**Building the Economy in FSM**

***Present Economy***

* Economy depends on Government rather than private sector, ie, “upside down economy”

Government spending fuels the private sector, which rises or falls with the size of govt.

US Compact funds support large govt., so economy depends on foreign aid

But this aid will end in time (Or will it?)

* Alternative: Give up and let the islands be supported by colonial government, as they once were. Eg, Guam, CNMI, French Polynesia

This would mean the surrender of independence (Is this a real possibility?)

***Building a National Economy***

* Issue here is not just feeding the population (just as they once lived off the land). It is the need to have a sturdy enough economy to support a modern government–one that can furnish the level of public services we demand today.
* Possible underpinnings for an economy in the Pacific
* Minerals or other extractable resources–as in Nauru, PNG< and New Caledonia
* Alternatives:

1) Tourism – CNMI, Fiji, Cooks, Palau [compare FSM visitor figures with these other countries]

2) Fishing – American Samoa, other islands? [Are there any islands in which fishing is really the mainstay of the economy?]

* Projected economic plan for FSM
* Tourism 20,000 visitors yearly. [compare these figures with those for other places]
* Fishing -- review the fate of past fishing operations (PFC, CFC, Micronesian Longline Co). Perhaps this industry can not easily be revived.
* Agriculture – mostly small-time exports, not enough to matter greatly. Important as cash-cropping only.

1) Can any of these be expanded? If so, what needs to be done?

2) Are there any alternatives to the Big Three? What?

3) Remittances? Will they be an important factor, as in Tonga and Samoa?

* Dream Time: Have participants let their imagination roam and play out scenarios here.

***Conditions for Economic Growth***

1) Investment capital

A) From local people.

Some of the wealthier families might be able to leverage profits from their present business holdings to fund a medium-sized project. But most would require loans for the investment. What security or collateral would they provide for the loans?

* Salaries are used as collateral now, but this would provide access to small loans.
* Land – still not used as collateral on the grounds that it’s “too precious” to risk. But what collateral would be used if not land? If it is used, legal changes may be required to allow “springing leases”–ie, no alienation of land in event of default, but use denied to owner for duration of the lease.

But the strong history of no-risk loans in FSM discourages this sort of new risk-taking. In the past, loans were provided by EDLF, other government-sponsored loan funds, and the Development Banks–all of which simply wrote off bad loans without penalty to the recipient of the loan. In other words, the government was simply underwriting their loans. Popular supposition is that these easy loans will continue. Meanwhile, commercial banks backed by FDIC are withholding loans to protect themsevles.

B) From outsiders.

If investment is expected from outsiders, a favorable climate is needed to guarantee protection of their money. This includes:

* land surveying and registration
* government protection against local squatting
* long-term leases so that there is time to recoup the investment
* strong rule of law to provide confidence to investors
* removal of bureaucratic obstacles to foreign investment

But there is a long history of protectionism against foreign business interests in the islands, beginning with early Naval administration. This was fed by the spirit of the 60s–disdain for transnationals (United Fruit Co) and “Micronesia for Micronesians” spirit. Distrust lingers on even today.

2) Labor

If big business is to develop, an ample and reliable workforce is needed.

A) Local people.

Jobs would be a strong motive for people to stay in the islands. But there are problems with the local workforce: dubious work ethic, cultural obligations competing with work demands, and inadequate skills and training. The last item usually gets all the attention, but it is probably the least important of the three.

Examples of the failure of local workforce:

* Van Camp fishing project in Palau in late 1960s – no local fishermen on the boats
* Majuro longline fishing fleets in 1990s – successful catches, but limit to the number of days in the month Marshallese were willing to fish
* Pohnpei pepper plantations – people voted with their feet to turn from pepper to sakau

Higher wages urged as an incentive to keeping local people in job market. But labor in FSM, when set alongside productivity, is already high-priced. Comparative advantage with other places is lost.

B) Foreign workers

Asian workers are generally more productive and easier for employers to control, as local entrepreneurs understand. Micronesian businessmen usually look to outside workers for their businesses. On the other hand, there are the usual problems associated with a large foreign population (as in Palau and CNMI).

* cultural tensions
* heavier demand on public services
* denial of jobs to local people, with the resulting resentment at foreigners.

3) Management

In the absence of a “culture of business,” local management may let family and social obligations interfere with business operations. For instance:

* family expenses may be taken from business funds
* relatives may be hired, even if incompetent or unneeded

But local businessmen have successfully adapted by hiring foreign managers to enforce good practices that the owner could not easily enforce himself. By interposing a foreign manager between himself and his relatives, he can deny credit to customers, keep relatives from taking what they want from the shelves, and fire unproductive employees. All the while, he insulates himself from decisions that might be culturally difficult.

***Consequences of Economic Stagnation***

Stagnation is a continuation of “upside down economy” in which government spending fuels the economy. This would guarantee that the present trends would continue.

* Limited funds for government, derived from:
* tax revenues (which would need to be increased)
* foreign aid and subsidies (from wherever they could be found)
* Trust Fund earnings (or hope of Compact 3?)
* No growth in jobs, which would guarantee continuing emigration. The population growth would remain virtually zero. On the other hand, remittances might pick up some of the slack. But that might depend on retaining strong linkages between emigrants and home. Citizenship, land ownership, and voting rights in FSM could be critical elements in determining this.
* Possible decline in living standards and government services in the islands. It could be hard for people to survive.

***Cultural Consequences of Development***

Dilemma: Modernization is forced on us because of the economic demands of nationhood. We must build an economy to provide for the cost of nationhood and all it implies. We accept a modern nation-state as the price of membership in the world community. To support such a state we need a strong economy. But, meanwhile, are we damaging our cultures beyond repair?

* Modernization is not optional. It is an exigency of nationhood today, which requires that we produce a surplus so as to fund the government. This, in turn, requires a healthy economy.
* The most far-reaching cultural change is the introduction of a viable cash economy. This attacks some of the most basic elements in the society–especially the critical land-kin linkage. Now individuals can support themselves independently of the kin group. The changes this brings on in the structure of a traditional society are huge.
* The worst of this change is over. It began 40 years ago as US subsidies skyrocketed and a critical mass of the population for the first time ever were in a position to support themselves by other means than living off the land . Since then, island societies have been busily adapting to the changes brought on by this revolution.
* The core social institution of the family was most heavily affected by this revolution. The extended family (eg, lineage) was reconfigured into nuclear-like family groups. The social fallout from this included: increased suicide, spouse beating, child neglect, and loss of control over the young.
* This also affected the regard for and use of land. Land , although still very important, is becoming commodified. Land inheritance patterns are also changing to reflect changes in the shape of the family.
* Male and female work roles are being redefined. Once segregated, gender roles now overlap considerably, making men and women rivals in a way they never were before.
* Political authority of chiefs, once rooted in land, is diminished today. But they still enjoy prestige and are finding new power bases–especially as a buffer against any monopoly of power by elected officials.

FXH

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