**Kosrae State Economic Summit**

 **January 22, 1996**

 **PREPARING FOR THE YEAR 2001**

**The Upside Down Economy**

For years now, people like myself have been standing in front of audiences like this warning that the day of economic reckoning is upon us. This began in the early 1970s as negotiations on political status started, was intensified in 1975 as the Indicative Development Plan was spun out, continued in the early 1980s as FSM faced the beginning of the Compact funds, and is heard every time we anticipate a step-down in Compact funding. Now, as we face the end of the 15-year Compact period, the old refrain is being sung again. All of this is bound to remind us of the story about the boy who kept crying wolf so often that none of the villagers believed him when the wolf really did appear. As a result, he enjoyed a sumptuous meal on the villagers' sheep.

John Mangefel once described the FSM economy as a turtle on its back kicking its feet uselessly and going nowhere. The economy is not the only thing in FSM that is upside down. Our whole approach to government has been feet up and head down. A normal nation lives off what it produces, and from the taxes and other revenues generated from its active productive sector the nation supports the small government that it needs to provide basic services to its citizens.

But this has certainly not been our experience in Micronesia over the past 50 years. The government has been the very foundation of the economy and the livelihood of its citizens. Government salaries are what has kept us in turkey tails, frozen chickens, soda, ship biscuits, rice and kerosene. During much of this period the schools have been our largest industry in terms of the number of persons they employee and their overall impact on the village economy. We don't support the government; we live off it.

We've been like the people living in Plato's cave, who believe that life in a dim and musty world is the only existence possible. Cave-dwellers are skeptical when they hear of a world in which the sun shines brightly, for the only one they have known is that of semi-darkness. So, it is with us. We refuse to believe that our economic life could be any other way. Yet, the only places in which people live off the government are colonies and reservations. Nations do not. And FSM has become a nation.

**Island Thinking**

One of the biggest obstacles to flipping the economy right side up is what we can call "island thinking"--the compulsion to distribute equally any windfalls. The typhoon that struck Chuuk in 1976 devastated the taro patches and food-bearing trees of three islands in the Mortlocks, but when relief food came in from the US a few months later it was divided up equally among all eight or nine islands, regardless of the damage they suffered in the typhoon. When the Congress of FSM allocates money, it usually sets aside a certain portion for each state, and sometimes a set mount for each district within the state. In some places this money is then distributed to the families within the congressional district--to buy farm tools, motorboats, or whatever for each family. Better that each family share in the benefits, however they may choose to use their goods, than to give all the money to one or two projects, even if these projects give promise of a rich economic payoff.

This attitude towards distributing the wealth is evident in the way jobs are handled. Government funds are viewed as income to be parceled out to families in the form of salaries rather than as a scarce resource with which to build up and improve government services. By the same token, when there is a cutback in government funds, island thinking regards it as better that the consequences be felt equally by all employees. It's preferable to have 20 people getting lower salaries at a power plant than to cut back the number of employees so that 10 capable people are getting good salaries. The idea seems to be to keep as many people as possible employed, no matter how essential or dispensable their efforts are to the government services. "Island thinking" holds that government salaries are the very last thing to be touched in the budget. Textbooks and materials can go, travel and support can be cut drastically, everything is expendable, but the employees must stay--even if they can't run their program for lack of money.

The island concern for the welfare of persons is commendable, but another approach is being forced upon us by scarcity of government funds. This new approach, one that most governments are forced to practice, looks chiefly to providing for vital services for the public--more efficient power and water distribution, improved public education, better health care, and so forth. The size of the government work force will have to be reduced in the near future, but we should not look on this as putting impersonal services before people. You are not being asked to cut people from the government payroll to let them starve. What you are actually doing is releasing manpower (and energy) for the development of the private sector. If everyone has a comfortable job for the government, there will be never be any incentive to develop a healthy productive economy. This new way of thinking emphasizes results in government output rather than simply providing government jobs for people.

The changeover from what I call "island thinking" to this new approach to government will require a profound change of attitude on the part of Kosraean people. It will demand a conversion of the magnitude that occurred during the last century when the Kosraean people accepted Christianity. When, in 1852, Reverend Benjamin Snow told his early congregation to stand for the final blessing in the presence of the tokosra, Nelepalik I, they hesitated for a long minute out of respect for their paramount chief. The people finally stood after the tokosra urged the people to do what their pastor wished, and Kosrae respect behavior was changed forever after. A few years later, Reverend Snow sent one of his most able young men to the main island to win the people from the grip of their allegiance to the goddess Sinlaka. Eventually, the conversion process that Snow started was so successful that in 1874 the people deposed their tokosra, Nesalik II.

**What Must be Done before 2001?**

Planners are asking you to change the economy and government of Kosrae in order to prepare for the future. The purpose of the change is not that you become Americanized or Australianized, but that you develop the resources you need to give you an economy that will survive. These are seven points that it might be helpful to keep in mind.

1] Cut the size and cost of the government. Today one out of every ten Kosraeans is a government employee. The size of the government work force was not reduced at the time of the last step-down in Compact funds, but it will have to be reduced in the coming year when the government funds will be cut by 10-15%. Some ways to help do this are:

• Make sure there is a real job for everyone the state employs. You will not have enough money to maintain welfare roles by giving people make-believe jobs.

• Learn how to fire people. This is difficult in any society, but especially in a small island society. If you can't work up the courage to do this, consider hiring foreigners who can. There just isn't enough money to support drones.

2] Be prepared to pay a bigger share of the costs of government. The national and state governments will be forced to pass on an ever larger percentage of its costs to the public. This may come in the form of increased income taxes. The present tax rates are very low when compared to the 20-50% rates in the US and many other countries in the world. Be ready to pay higher power and water costs when the government is forced to stop subsidizing the utilities, as it is now happening on Pohnpei.

3] Increase productivity in the private sector. The goal of economic development is to create a surplus of products for export. The resources are there for the developing, but the desire is often missing. Kosraean fishing boats, for example, often go out for only a day or two at a time before putting into port so that the crew can rest and see their families. This is reasonable enough, humanly speaking, but it isn't sound economics. This kind of fishing pattern doesn't bring in the catch that the state needs to make a decent profit. The same is true of agricultural production. People grow citrus fruits and vegetables only on an occasional basis. When they need money, they farm. When they don't, they rest for a while. A more intense year-round effort is needed to raise production in these areas.

4] Bring more land into production. Kosrae is a big island with not too many people. Make the land work for you. Plant it, build on it, or lease it. If you don't want to increase the economic output by planting crops or by putting up tourist accommodations or businesses, then lease your land to others who will make it work for them. Letting private land lie unproductive is discouraged in most other countries by property taxes. Some might object on the grounds that their land belongs to them to be used in any way they choose. Yet, land is also a resource on which the future economy of Kosrae depends, and all have an obligation to contribute in some way to the development of their state.

5] Encourage small-scale industry. "Any long journey begins with a single step," the old Chinese proverb says. Don't be afraid to go about development little by little, beginning small and growing in time. Small farms can produce cash crops for the farmers and provide substitutes for food the island now imports. Perhaps other small industries could also be established. But remember that because many Micronesians believe that if it's local it's inferior, you will have to protect your small industries just as Pohnpeians protect their sakau plants--by building a stone wall around them to keep the pigs out. In other words, you might have to bear with import duties to allow Micronesian products a chance to develop.

6] Look before you leap. As we approach the magical year of 2001, many are looking for the quick kill--one big money-maker that can pull us out of the financial hole. It could be a multi-million dollar fishing operation, a huge tourist hotel, a gambling casino, passport sales to Asians, or some other scheme. Don't play "Lucky Number" with your CIP funds. Resist the temptation to jump into any project with both feet before you weigh the environmental and social impact. And remember that recent experience has taught us that some projects are economic losers: garment factories, fish canneries, and purse seiners, for example.

7] Be optimistic. Although I cannot speak in an official capacity for the US, it seems unlikely to me that the US will simply drop the FSM at the end of the Compact period. The US and FSM have had a common political history going back more than half a century. This history, and the US commitment to the area during its colonial rule, count for something, even in this cold political world. The best way of attracting foreign aid is an honest record in the use of past money. If you prove to the world community that you are trying hard and using your money well, future aid should not be hard to find.

But don't let these hopeful thoughts stop you from implementing the changes in your government that are long overdue.

Francis X. Hezel, SJ

January 24, 1996