

REFLECTIONS ON MICRONESIA'S ECONOMY

Introduction

There are two ways of looking at the main goal of economic development. It can mean:

- 1) a "better life"—i.e., more abundant and efficient goods and services made available to as many people as possible—and this at any price!
- 2) increased capability of the people to provide for themselves what they see as desirable in their development, along with the freedom to make decisions affecting the course of their own development and the power to control this development.

At the present time, I see the first view as that which is implicitly adopted by most agencies—including many of our own mission-sponsored institutions. If we honestly embrace the second view of development in preference to the first, we will have to redirect many of our projects in the Trust Territory and assist the government in doing the same through the force of our words and example.

In this presentation, I will touch on what I believe to be four critical areas of economic development: migration into towns, exports and imports, salaries in the government and private sectors, and employment. Everything that follows presupposes the second view of economic development and should be read in this light. It presumes that economic self-reliance is both realistic and desirable.

Migration Into Towns

Population trends show a considerable rise in the annual rate of growth in "towns" since 1966—in most cases, well above that between 1963 and 1966, the years in which Micronesia felt the first effects of increased government spending in the T.T. (See Table A).

As population is drawn into the towns, economists and planners often welcome the expanded potential labor force as a source of future productivity. Actually, however, the vast majority of those who obtain wage employment in the towns either are employed by the government—thus further bloating the

government payroll and expanding the costly bureaucracy--for they find jobs in the service industries, as storekeepers, waiters, construction workers, that feed off the consumerism rampant in such localities. Some of those who migrate into towns never find employment and become hangers-on, living off the paychecks of relatives who have steady employment. Often unskilled, they are able to make only a minimal contribution to basic economic development. In the first place, they usually relinquish the role of food-producers that they assumed when they were living in rural areas.

The population of Kolonia Town, for example, grew by 1000 between 1971 and 1972, while the population of Ponape island as a whole increased by only 1,400. This leaves a net gain of 400 persons for all of Ponape island outside of Kolonia (two of the municipalities actually lost population during the past year). But there were slightly over 400 infants born in these areas during the same period—and infants do not produce food! Hence, we might expect that the local food production relative to the rural population actually decreased on Ponape last year.

Furthermore, those who move into towns are an easy prey for the consumption-gone-wild where retail stores, bars, and car dealers proliferate. Not only are they consumers in the private sphere, saving little of what they earn and setting patterns of consumption for their rural cousins that Micronesia can ill-afford at this time, but they make demands for more expensive, "better" community services—roads, hospitals, schools—that absorb an ever greater share of the national resources which might have been used more productively in stimulating basic economic development projects.

It is because of its deleterious effect on baseline economic development in rural areas that some countries, such as China, have found it necessary to take steps to restrict migration into the towns and cities. The Trust Territory Administration, even if it has rejected the Nathan Plan proposal to expressly work towards migration of outer-islanders into concentrated population centers, has in effect espoused policies that encourage the same result. Educational and economic policies have worked hand-in-glove to lead people to where the jobs are—and this can only be the "towns"! As long as the stated goal of economic development remains "to allow as many families in Micronesia as possible to share in

development by providing them with dependable dollar incomes," we may expect the urban drift to continue.

Establishment of sub-district centers with their own post-elementary schools, limited job opportunities, and some of the other trappings of the district-center towns, may have been conceived partially in the hopes that this would forestall the exodus from rural areas. But there is little hope that this will happen. The sub-district centers may in time become towns themselves, in which case we can expect them to become the destination of emigrants from still further outlying areas. If this happens, we can anticipate a greater decline in utilization of land and sea resources. The result would then be yet another step away from self-reliance.

The over-all effect of migration into towns, therefore, is to diminish the productivity from land and sea, while expanding the consumption of money-bought goods and services. In the present order of things, large-scale migration can only create a wider gap between productivity and consumption.

Imports vs. Exports

Over-all, the Trust Territory consumption of foreign-bought goods has tripled in the last six years. This shows up in the increase in imported goods from \$8.9 million in 1966 to \$26.3 in 1972. (See Table B). The same rate of increase is reflected in imports of particular commodities: for instance,

- a) Tobacco products: \$0.5 million in 1966 to \$1.4 million in 1972.
- b) Alcohol: \$0.45 million to \$1.7 million.
- c) Canned fish: \$0.4 million to \$1.3 million.

In the same period, the total production of goods and services in the T.T. has undoubtedly increased, even if it is difficult to estimate the increase in dollar terms. What is significant, though, is that this increase in production has occurred in educational, health, and administrative services. One might ask whether this represents a real economic gain at all. Meanwhile, the value of exports has remained about what it was in 1966 and, for that matter, 1961. This is discouraging, because exports are the "barter" that a nation uses in exchange for foreign-made goods that it must import to satisfy the needs of its people. The

government payroll and expanding the costly bureaucracy--or they find jobs in the service industries, as storekeepers, waiters, construction workers, that feed off the consumerism rampant in such localities. Some of those who migrate into towns never find employment and become hangers-on, living off the paychecks of relatives who have steady employment. Often unskilled, they are able to make only a minimal contribution to basic economic development. In the first place, they usually relinquish the role of food-producers that they assumed when they were living in rural areas.

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government salaries which have doubled in the last five years. From an average of \$1,300 in 1967, they have risen to \$2,600 last year. Higher government salaries can, in turn, be expected to exert pressure on the private sector for similar increases. Although the average wage in the private sector has been increasing yearly, Table C shows that it is not able to keep pace with the government average; and it is projected that the gap between them will widen even more in the next few years. (The difference between government and private salaries noted in Table C would be even greater except for the fact that the Marshallese who work on Kwajalein—private employees—are paid according to the minimum U.S. wage standards.)

The issue here is not simply inequality between the salaries of the clerk at Supply Department and the clerk in a retail store. What is at stake is the capacity of a nation to produce enough to provide for the needs of its people. Salaries in the private sector, after all, can't be fixed at the will of a legislative body; they are subject to market conditions and the laws of supply-and-demand. It is unreasonable to expect that a copra-cutter, who averaged 12¢ an hour before the drop in copra prices, or even the commercial farmer who is taught the most efficient methods of agriculture, will ever be able to match the lucrative remuneration of the government employee. Their salaries, after all, depend on how much they can produce and what people will pay for it. As the wage gap widens, employment in productive industries—such as farming and fishing—will become even more undesirable by contrast with government employment.

There exists in Micronesia a strong need, especially among educated Micronesians, to destroy the inequalities that have typified the colonial situation here and to affirm Micronesians' own equality with Americans of similar background before both God and the Finance Officer. A single salary schedule is a token of recognition in this regard. "Equal qualifications, equal work, equal pay!" is a legitimate psychological plea from a people that is struggling for acceptance, even if it does not make very much economic sense in Micronesia today. But the effect of the new pay plan, like other recent pay increases, will only more sharply accentuate class differences within Micronesia, even as it diminishes on those Micronesians who are not employed how "poor" they are by contrast to the salaried consumers of canned, bottled, and packaged goods of all sorts.

Other countries that have had large segments of their population unemployed for wages, like Micronesia, have chosen to maintain low wage rates to encourage extensive use of more labor rather than intensive use of few workers. This has the effect of allowing more people to participate, although on a smaller scale, in the cash economy. The effect is to distribute income more widely.

At the present time, however, Micronesian wage employment is an all-or-none situation. From earning next to nothing (in dollar terms) on the land, a Micronesian government employee goes to a minimum salary of \$1,250 a year. The social problems inherent in this kind of a transition are enormous for the individual. And this is quite apart from the broader social problem created by the widening of the chasm between the "haves" and "have-nots" in Micronesia.

Manpower and Employment

Table D shows the percentage of the total potential work force that was actually employed for a salary during 1972. (Total potential work force is composed of all those persons over 15 years of age).

As is evident from the figures, those who have jobs represent only a small percentage of all those who are theoretically employable. This is the case in all districts except in the Marianas. When some people speak of economic development, they suppose that the major goal is to secure salaried jobs for as many of the unemployed as possible. Economic development would mean increasing, in whatever way this could be done, the percentages in the last column of Table D. The goal would, in this case, simply be to get jobs for as many people as possible.

But if self-reliance is accepted as a fundamental national goal, it matters greatly what kind of jobs these are. Some types of employment contribute a good deal to economic development; others hinder it. To raise the percentage of employed persons in, say, Ponape by starting a large retail store could well impede rather than help genuine economic development, even if Ponape were to show a higher rate of employment the following year.

The number of jobs available—and the percentage of population employed—is not an index of authentic economic development in a dependency such as Micronesia. It says nothing of the self-reliance achieved—the ability of the

people to produce what they need. Increase in full-time employment may suggest that there are more dollars in the society—this and little more—although it may not even be a sure measure of this! Surely the presence of more dollars is not an infallible indicator of even economic development, to say nothing of over-all human development.

Jobs are all too often used as the barometer of economic growth in Micronesia. A rapid increase in number of people employed is taken as a sign of progress. This is a strange view indeed when one considers that in the past decade a large jump in employment has almost always been the result of a large U.S. budget increase and the secondary effects of government spending on the private sector. Employment figures jumped by 3000 or 33 percent in 1970, for instance, as the U.S. budget was raised from \$40 million to \$50 million.

Is a society any the better off economically if it spends \$6,000 per child to send him through 12 grades so that he can attain a job, only to have him discover at the end of this struggle that it will cost the society another \$12,000 to finance 4 years of college if he hopes to be able to compete successfully for the job? It is all the worse if, after his college education, the young man finds that he cannot return to Micronesia because of new and greater aspirations that he has picked up along the line. Education can prove to be a very unsound economic investment at times.

Table E shows the prospective plight of an educational investment that is designed to turn out potential employees. Until within the last year or two, the increase in number of salaried jobs always exceeded the number of high school graduates from the T.T. It is clear of late, however, that the private sector will not be able to absorb the growing number of high school graduates seeking employment. Within 3 years, 1500-2000 persons yearly will enter the labor market. Will our tremendous outlay for education be wasted?

It is clear that we must not deny full-time salaried employment a role in economic development. But neither should we be too quick to equate it with development. In the past too much effort may have been spent in trying to provide more jobs for those who lived off the land. Greater attention must now be given the question of how economic development can be fostered without necessarily putting people on the payroll—either government or private. How can productivity among those leading a semi-subsistence life be stimulated while these people continue to live off the land and the sea?

TABLE A
POPULATION TRENDS

	<u>1963</u>	<u>1966</u>	Avg. annual growth rate <u>1963-1966</u>	<u>1972</u>	Avg. annual growth rate <u>1966-1972</u>
Trust Terr.	84,777	92,373	3.5%	114,645	3.5%
Kolonia	1,273	1,674	10	3,989	23
Koror	4,296	4,975	5	6,032	4
Ebeye	2,388	2,879	7	5,604	15
Majuro	3,940	5,187	9	9,059	12
Moen	3,829	4,380	5	6,580	8

- NOTES:
- 1) All five "towns" showed larger yearly increase in percentage of population than the TT as a whole.
 - 2) The rate of growth of the town population has increased considerably in the last 6 years with the exception of Koror. There is no indication of a tapering off of migration into towns, but evidence of the contrary.
 - 3) Meanwhile, population in rural parts of the TT has held steady or increased slightly - e.g.!

	<u>1966</u>	<u>1972</u>
Kiti (Ponape)	2801	2840
Melekeok (Palau)	358	378
Jaluit (Marshalls)	1127	878
Fefan (Truk)	2194	2463

TABLE B
IMPORTS - EXPORTS

	<u>Imports</u>	<u>Exports</u>	<u>Ratio of Exports to Imports</u>
1961	4,500,000	2,130,000	1 : 2
1962	4,100,000	2,120,000	1 : 2
1963	5,000,000	2,160,000	1 : 2.3
1964	5,700,000	2,600,000	1 : 2.2
1965	7,100,000	3,150,000	1 : 2.3
1966	8,900,000	3,000,000	1 : 3
1967	9,800,000	2,320,000	1 : 4
1968	13,600,000	3,030,000	1 : 4.5
1969	16,000,000	2,800,000	1 : 5.3
1970	20,900,000	4,180,000	1 : 5
1971	26,200,000	3,000,000	1 : 8.7
1972	26,300,000	2,600,000	1 : 10

NOTES:

- 1) In Fiscal Year 1972, Micronesia exported fish valued at \$900,000 while importing \$1,300,000 worth of fish.
- 2) Imports of selected items:

	<u>tobacco</u>	<u>alcohol and beer</u>	<u>canned fish</u>
1966	500,000	450,000	390,000
1968	680,000	600,000	560,000
1970	940,000	1,000,000	950,000
1972	1,400,000	1,700,000	1,300,000

- 3) Export figures do not include revenue from tourism, which is becoming a growing source of income in Micronesia.

TABLE C
SALARIES AND EMPLOYMENT

	Total	Government	Private	Avg. Govt.	Avg. Priv.
1961	\$ 3,346,000 4,207	\$ 2,509,000 2,762	\$ 837,000 1,445	\$ 900	\$ 580
1964	5,584,000 6,620	4,444,000 4,437	1,140,000 2,183	1,000	520
1967	9,048,000 8,222	6,836,000 5,235	2,212,000 2,987	1,300	740
1970	20,550,000 12,436	14,889,000 7,254	5,551,000 5,182	2,050	1,100
1972	28,912,000 13,654	20,514,000 7,910	8,398,000 5,744	2,600	1,500

NOTES:

- 1) There is a close correlation between the increase in the U.S. budget and the number of government jobs. Can further growth in government employment be projected, unless the budget continues to rise as spectacularly as during the last decade?
- 2) From 1961-1967, the ratio of full private employment to government jobs was 1 : 2. Since 1969, with the development of tourism as a major industry, the ratios close to 3 : 4.
- 3) Despite the increase in salaries in both the government and private sectors, the wage gap between the two sectors continues to grow.

TABLE D
PERCENTAGE OF WORK FORCE EMPLOYED IN 1972

	Potential work force	Micronesians employed	percent employed
Marianas	5,700	3,450	61%
Marshalls	11,500	2,730	24
Palau	6,400	2,030	32
Ponape	12,100	2,150	18
Truk	17,300	2,170	12
Yap	4,100	1,120	27

TABLE E
COMPARISON OF HIGH SCHOOL GRADUATES AND SALARIED JOBS

	(single year) High School graduates	(3-year period) High School graduates	Increase in No. of Jobs
1961	109		
1964	135	370	+2,400
1967	511	1000	+1,600
1970	931	2100	+4,200
1973	1200	3000	+1,200
1976	2000	5000	_____

NOTES:

At present there are 2000 expatriates employed in T.T., of whom some 600 work for the government. These are jobs which, of course, would become available for Micronesians with necessary skills.