were to undertake the job.

Mining

The mineral resources of Micronesia are meager, but two mining operations existed before the Second World War in the Palau District: phosphate on Angaur and bauxite on Babelthup. The phosphate is of good quality and is a fertilizing mineral badly needed in the Pacific area. Mining was continued after the war (resulting in large export receipts in the early fifties), but was halted in deference to the people of Angaur, since stripping the overburden off the phosphate eliminated the arable land. If in future the people of Angaur decide to move to the

relatively unpopulated island of Babelthuap, consideration should be given to resuming the phosphate mining operations.

The bauxite on Babelthuap is of low but apparently usable quality under certain conditions. Given its low quality, it is too far from U.S. mills to be of interest to them at present; but several Japanese firms familiar with the area have expressed interest in re-opening the bauxite mines. One of these, Yawata, proposed a combined operation with Kaiser Aluminum, but there seems to be little interest on their part now that their representative visited the area. The Mission has nothing to contribute in this matter, except to suggest that any serious proposal for resuming bauxite mining be examined, in the light of recent changes with respect to U.S. security requirements in the area, with an open mind for its impact on Micronesian employment and incomes, and that the Trust Territory government be aided in any contract negotiations by qualified persons.

Light manufacturing

The possibilities for developing competitive manufacturing industries in Micronesia are distinctly limited, and that fact should be recognized at the outset. There are just too many disadvantages for substantial industrial production: paucity of raw materials, great distance from large markets, small local markets, and a small, poorly

trained, and generally undisciplined labor force unwilling to work at wages as low as those in many other underdeveloped countries.

Despite these substantial disadvantages, there do seem to be several possibilities for developing small scale industry to produce some of the goods which are now imported, and even for developing exports to a limited degree. The Trust Territory needs some method for systematic evaluation, through feasibility studies, of those possible ventures which look as though they have commercial promise; and it further needs to be able to play an active role in organizing and financing the ventures which seem worthwhile. Very little manufacturing is likely to develop spontaneously in the Trust Territory. Initiative, technical guidance, capital, and management all may have to be supplied at least in part by the government. The Trust Territory government is not presently equipped to provide all these missing ingredients from an economic development program, and the Mission feels that resources and time would be largely wasted in attempting to so equip it. Of critical importance in the development effort which the Mission has in mind is a practical, business orientation toward possible commercial ventures.

The Mission recommends, therefore, that a firm from the U.S. private sector with suitable experience and expertise be contracted to perform two broad sets of functions on an advisory basis: (A) acting as an over-all programming office to assist the High Commissioner in

drawing up budget priorities; and (B) promoting the economic development of the Trust Territory. This Programming and Development Contractor would have the following responsibilities:

A. Programming function:

1. To program and coordinate budget priorities for all capital expenditures by the Trust Territory and for those current expenditures which bear on the economic development of the area, such as agricultural extension work, vocational training, and the like;
2. Assist the High Commissioner in the technical problem of coordinating the remaining budget components.

B. Development function:

1. To provide technical and managerial assistance to Micronesian businessmen who seek it and to interest businessmen in undertaking ventures within their competence;
2. To help finance private ventures through loans from a Development Fund (described below) or through guarantees on private loans;
3. To undertake direct ventures, both agricultural and industrial, which seem commercially promising but are unsuitable for Micronesian businessmen to manage at the time.

The Programming and Development Contractor would establish a compact organization within the Trust Territory government and its director would be responsible to the High Commissioner. Aside from its small permanent staff, the Contractor would bring in the requisite experts for such length of time as seemed necessary to launch a particular enterprise or to provide specific technical assistance. Its permanent organization would provide a highly qualified planning and programming staff to the High Commissioner, whose integrated expertise, experience, and businesslike organizational efficiency he could not easily achieve in Micronesia through the alternative of hiring individual programming personnel on a civil service basis. Certainly, at best, it could not be achieved rapidly enough to meet this top priority for the efficient execution of the capital investment program needed in the Trust Territory. It is envisioned that this contractual service would eventually give way to a comparably efficient governmental staff as the needed Micronesian expertise developed.

Hiring the Programming and Development Contractor would require negotiation with several of the qualified firms in the field of economic development and management. After preliminary discussions an interested firm would doubtlessly want to send a representative to Micronesia to ascertain the character and dimensions of the job and to establish the principles and coverage of the final contract. It is not possible to

specify in advance of such a survey precisely how much the contract would cost, but on the basis of its research the Mission believes that it should be in the neighborhood of around \$200,000 a year. Special technical assistance brought in for short periods of time would be financed separately, and management of direct ventures would be financed by each venture.

A Development Fund of \$5 million should be established to supply capital, under the technical direction of the Programming and Development Unit, but subject to control by a Board, to promising business enterprises in Micronesia when local capital is not available in sufficient quantity. Capital is only one of the missing ingredients for the economic development of Micronesia, and without the adequate technical and managerial guidance which the Programming and Development Unit can provide, capital is not likely to be used effectively. But without additional capital the economic progress of Micronesia will falter from the start. A fund of \$5 million should be adequate, when supplemented with local capital and private American capital, to launch those agricultural and industrial ventures which show commercial promise.

The Development Fund would supply loan capital to qualified local businessmen or farmers, would supply equity capital in joint ventures with Micronesians or with U.S. businessmen investing in Micronesia, and would finance direct ventures staffed by the Programming and Development Contractor and run on a commercial basis. Overhead expenses in administering

the Fund should be covered in the Contractor's fee, which would be part of the Trust Territory government's annual operating budget.

The Fund should plan to sell any equity interest (or convert it to fixed debt instruments) as rapidly as qualified Micronesians or joint U.S.-Micronesian groups are able to take over a business venture. Some ventures might best be reorganized as producers' cooperatives, while others would more appropriately require individual business management or a corporate structure.

Consideration should be given to permitting the Fund to borrow additional capital in its own name from the Angaur and Saipan Trust Funds, from the banks established in the Trust Territory, or even from the public in the Trust Territory, Guam, and the United States. This possible privilege would permit local banks and savers to purchase good securities without worrying about the outlook for any particular enterprise, and foreigners could invest in the area indirectly through the Fund.

Day-to-day management of the Fund would be the responsibility of the Programming and Development Contractor, which would be responsible to a board of directors on which the High Commissioner and the Council of Micronesia would also be represented. A liaison with the Guam Development Commission (possibly through the use of the same Contractor by Guam) should also be established for greater economic coordination between Guam and the Trust Territory.

The recommendation to bring in an outside contractor is no reflection on the present staff, which does not have, and cannot be expected to have, the degree and diversity of expertise required for systematic economic development of the area. Launching a development program requires complex teamwork among a number of qualified individuals, plus the ability to draw quickly on skills which are needed for a short period of time. A number of firms have built up knowledge and experience in dealing with the problems of underdeveloped countries, and this knowledge and experience should be brought to the Trust Territory.

The Mission does not wish to impose limits on the income- and employment-generating projects which the Programming and Development Contractor should explore. However, the following list of ventures represents its judgment of the more promising projects for promoting the economic development of Micronesia.

Coconut Oil and Soap. Copra, the raw material for coconut oil, is the most important produce of Micronesia. About 13,000 tons of copra are produced annually, half of which comes from the Marshall Islands. Improved copra storage and more regular collection in the outlying islands alone could apparently raise copra production in the different districts by amounts ranging up to 40 percent, while thinning out old trees and replanting could, in time, raise output even further. Today the dried copra is shipped to Japan for processing into coconut oil and cake

and thence into further fabrication. Some employment could be created in Micronesia by doing some oil extraction and further processing there. Coconut oil is an expensive vegetable oil and is used in fine soaps, shampoos and detergents; ordinary soaps and detergents are now imported into the Trust Territory in amounts exceeding \$50,000 per year. Odorless coconut oil can also be used as a cooking oil, which is also imported in some quantity. Coconut cake, the residue after the oil has been extracted, can be used as fertilizer and as a livestock feed, both badly needed in the Trust Territory. Of less importance is the fact that a high-protein baking flour can be made with still further processing.

Oil extraction can be done in large or small volume, although the larger scale operations are substantially more efficient. A simple oil extractor with a capacity of about one ton of copra a day, yielding roughly 1200 pounds of oil, can be purchased for about \$1500 in Japan. A more efficient oil mill with a daily capacity of about 70 tons of copra can be erected for around \$400,000 on one estimate. Working capital requirements would make this 70-ton mill somewhat more than a million dollar investment. It would require much water to operate, and the logical location of Majuro would be ruled out unless additional water could be collected. However, making the airfield into a water catchment, as recommended elsewhere in this report, would produce water far in excess of a

mill's requirements and would meet Majuro's general water needs.

A relatively new oil extracting process, now being tested in the Philippines, requires virtually no water, and this should be studied as an alternative by the Programming and Development Unit.

One large mill could provide whatever oil and cake were required for the local market and the rest could be exported to the United States, where the imports of coconut oil run 75 - 100,000 tons annually, mostly from the Philippines. (Japan, which now imports copra from the Trust Territory, has a prohibitive duty on oil imports.) If necessary, shipping rates within the Trust Territory -- which now favor the shipment of copra -- could be adjusted to give greater preference to oil and cake.

The process of extracting oil would put \$5-10 a ton into the Micronesian economy for wages and other services. In addition, some oil and coconut cake could be processed further -- oil into soaps and cake into livestock feed. An average hog or steer can consume 1/2 - 3/4 tons of coconut cake annually, so a 10,000 head herd of cattle on Tinian (see the Mission's report on agricultural **programs**) alone could absorb up to 7,000 tons of cake a year, just about the production of a mill with a daily capacity of 70 tons of copra. Coconut cake alone can make up 40 percent of a hog's diet, so swine herds could be built up to the availability of the coconut cake if other feed (for example ground fish) were also available.

There is now one soap manufacturer in Palau. He manufactures soap for the local market, retailed through his own store, for about three days every two months, employing six men in the process. He also exports some soap to Ponape and has produced some for the Trust Territory government, although wrapping before thorough drying resulted in a 75 percent rejection rate on a large order. The soap lathers and washes well but retains a lingering odor of coconut which could be eliminated by the proper cooking of the extracted oil. The soap could also be perfumed, for example with ylang-ylang blossoms, found in abundance both in Palau and on Ponape. Crudely cut soap can be produced to compete with the greatly inferior brown laundry soap now widely used in the Trust Territory. The main obstacle to larger sales is consumer buying habits, but at Ponape a gradual substitution of the Micronesian soap for the brown laundry soap is reported to be taking place. To compete with the wrapped toilet soaps, considerable technical help on hardening, flavoring, and packaging is required. The costs of competing in this market do not look prohibitive, but consumer buying resistance might require a territorial tariff during the first few years to help get the soap accepted.

Other coconut products. In addition to oil and coconut cake, the coconut provides a shell which can be made into buttons or charcoal and a husk which yields coir fiber and fiber dust. The fiber can be made

into yarn, rope, upholstery material, or miscellaneous household items such as brushes. Coir fiber dust can be made into a variety of building materials, presently in short supply locally and expensive to import, such as fiber board for interior walls and insulation. Each of these offers some possibility for manufacturing, though largely for the Micronesian market. Some pilot project work with coir fiber is shortly to begin in Truk.

Lumber and woodworking. Lumber is another building material available in a few parts of Micronesia. Sawmills exist on Kusaie and Palau, where good timber is available but only in scattered stands. Sawing lumber is a haphazard affair on Kusaie, but in Palau mills operate quite regularly when construction is going on. Fine timber also is found on Ponape but it is so inaccessible that it is not now economical to fell. The new road system that the Mission is recommending in Ponape, primarily for other reasons, would open up some exploitable timber areas.

There is an urgent need and, to some extent, a money-backed demand for reasonably priced building materials in Micronesia, for much of the housing is recognized to be in need of renovation. Even where cement is largely used, there will also be a demand for lumber from the continuing government construction program of schools, teachers' housing and other public building. Local mills could, with proper organization and capital, profit from this demand. Kusaie faces the

difficulty of transporting lumber to the areas of high potential demand such as Ebeye and Majuro, and irregularity in transportation is reflected in irregularity in lumber production. All sawmills face a severe shortage of working capital, as well as some essential equipment in certain mills, so they are unable to cut to stock standard sizes and allow the lumber to cure for the appropriate length of time.

Micronesia lacks extensive stands of good timber, but at present cutting rates the timber supply is adequate. Local sawmills should be assisted in modernizing, however, and should be encouraged to supply local private and government demand. Any sharp increase in demand will require a more extensive source of timber, and until the forest planting program recommended by the Mission can supply it either the Philippines or New Guinea timbers could be used. At present, Philippine lumber must be transhipped twice before landing in Palau, and is thus uneconomic, but the recommended improvements in surface transportation should permit occasional trips to the Philippines for stripped logs or crude cut lumber to be reduced and milled in Palau.

The Palauan Woodworkers and Handicraft Guild obtained a modest order for furniture to supply some of the new schools. While the final returns are not yet in, the venture looks very promising. More such orders (which can result in considerable savings for the government)

should be directed toward such indigenous factories, and they should be aided in developing a local market for their products. Relatively little technical assistance in design is needed for supplying these government contracts but working capital aid is essential.

Food processing. Micronesia imports large quantities of canned and packaged foods. Some of these foods compete closely with products which can be produced within the Trust Territory, such as fish and pineapple; and others, such as gelatins, ice cream, non-carbonated soft drinks, etc., are made from simple raw materials which could be imported and processed for the local market.

Much simple food processing, however, relies on canning; many fruitful lines might open if there were a cannery in the Trust Territory. Palau, with a relatively able labor force seeking employment and an agricultural hinterland in Babelthup, would provide a good location for a cannery operation, which could be operated as a direct venture and could also be leased to small private enterprises arranging their own supplies of materials. Many products could be canned for the local market: fish and other marine life, kamaboko, fruits such as pineapple, and fruit juices, jellies or jams from the guava, acerola cherry, passion fruit, custard apple, and a host of others. The canning of soft drinks, now imported in large quantities, might also be possible (an alternative would be a bottling operation, using secondhand beer bottles). A few products, such as the caramel-like

coconut syrup used in ice cream, cake frosting, dehydrated banana flakes, exotic tropical jellies, etc., might even have a profitable export market. The cannery itself would provide urban employment, and growing the contents would provide additional agricultural employment yielding a cash income.

Bulk fertilizer, livestock feed, and feed bags.

In place of importing individually packaged and already mixed fertilizers and livestock feed, the bulk importation of the separate ingredients and their local mixing and bagging may be economic. Such an operation would have the further advantage of gradually replacing imported with local ingredients. Different variety fibers currently or previously cultivated in Micronesia, such as jute, kenaf, hemp, etc. would supply the raw material for a bag fabricating plant. The needs of the copra trade would supplement the fertilizer and livestock feed demand for these bags.

Boat-building is a manufacturing activity which has great appeal in an island economy extremely dependent on small and medium-sized boats. There are a few private boat-builders in various districts of the Trust Territory, but they do not begin to meet the demand for even small boats and rarely do locally-built boats exceed 30 feet in length. Most boats are imported from Japan. A boat-building cooperative has been established

in Palau, under the guidance of an experienced Hawaiian boat-builder, with the expectations of building boats up to 90 feet in length. Unfortunately, there are no orders for boats of that length and there are not likely to be any unless they come from the Trust Territory government. In order to begin operations -- to buy tools and stock building materials -- the cooperative would have to go very heavily into debt on the basis of a very uncertain expectation for orders. The cooperative form of organization seems peculiarly unsuited in Micronesia to an operation like boat-building, which requires careful coordination and management of many diverse activities. The Mission recognizes the useful role which successful boat-building and, even more, boat maintenance and repairs can play in Micronesia -- particularly once a tuna boat fleet is based in the area. But the operation should not begin with the very heavy ratio of debt to equity which the cooperative now has; the government should consider reclaiming the boat shed which has been built, cancelling the loan for it, and leasing it at nominal rates for boat-building and boat maintenance and repair. If a boat-building enterprise seems viable in the long run (and it will be difficult to tell until Van Camp's plans clarify), then perhaps the Palau boat-building association should be run as a government training program, and partially funded as such, until there is a regular order for larger boats and the Palauans can build them economically.

Small boat-building should be encouraged elsewhere in the Trust Territory. The Mission's proposal to equip each lagoon in the Marshalls with 21-foot boats provides a fine opportunity for encouraging local enterprise through selective contracts.

Other manufacturing ventures. There are numerous other possibilities for light manufacturing which deserve further exploration: brick-making in Palau and Yap where the U.S. Geological Report indicates that appropriate clays exist; slaughtering, tanning, making fertilizer and other meat-related industries in the Marianas; crocodile hunting and crocodile farms in Palau; tapioca starch and garment manufacturing in several of the districts; inexpensive perfume using local blossoms, and so on. Handicraft, now well established in some of the districts, does not seem, to the Mission, contrary to general thinking, to be an area to which further resources can be profitably devoted; the market has become world-wide, and Micronesian designs, workmanship, and costs are not likely to provide the basis for successful competition with handicraft from other parts of the world. The poor commercial prospects for a Micronesian handicraft industry were indicated by the failures under Navy administration of the Trust Territory. Rising sales to the Micronesian Products Center on Guam should be assessed in light of the Center's large unsold inventories and its continued purchases on a consignment basis.

Other ventures: Agricultural. A number of agricultural ventures might be commercially successful under good management and a carefully supervised labor force which would not be successful if left to individual Micronesian farmers. In such circumstances, organized plantations might be introduced -- particularly when a new product or novel production techniques (e.g., extensive use of fertilizer) are required. Such plantations would be under government management until the private sector was ready to operate them successfully, but they would be run as businesses and would hire labor on the basis of work actually done rather than on fixed salaries or hourly wages. The following ventures appear to be among the more promising for this type of operation in Micronesia: cattle raising, vegetable and other produce, and ramie fiber. These are dealt with in more detail in the section of this report dealing with governmental agricultural programs.

Other ventures: Tourism. A potential source of income for Micronesia not now fully utilized is tourism. Micronesia is too far from the United States and too much off the beaten track to attract many tourists directly from the United States in the foreseeable future. Foreign tourists from Asia would pose a number of problems which are best avoided in the pre-plebiscite period. Guam, however, has a population of 70,000 including over 20,000 military personnel and their

dependents. Another 3000-4000 Americans live on Kwajalein. Both groups have a rapid turnover, and for both groups there are potential tourist attractions in certain parts of Micronesia. From Guam the most obvious tourist centers would be Saipan, Yap, and Palau, of which Palau would probably be the most popular. For the people on Kwajalein Atoll, the high island of Ponape with its luxuriant vegetation could offer an interesting break to living on a low coral island. In the short run there would be political disadvantages as well as advantages from these increased American tourist contacts with Micronesians, but the Mission believes the net effect would definitely be favorable.

Some tourism already exists; there are irregular but frequent flights to Saipan from Anderson Air Force Base on Guam; people from Kwajalein visit Ponape and even Majuro in small numbers. But development of a sizeable tourist business is impeded by inadequate and unreliable transportation (except to Saipan) and limited hotel space and eating facilities. Once these bottlenecks are broken, tourists would come in considerable numbers if there were enough diversions to keep them happily busy. Completion of the land airstrip at Palau and construction of one at Ponape, along with commensurate improvements in air transportation, should provide adequate travel facilities. The military have voiced the possibility of running special flights if accommodations were available.

Constructing tourist hotels and restaurants requires a substantial amount of capital. In the initial stages it would be appropriate for the Trust Territory to attempt to achieve rather "rustic" accommodations, however, and this would require less capital. In Palau, additional accommodations could be made available simply by expanding the existing hotel at no great expense; and modest hotel facilities already exist on Saipan. New accommodations would have to be constructed before Ponape or Yap could absorb any more than a handful of tourists.

In addition to better accommodations, various service facilities would have to be made available -- car and boat transportation around the islands, diving equipment, water skiing, evening entertainment, etc. After a thriving tourist industry was established, these subsidiary businesses could perhaps be relied upon to develop entirely with local initiative and with local financing; but in the formative stages of the industry, considerable guidance and some capital for getting things established would be required. Yet once transportation is adequate this may be one of the most promising avenues for raising incomes in some districts. One estimate we have seen places the capital cost of adequate tourist facilities in Palau at only \$71,000 -- a very modest investment considering that every tourist generates one and a half jobs, according to the admittedly dissimilar Puerto Rican experience with tourism.

Other Ventures: Construction. In Palau and Saipan there are already a number of local contractors who build houses and stores locally. At Koror we were told that the four regular contractors build 40 to 50 new houses a year. A source of considerable discontent in Palau is the government's failure to invite local contractors to tender bids for building teachers' housing under the accelerated school program, and the Palauan contractors claim they could have done a satisfactory job of building housing in Palau at a substantially lower price than the housing will cost under the outside contract. The Mission feels that for political as well as economic reasons, greater attention should be paid to the possibility of using local contractors when simpler construction is required -- whether it be schools, teachers' housing, public housing or other public building. Invariably some mistakes will be made and more sophisticated tasks will require contracting with U.S. firms (who should be encouraged to subcontract to local contractors). But construction, with its relatively high labor content, is a useful area for encouraging local entrepreneurship. And if done by contractors rather than the public works department, the building can be done on a unit payment-for-work-done basis. There has been sufficient experience in private housing ventures in Metalanum (Ponape) and Palau to indicate that this method of payment can help raise productivity above levels achieved when workers are paid on an hourly basis.

Preferred Treatment for Micronesian Enterprise. Micronesian

business, particularly manufactures, may fail without some temporary protection from outside competition from the United States, Japan, and elsewhere. Such protection could be provided through import tariffs, through favorable freight rates for internal trade and unfavorable rates for competing imports, and, in the case of government orders, through price differentials favoring local work. The purpose of protection should not be to shelter local business indefinitely, for that would foster inefficiency in production at the expense of the consuming public. Rather it should simply provide enough preference to local goods and services to overcome the inertia of human buying habits -- the public has gotten used to imported soaps, cooking oils, and canned fish, for example -- and to give local business a breathing space during which it learns the techniques of efficient production and quality control. The Mission recommends that territory-wide duties be placed on imports of goods which look as though they can be produced and marketed successfully in the Trust Territory. However, it is premature in Micronesia to rely solely on profit incentives -- such as would be created by a protective duty -- to generate local production. Protective duties should be imposed only after an evaluation of production and marketing prospects has been made and after the production and marketing facilities have been set up. Moreover, these duties should generally not exceed 50 percent (the need for greater

protection, except in unusual circumstances, would cast doubt on the long-run viability of the venture), and they should decline to the level of revenue duties over a period of five years.

In addition to making a special effort to use the services of local contractors when there is construction work to be done, the Trust Territory government should rely on local production where, as in the case of school furniture and soap, local production can be made available. Reliance should be placed on local sources of supply even when the price is slightly (say 10 percent) higher -- some of the earnings will be recouped in taxes -- or where some sacrifice in quality is required, at least during an initial learning period. Such forms of protection must be provided selectively; and instituting a protective arrangement must be followed up by technical consultations with the producers or contractors to be sure that they are taking the opportunity to learn better techniques and improve quality during the period of protection. It should be recognized that proper protection will generate useful technical and managerial skills among Micronesians, and to the extent that these skills facilitate general economic activity in the Trust Territory, the future grants by the U.S. congress can be reduced.

Other Forms of Assistance to Business. Economic development cannot proceed very far without government help in still other areas -- transportation, power and water. An adequate and reliable transportation system is critical for bringing the distant parts of Micronesia together

commercially. Without transportation, markets will remain too small for most efficient production. To develop markets on Guam and Kwajalein, and tourism on Ponape, Palau and Saipan, requires reliable personnel transportation. A separate part of the Mission's report recommends substantial improvements in both surface and air transportation.

In addition, extension of power and water facilities at moderate rates is one of the most useful forms of economic development assistance, quite apart from the additional social advantages of a proper utilities system. Electric power will be required in "urban" centers to run power tools, freezers, cold storage, and ice-making machines. Water is needed for ice and for some types of manufacturing. The fact that over-all programming and administration of the Development Fund are both to be done by the Programming and Development Contractor should ensure that programming for utility extension will take into account potential industrial needs as well as other needs.

The recently formulated more liberal policy toward temporary residence of foreigners in Micronesia must ultimately be well publicized in the Mission's judgement if it is to have any impact on the economic development of the Trust Territory. The Mission was apprised of a number of instances in which Micronesians were prepared to seek technical advice or assistance directly -- mostly from the private sector of Japan -- but were hindered from doing so by the security

requirements for the Trust Territory. However, as of July 1, 1963, the High Commissioner has the authority to permit any foreigner to reside in the Trust Territory or any foreign ship to land in a Trust Territory port, subject only to the absence of objection from the U.S. Navy within a reasonable period of time after application. The Mission feels that in the period before the plebiscite there are both political and economic advantages in using this authority but not to the point of admitting large numbers of foreigners. After a resolution of the political future of the Trust Territory, however, the new policy should be well publicized.

Similarly, United States capital should be encouraged into the area under general restrictions designed to protect Micronesia from exploitation and abuse, rather than under the detailed evaluation of proposals which now exist. It will be clear from the preceding discussion that profitable business opportunities are not so numerous in Micronesia that foreign capital would flood into the area if the present restrictions were relaxed. The government is not always better able to judge the economic viability of a business venture than the willing businessman-investor. At the same time, some limits should be placed on the ability of Americans to invest in the area, particularly in view of the ambivalent feeling throughout Micronesia about foreign investment -- a recognition that it is desirable for economic progress combined with a fear that the Micronesians will be displaced and shoved aside much as the Hawaiians were

in Hawaii. To protect Micronesian interests while also permitting capital to come in more easily, the Mission recommends the promulgation of an Investment Code governing all foreign investment in the area. The Code would stipulate that a minimum of 50 percent of Micronesian equity be retained in any venture established in the Trust Territory, except in special cases where the High Commissioner could waive the requirement. Where the amount of required capital is too large to be raised from Micronesians, the Development Fund might participate in Joint ventures on behalf of Micronesians. This would also permit the technical and managerial expertise of the Programming and Development Contractor to become involved in any large investment in the area. The Code would include any other general provisions deemed desirable by the High Commissioner, and any American enterprise which adhered to the conditions of the Code could enter the area freely.

Chapter 5

COMMERCIAL AND FINANCIAL INSTITUTIONS

Commerce

The only substantial firms now in the Trust Territory are a dozen and a half trading companies which import, export, wholesale, and retail. Gross sales for the chartered companies, including the Ponape Cooperative and the Faichuk Cooperative, run around \$4.2 million a year including copra sales. Several large unchartered companies probably bring total gross sales in the Trust Territory to \$7-8 million. The large trading companies sell most of their goods through their own retail outlets. In addition to the major wholesale-importers, there are countless retail stores in the Trust Territory, many with inventories hardly greater than an enlarged kitchen larder. In some outlying islands they really operate on a barter basis, exchanging trade goods for copra and reselling the copra when the field ship visits.

Each district has at least one big importer-wholesaler, and most have two or more. The trading companies undertake a variety of activities outside trading -- boat rental or operation, movies, restaurant-bars, garages, and so on -- but with few exceptions they have not gone into manufacturing. A number of companies expressed relief at having gotten out of the intra-district shipping business, although several indicated that they would willingly go into the business on a contract basis with the government if financial arrangements were satisfactory.

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Several companies expressed a reluctance to expand either their existing operation or extend themselves into new lines because it might invite the charge of monopoly. Only in Ponape was the view expressed that the several trading companies may be "exploiting" their position, especially on field trips when people have little choice but to buy at the ship, whatever the price. This feeling, whatever its merits (and the Mission did not have the time to investigate the charge carefully), has given impetus to a local cooperative movement. Village cooperatives plan to buy copra for cash and to sell trade goods off their shelves, declaring a dividend at year-end if gross revenues exceed total costs.

Working capital requirements of the trading companies is very large by U.S. standards. Total trade-turnover is often as little as two, although three-to-four is more common. In addition to stocks on hand, goods in transit beyond the credit period of the foreign exporter also require working capital. And an unusual amount of business must be transacted by cablegram because mails from some of the districts cannot be relied upon to meet business deadlines. Improvement in transportation, both as to reliability and frequency, should reduce working capital requirements and transactions costs considerably. Thirty-day visits by logistic vessel would lower inventory requirements well below requirements with 45-day visits; but an even greater reduction in inventory requirements would be permitted by reducing

the uncertainties of ship arrivals. With greater regularity in shipping, trading companies could plan their inventory policies much more carefully, perhaps reducing total inventory requirements of around \$3 million by more than one-third. This would release for other uses over \$1 million in capital now tied up in inventories -- or would permit the stocking of badly-needed retail stores in the outlying islands.

A number of importers expressed dissatisfaction at having to order their goods through licensed dealers on Guam at what they considered excessive mark-ups and transshipment costs at Guam. The Mission found that transshipment costs excluding spoilage and pilferage (which is alleged to be high) range from one to four dollars a ton, resulting in total transshipment costs of \$40-50,000 a year, hardly enough to warrant building an extensive ocean port in the Trust Territory to avoid transshipment at Guam. Nonetheless, unsatisfactory commercial relations with Guam provide a point of friction between the Trust Territory and Guam which is undesirable from the viewpoint of U.S. political interests. Guam dealers should be encouraged to take more seriously their markets in the Trust Territory. In case of egregiously bad service official correspondence with the parent company might be undertaken with a view to changing the dealership. A joint Chamber of Commerce between Guam and Trust Territory businessmen, or some other form of social relationship, might serve to lessen any antagonism.

Marketing of the main export, copra, is done through chartered dealers -- one in each district except Truk, where there are two -- under the regulations and supervision of the Copra Stabilization Board. The Stabilization Board sets the grading standards, allowable shrinkage, and the prices which will be paid to the producers. These prices are the same in all district centers, and \$10 a ton less in the outlying islands -- the \$10 difference just covering transportation and handling costs to the District Center and allowing no profit on that phase of the operation. Profit is made by the licensed dealers by selling copra to the Stabilization Board at \$10 a ton more than the buying price at the district centers. It is on this price that the 15 percent Territorial processing tax on copra is levied, so the effective tax on the producer in the outlying islands is closer to 18 percent. The copra is shipped from the district centers to Japan on the logistic vessels of the Trust Territory and marketed there by a commercial agent, Atkins, Kroll and Company, at a fee which works out to about \$6 a ton at the present Japanese price of \$160 a ton.

The Copra Stabilization Board attempts to absorb week-to-week fluctuations in world market prices, so the price to the producer is

changed only infrequently. The CSB seems to be accepted as a desirable organization, although the copra producers fail to understand the secular fall in copra prices (until July 1963) since 1957. Still less understood, even among sophisticated Micronesians, is why a U.S. agent must be paid to market copra. There is no doubt that for a relatively small seller such as Micronesia, the contacts and experience of a professional commodity trader can be very helpful. The Mission recommends, however, that the arrangement with Atkins Kroll be reviewed to see whether the arrangement is beneficial to the extent of \$6 a ton, or a total of \$70-80,000 annually. It may be possible for the Copra Stabilization Board or residents of the Trust Territory to undertake this function, if necessary with the aid of expert advice in Japan hired on a consultant basis.

A principal deterrent to the development of a market economy in the outlying islands is the absence of ready buyers of copra and sellers of trade goods. Some retail stores have enough capital to support a small inventory, but generally the would-be copra producer has no place to buy trade goods except during visits of the field trip vessel. Some areas go without staple imports such as sugar for weeks or even months. One device for moving closer to a market economy would be the establishment of small producer-consumer cooperatives in the outlying copra-producing areas such as now exist in the British administered

Gilbert and Ellice Islands. The British cooperatives pay cash for copra and stock the staple trade goods. Until they are running well, such co-ops are under the supervision of a qualified Cooperatives Officer, who makes sure good weighing, grading and record-keeping practices are established. A producer can sell copra at any time of the working day, in amounts as small as one pound. Working capital requirements are met by loans from the reserves of the Copra Stabilization Board.

The Mission feels that a similar system should be introduced to the Trust Territory, where much copra is said to be lost for want of accessible collection depots where the natives can always sell copra for cash or trade goods. Cooperatives have been started in several of the districts, but they lack working capital and they lack adequate supervision. Moreover, discussion with Micronesians outside district centers revealed hardly a glimmering of what cooperatives are all about, except that they are alleged to result in more money to the producer. With such ignorance, mismanagement will soon overtake the cooperatives which are being established. The job of supervising cooperatives, and credit unions as well, now falls on the agriculturist in most districts -- a man who is generally overworked by his agricultural responsibilities alone. If cooperatives are to succeed -- and they seem well-suited for the type of economy which now exists in Micronesia -- they will need both supervision and capital. The Mission

therefore recommends that a Cooperatives Officer should be assigned to each district for the purpose of setting up and supervising cooperatives and credit unions. In this connection, the Cooperative League of the USA should be contacted; it has done useful work in underdeveloped areas for the Agency for International Development. AID is also associated with the International Cooperative Training Center, which offers a 16 week course at the University of Wisconsin for Cooperative Officers. Working capital for the coops could be provided from the assets of the Copra Stabilization Board and supplemented, if necessary, from the proceeds of the copra processing tax.

Finance

Throughout Micronesia claims of ownership are not well defined, and what "belongs" to one person generally also "belongs" to all of his relatives. Relatives -- including relatives very distant by U.S. standards -- feel free to use anything another relative has, including cash. This practice of communal ownership discourages savings and makes it very difficult for Micronesians to buy durable goods, for the little cash income they have is often distributed far beyond the wage-earners' immediate family for consumption of essentials such as food and clothing. It is not unusual for families in urban areas to have as many as three or four relatives (other than spouse and children) living with them at any point in time -- although sometimes small children are left with grandparents.

The practice of communal ownership also inhibits purchase of staple goods in economic quantities, for they will probably be "borrowed" before the purchaser is able to use them.

If the maximum use of local resources for development is to be encouraged, some method must be found both to encourage individual savings and to protect them from the claims of relatives. Two methods of doing this are:

- a. Individual savings accounts in banks or credit unions -- and in school savings accounts -- with direct deposit deducted from receipts of government employees and copra producers.
- b. Commercial credit with payments on time which convert current purchases into contractual payments.

In the first case individual savings precedes the "investment" in a durable product, while in the second case savings follows the "investment."

Contractual saving through credit unions has been strongly encouraged in the Trust Territory and there is now at least one credit union in every district and there are 15 in the Palau district alone. Typically the member of a credit union agrees to regular periodic deposits, say \$1 every month or every pay period. He is entitled then to borrow from the credit union for "provident or productive" purposes. Borrowing in some credit unions is limited by the

individual's deposits and shares, e.g., the loan cannot exceed 1-1/2 times his claim on the credit union. In other cases all loans are decided by a loan committee, and there is no fixed limit. Members typically borrow to purchase capital items -- motor scooters, outboard motors, home repairs; but occasionally borrowing takes place to discharge outstanding debts to storekeepers. Interest charges on loans are high -- 1 percent a month or, in a few cases, 2 percent a month.

Many of the credit union treasurers are not adequately trained in credit union principles or in bookkeeping, and the financial records are often in very poor condition. From this viewpoint the large scale movement into credit unions, as at Palau, was premature. Yet the contractual savings achieved through credit union membership is so valuable from the viewpoint of financial self-improvement that the credit union movement should be encouraged. The Cooperatives Officer in each district, recommended above, should also supervise credit unions and give close guidance on record-keeping. Where possible, credit unions should be consolidated under good management, and the indiscriminate formation of credit unions should be discouraged. Possibly the formation of district-wide credit union leagues would not only promote better management practices but would also provide the organizational structure for credit union merges.

There are now bank branches of the Bank of America or the Bank of Hawaii in every district except Yap. In the Marshalls, however, there is no bank in the district center at Majuro, and in Ponape the branch bank was just opened in July 1963. On the whole these branches are simply banking facilities which accept deposits and clear checks; only rarely do they make bank loans. Moreover, the bank officials are not doing an adequate job of explaining to the public the advantages of savings and checking accounts. Despite this, the value of deposits have grown nearly 20 percent over the past year (Table 18).

The Mission agrees with the Trust Territory government's use of its own deposits to encourage the extension of banking services (which should be extended to Majuro and Yap), but it feels that the loan policies of these banks should be clarified and stimulated. To encourage the use of banking among Micronesians, government salaries should be paid by check rather than in pay packets. Where it is agreeable to the employees, salary checks could be deposited directly into individual bank accounts. Such an innovation, favored by the banks and a number of officials, would encourage (and permit) greater savings, would increase financial sophistication and foster family budgeting, and would reduce the risk of theft from government finance offices when much cash is on hand.

Table 18

Total Reported Bank and Credit Union Deposits, by District

	<u>June 1962</u>	<u>June 1963</u>
Marianas	\$334,544	\$433,407
Marshalls	n.a.	n.a.
Palau	267,050	252,595
Ponape	0	5,450
Truk	31,885	38,001
Yap	<u>0</u>	<u>9,929</u>
Total	\$633,479	\$739,382

The branch banks of Bank of America and of Hawaii now make a negligible number of loans to individual Micronesian employees and businessmen. The little loan business they do is installment lending at high interest rates, generally to employees of the Trust Territory government. The failure of the banks to lend in Micronesia means that deposits are sent out of the area for investment in Guam or the United States. One reason the banks have been reluctant to lend is the lack of satisfactory collateral in Micronesia. The prohibition against alienation of land (so banks cannot take clear title to it) and the absence of an active market for land reduce its attractiveness as collateral, but the banks are apparently unaware that under Trust Territory laws they can obtain a court judgment and foreclosure order on land used as collateral so long as the land is sold to Micronesians. More acute is the problem of undefined and ambiguous land titles, both as to boundaries and ownership. This lack of clarity in land ownership has other undesirable effects, both political and economic, and the Mission has recommended a Land Surveying and Registration Program.

One function of the Programming and Development Unit, using assets of the Development Fund as backing, would be to guarantee bank loans in Micronesia, thereby providing adequate security to the banks. This

would keep Micronesian bank savings productively at work in the capital-short Territory. Ultimately, it might be advisable that banks should be able to buy -- and might even be required to buy -- securities issued by the Development Fund under its own name. This would be another way of putting Micronesian savings, deposited in U.S. bank branches, to work in the Trust Territory.

Consumer credit is used extensively in some districts, while in others the trading companies operate on a strictly cash-and-carry basis. Curiously, where consumer credit is extended it is largely for staple products -- food and cloth -- and not for consumer durables, which are more often imported on specific order rather than from stock and must be paid for in cash. It is an anomaly not to have time payments for durables, where collateral is available, when credit is given for day-to-day purchases. Where purchases of durables can raise productivity, as in the case of boats or outboard motors or building materials, consideration should be given to setting up a system of time payments. In the case of government employees, payroll deductions -- such as are being used to pay off credit union loans -- could be made. And in those cases where the trading companies are short of working capital, loans from the Development Fund could be arranged. Credit Union lending has facilitated the purchase of durable goods.

Three substantial funds already exist in the Trust Territory:

- a. The Angaur Trust Fund, amounting to \$1.2 million, which was set aside from the proceeds of postwar phosphate mining on Angaur to be used for the benefit of the people of Angaur. Interest earnings of about \$37,000 annually are distributed as current income. Investment of the Fund is determined by the High Commissioner.
- b. The Saipan Trust Fund, now about \$375,000, was set aside by the Navy for the benefit of the Saipanese as rent for the property it used on Saipan. This Fund once amounted to over \$1 million, but it has been used for such community projects as the new hospital and high school in Saipan. Use of the Fund is determined by the High Commissioner.
- c. The assets of the Island Trading Company, liquidated in 1954, have been held as a loan fund for all chartered trading companies and cooperatives. The fund amounts to about \$330,000, of which \$155,000 was outstanding as loans in mid-1962. Loans are determined by a committee comprising the Executive Officer, the Program Officer, the Attorney General, the Economic Officer, and the Finance Officer of the Trust Territory. It has been the practice to lend from this fund only for fixed capital investment; and only on one occasion, the Mission was told, has a loan been made for working capital.

- d. In addition, \$100,000 was appropriated in fiscal year 1964 to be used for financing economic development. About \$40,000 of this has already been transferred into general funds by the High Commissioner, however, to replace funds used previously for economic development.

These funds should be used in close conjunction with the proposed Development Fund to the extent it is consistent with limitations on their use. Indeed, the loan fund for chartered companies and what is left of the recently appropriated funds for economic development should be fully absorbed into the Development Fund. Geographical limitations on the use of the Angaur Trust Fund and the Saipan Trust Fund require maintaining them as separate funds, although their use should also be influenced by the over-all development program.

At the same time, greater Micronesian participation in determining the use of these funds should be permitted and encouraged. The leaders of Angaur showed considerable misunderstanding about the use of their fund, which is entirely controlled by Trust Territory headquarters, and one result is substantial sentiment in Angaur for distribution of the entire fund to the people. The Mission feels that such distribution would be a mistake, but that a locally-chosen representative from Angaur should sit on a three-man Management board (which the High Commissioner is empowered to create) made up of the High Commissioner and a second person appointed by the High

Commissioner to administer the Fund. Apart from several scholarships and the purchase of a boat, the Fund has not been used for the improvement of Micronesia. Interest earnings of the fund are distributed as income. Greater thought should be given to using a part of the fund for productive investment on Angaur, or if the 450 people of Angaur decide to move to Babelthuap, as has sometimes been suggested, a part of the Fund could be used to establish a community there.

If no productive use of the Fund can be found on Angaur, then some thought should be given to using the Fund for investment elsewhere in the Trust Territory, with interest and/or dividend earnings paid to the people of Angaur. At present the Fund is earning only about 3 percent a year in U.S. Government securities. The Trust Territory government should be willing, if attractive investment opportunities in Micronesia present themselves, to use the Angaur Trust Fund as a source of capital. It would be advisable to guarantee a return to the people of Angaur slightly higher than that which would have resulted from retaining the Fund in government securities. This would be an inexpensive way of raising capital for productive use, provided the investments were carefully selected and supervised.

The Municipal Council of Saipan has proposed that the Saipan Trust Fund be used for public housing (\$100,000), economic development (\$100,000), agricultural development (\$75,000), scholarships (\$25,000),

and capitalization for a Bank of Micronesia (\$75,000). Reconstruction of the town of Garapan with modern housing to replace the patch-work housing which now exists in Chalan Kanoa is an excellent objective. The Mission feels, however, that a Bank of Micronesia would be premature at this time, and it would be unnecessary if the lending policies of the bank branches in the area can be adapted to Micronesian needs, as discussed above.

Chapter 6

SUMMARY OF RECOMMENDATIONS

For convenience, the major recommendations by the Survey Mission made in its Report on Economic Development are brought together here in summary form, with page references to the discussion in the text. The recommendations have been grouped into three categories on the basis of how they can be implemented, although it should be recognized that the borderlines between them are not clearcut:

1. Those recommendations which can be implemented by the High Commissioner, subject only in some cases to approval by Interior, with only minor changes in institutional arrangements and with no major increases in expenditures.
2. Recommendations which require more extensive institutional changes or entail substantial increases in expenditures.
3. Recommendations which require changes in U.S. statutes.

1. Recommendations which can be implemented by the High Commissioner

In programming capital expenditures in the Trust Territory, particular attention should be given to their impact on Micronesian employment and income. This applies especially to large programs such as The Accelerated Elementary School Construction Program and the public works program recommended in this Report. Where it is possible without great cost, capital expenditure should be geared to local employment requirements -- accelerated or stretched out according to the local desire for jobs and cash income (pages 13-41).

Education plays a critical role in economic advancement, and the school curriculum should be designed accordingly to serve the two-fold objective of training Micronesians in the application of intelligence and accumulated knowledge to local problems and of giving them sufficient breadth to emigrate successfully. (page 45-46 and the Education Section of the Mission's Report).

To encourage the development of supervisory capability, to foster the accumulation of savings, and to integrate further the Trust Territory, there should be a deliberate policy of placing capable Micronesians in districts outside their home districts (pages 44, 48, 49).

Where possible, Micronesian employees should be paid on the basis of work performed rather than for hours spent on the job, with a view to raising labor productivity. (page 51).

Where the cost is not prohibitive, the Trust Territory government should make a greater effort to direct its procurement of goods and services to Micronesian businessmen. (page 99).

The Trust Territory government should use its regulatory powers to ensure that Micronesian interests are served by foreign investment in the areas and in particular it should reach a clear understanding

with The Van Camp Company on the rate at which Micronesians are to be taken on as fishermen. (page 72-73).

The High Commissioner should invite the University of Hawaii, or other qualified research organizations, to establish agricultural and fisheries research stations in Micronesia. (pages 67, 76).

The practice of prohibiting foreign citizens from entering the area should be relaxed considerably in cases where visits or temporary residence by selected foreigners would further economic development in the area. (page 100).

The High Commissioner should promulgate an Investment Code, under the general provisions of which American investment could be undertaken in the Trust Territory without specific government approval. The Code would be designed to protect Micronesian interests while encouraging U.S. investment in the area. (page 101-102).

Where banking facilities exist, payment of salaries to government employees should be made by check, with a view to encouraging savings and raising the level of financial sophistication. (page 112).

Banks now in the Trust Territory should be encouraged to make more business loans than they now do in the Trust Territory. (page 114-115).

The various trust and loan funds administered by the High Commissioner should be used more actively to further economic development. (page 116-117).

Measures should be taken to improve the quality and the coverage of the economic statistics collected for the Trust Territory. (page 34).

2. Recommendations requiring additional appropriations, or requiring substantial institutional changes.

A Programming and Development Unit, contracted from a qualified consulting firm should be established within the High Commissioner's staff on an advisory basis to program and coordinate government budget priorities, to give technical and managerial assistance to Micronesian businesses, to administer a newly established Development Fund, and through that Fund to undertake where advisable direct business ventures important for development of the area. (page 79-83).

A Development Fund of \$5 million should be established to finance commercial undertakings in the Trust Territory. (page 82).

The agricultural program in the Trust Territory should be extended in a variety of ways. The major recommendations of the Mission's Report on Agriculture are summarized on pages 63-67.

The fisheries program should also be expanded, both in training and in commercial development. (page 75).

Greater use should be made of the technical skills available on Guam and Kwajalein for on-the-job training of Micronesians. (page 38).

Cooperative officers should be appointed in each district center to supervise the founding and management of producer-consumer cooperatives and of credit unions, institutions which are needed in the Trust Territory if properly managed. These responsibilities should be removed from the district Agriculturists. (pages 107, 108, 112).

3. Recommendations requiring a change in U.S. statutes

The U.S. immigration quota for Trust Territory residents should be enlarged or abolished, to permit freer emigration from the area and closer ties with the United States. (page 50).

U.S. tariffs on Trust Territory products should be abolished, and the Trust Territory should be given a tariff-status like that of Guam and the Virgin Islands. (page 74).