

Chapter 2. Economic and Social History

2.1 Economic Changes from Pre-colonial Times

During the pre-colonial era, Micronesians existed almost solely on subsistence. The natural resources satisfied the requirements of their daily life, although there was also trade taking place. The inhabitants of the low-lying coral islands traded their local valuables with inhabitants of the high islands. The Yap Empire, which extended from Gagil district on the Yap Islands to the Namonwito Islands west of Chuuk Lagoon, was a trading empire.

The arrival of beachcombers, traders, whalers, and other foreigners in the 1800s changed the way the Micronesians lived. The metal tools and knives were obviously of high value and better quality than the ones made of stone and wood used by Micronesians. With such tools, building canoes became easier and faster.

The traders came to Micronesia in search of goods to sell in the Asian markets. They collected beche-de-mer, turtle shells, bird eggs, and seashells. They sold these items for good prices in the Chinese market. Pohnpei was reportedly exporting between five and six hundred pounds of turtle shells per year.

The last traders to arrive in Micronesia were the ones interested in copra. The copra trade started in the mid-1850s and brought in independent traders and large firms from around the world. Copra trading was successful in Micronesia. For the most part, local residents could earn a sustainable cash income from copra. Some traditional chiefs in the Marshall Islands became wealthy enough from the copra trade to purchase their own vessels. The Micronesians used copra income to buy imported goods. For the first time the Micronesians participated fully in the cash economy imposed on them by foreign traders.

Even long after the foreign traders left, copra remained as the most reliable source of income for Micronesians living in the outlying villages and islands. The industry was so prevalent, it brought about a minor relocation of population. Some individuals were taken from their homes to work on coconut plantations on other islands.

In Micronesian societies, social ranking and stratification permeate all traditional cultures. This is true even in the sparsely-populated coral islands, although the emphasis on rank is not as intense. In highly stratified societies, such as Kosrae, Pohnpei, and Yap, rank is expressed through and consequently controlled by a dualistic sociopolitical system.

The social changes in Micronesia precipitated by contact with the Europeans have had varied impacts on local communities. Two high islands - Pohnpei and Yap - became the centers of the colonial administration and commercial activity. The towns that grew around these centers triggered further change. Migration from the outlying areas and islands, the introduction of the cash economy, and the establishment of private and public schools brought about social and political development similar to Western models. The members of these local communities who received Western training soon formed a new social and political elite who often challenged traditional authorities. Traditional leadership was further strained as extended family loyalties and maternal ties were weakened as wage labor tended to favor the nuclear family and paternal ties.

2.2 Caroline Economies in Colonial Times

In the Federated States of Micronesia, colonial administration started in 1886 when Spain established its headquarters in the Caroline Islands on Yap Islands Proper. The second Spanish administrative headquarters was created the following year on Pohnpei Island. These, however, were not the first established foreign presence on the islands.

The German firms had dominated trading in the Marshall and the Caroline Islands for decades prior to the arrival of the Spaniards. The economy was fueled mainly by the thriving copra trade. At the time of Spanish takeover of the Caroline Islands, the economy was dominated by German trading firms like Hensheim & Company, Jaluit Company, and the DHPG. Germany challenged the Spanish claim to the Caroline Islands based on an absence of exercise of Spanish control. In October of 1885, Germany annexed the archipelago and held it for several months before turning it over to Spain as stipulated in a peace settlement arbitrated by Pope Leo XIII. The resulting situation had the two European presences coexist on the islands. While the Spanish colonial officials controlled the government, the German trading firms dominated the economy.

The Spanish officials faced no significant resistance to their government in Yap. The little resistance they encountered came primarily from the local priests who stood to lose their traditional prestige and authority in the community. But the Yapese did not rise up against the colonists in the way that the Pohnpeians did.

When the Spanish colonists arrived in Pohnpei in 1887, they encountered local resistance almost immediately. The Spanish governor's lack of flexibility towards the traditional chiefs and his lack of good judgment and contemptuous

attitude towards local cultures, coupled with the foremen's misappropriation of local workers' wages, prompted the people of Sokehs and Nett to attack the Spanish settlement in Kolonia. The rebels killed the Spanish Governor and several of his men.

The second war against Spanish rule broke out when the Catholic priests and a contingency of soldiers arrogantly started laying the foundation for a new church next to the Protestant church at Ohwa in Madolenihmw. The local warriors quickly killed the construction workers and the soldiers. They would have killed the Catholic priests too had a local church official not given safe conduct into Kolonia.

From the outset of its rule, Spain was too occupied with the rebellions in Pohnpei and never turned its attention to economic and social development. The Caroline and the Marianas Islands were the two last remaining colonies and Spain's national commitment to keep them was dubious at best. Spain asserted its claim to the Caroline Islands in 1885 more for national pride than economic benefit.

As the succeeding colonizing power, Germany gave supervision of Micronesia to the German Governor of New Guinea. The Germans created four administrative districts in the Carolines: Chuuk, Palau, Pohnpei, and Yap. Kosrae Island was incorporated into the Pohnpei district. The district government was headed by a district officer and a few staff members. To enforce their laws, the Germans brought in New Guinean policemen.

The Germans brought sweeping economic reforms. To assist in paying for the colony in the Caroline Islands, the Germans levied a head tax on everyone above sixteen years of age. To encourage development of agriculture, the Germans introduced land title registration, particularly in Pohnpei; and to increase copra production for export, they required Micronesians to convert all uncultivated parcels of land to coconut plantations. They made all able-bodied men work on public projects such as docks, roads, public buildings. They even dug a canal in Yap to shorten trips from one side of the island to the other. When mining of phosphate on Angaur in Palau began, government officers across Micronesia recruited laborers to work in the mine.

The Germans also introduced social reforms. Alcoholism and tobacco problems were rampant in the Caroline Islands before the Germans came. The problem existed even among boys and girls as young as nine and ten years old. The Germans solved this by banning the sale of alcohol to Micronesians.

There was also a problem of endemic warfare which the Germans stopped by confiscating all firearms and ammunition, and prohibiting their sale to Micronesians. The violators of the bans against the sale of alcohol and firearms

were deported from the islands. Local trouble-makers were exiled to another part of Micronesia.

Several severe typhoons swept through the Carolines during the German colonial period. These typhoons destroyed coconut trees and other crops, and forced the Germans to relocate people from the outlying low coral islands to the high islands. The loss of coconut trees set back copra production for years. Some people from Woleai Atoll in Yap were evacuated to Saipan in the Marianas, joining their fellow islanders who settled there at the beginning of the nineteenth century. Some people from Mokil and Pingelap were relocated to Sokehs in Pohnpei. A group of Mortlockese was allowed to settle in Sokehs on lands confiscated by the German authorities after the Sokehs rebellion.

The only people who actively rebelled against German rule were the people of Sokehs in Pohnpei. In the aftermath of the uprising, the leaders of the rebellion were executed and the rest of the population was exiled to Babeldoab Island in Palau.

The rule of Germany ended in World War I. Great Britain and Japan entered into a secret agreement dividing the German colonies in the Pacific between them. The colonies that lay north of the equator were to be captured by the Japanese while the colonies south of the equator were for the British. When the war started in 1914, Japanese naval forces quickly captured the Carolines, the Northern Marianas, and the Marshalls. The conquest was bloodless. The Japanese invading force for each major island was then immediately transformed into an occupying power. The commander became the head of the district government, and a functioning administrative apparatus was created.

Schools were established and military officers were assigned to teach. Temporary headquarters for the Provisional South Seas Defense Force was set up on Dublon Island in Chuuk Lagoon. It took the Japanese less than three months to firmly establish themselves in their new colony in Micronesia.

In 1919, when the victorious Allied Powers assembled in Versailles in France to create the League of Nations and divide the spoils of war, Japan had been in firm control of this former German colony for five years and showed no sign of relinquishing. In fact, the Japanese chief delegate demanded that his country “should be confirmed in its possession of Micronesia” because in their five-year occupation, the Japanese had accomplished much in terms of social, political, and economic development.

In spite of President Woodrow Wilson’s anti-colonialism posture at the peace conference, the League of Nations awarded several mandates in the Pacific. Japan was awarded authority over Micronesia. Under the League of Nations

mandate, Japan ran the islands as an integral part of the Empire. The Micronesians were considered subjects of the Japanese Emperor, and were under Japanese law.

The post-war occupation, however, was not the first contact between the Japanese and Micronesia. Japanese traders started to come to Chuuk Lagoon in the 1890s. They were a nuisance to the German colonial officials because they sold guns and alcohol, both banned items, to the Micronesians. The Japanese were deported from Chuuk but returned with renewed determination to continue their trading activities. Towards the end of the German occupation, the Japanese firms, such as *Nan'yo Boeki Kaisha* (Nambo), were competing with German companies for control of trade.

From the outset of Japanese colonial rule, private Japanese commercial firms like Nambo were given government subsidies to provide crucial services such as transportation linking the major islands in the new colony to each other and to Japan.

The Japanese called the area *Nan'yo cho* (South Seas). From the outset of their colonial rule, private Japanese firms were given government subsidies to provide services and enhance trade in Micronesia. The dominant commercial presence was Nambo which took over the German copra trading companies. Copra was still the single most profitable trading activity. The Japanese government in Micronesia also established its own firm to take control of the phosphate mines on Angaur Island in Palau.

As with every economic development endeavor in the *Nan'yo cho*, the government approached the harnessing of fishery resources with careful research and planning. In 1931, the *Nan'yo cho* government created a Marine Products Experimental Station in Palau to study oceanic conditions, and to perfect catching and canning of fish and shellfish. The fishery resources were exploited by small commercial fishing operations run mainly by Okinawan fishermen. They sold some of their catch in the local fish market and the rest was processed for export to Japan.

Agricultural resources were also harnessed by Japan. Farmers from Okinawa were brought in and they grew vegetables, tubers, and grain. As with the fishery products, the farm produce was exported to Japan.

The efficient development of marine and agriculture resources, the operation of the phosphate mines in Angaur and Fais, and the increase in copra production made it possible to cut off the annual subsidy provided by the Japanese government to the *Nan'yo cho* in about twenty-five years making the Micronesian economy self-sufficient.

However, this success brought about a large migration of Japanese into Micronesia, a phenomenon that had negative effects. From the beginning of the

Japanese colonial administration, its social policies were unfavorable to the Micronesian population. For instance, the *Nan'yo cho* government established a dual system of education: the *shogakko* and the *kogakko*. The *shogakko* were schools for Japanese children; and the *kogakko* were public schools for Micronesian children. While the *shogakko* maintained the standards of regular Japanese schools, the *kogakko* operated on a lower level. For one, they used an inferior form of Japanese. The students in the *kogakko* could stay for a maximum of five years. At the end of that period, the very best students were sent to attend the Carpentry School in Koror, Palau. These were the minority, however. The education provided by the Japanese was clearly inadequate, but at least they set up an education system accessible to every child.

Obviously, the Japanese did not intend to train the Micronesians to run the *Nan'yo cho* government or to assume an active role in the booming economy. The *Nan'yo cho* government created two positions exclusively for Micronesians. The *Sosoncho* was a village chief's position and was sometimes filled by traditional chiefs. The *Sosoncho*'s job was to liaise between the local population and the *Nan'yo cho* government. The other position was *Soncho*, assistant to the village chief.

In terms of health services, the Japanese provided free health care accessible to everyone who needed it. For the first time in their history, the Micronesians could receive free medical attention in any of the public hospitals in the *Nan'yo cho*. The closest a colonial power got to providing health care was when the Germans tried to deliver medical services in response to the typhoons that devastated the region during their occupation.

The Japanese attack on Pearl Harbor in Hawaii on December 7, 1941 brought World War II to Micronesia. During the war, American bombers destroyed Japanese military installations and local infrastructure. Although the American forces did not invade any of the high islands, the roads, docks, and other public facilities were completely destroyed.

After the war, the Americans repatriated all foreign nationals from Micronesia. Unfortunately, they had been the backbone of the cash economy; and with them gone, the economy collapsed. With the low level of education provided to them by the Japanese, the Micronesians lacked the knowledge and the technical-know-how to even restore minimum public services such as power and water. So it was left to the new colonial regime to set up social services, and to create administrative structures. Unfortunately, the United States Navy lacked trained personnel to administer the newly-acquired territory. The initial policies of the naval American administration reflected these problems. The first directives issued by Admiral Raymond Spruance were characterized as a "policy of minimum government." As

Admiral Dewitt Ramsey, the first deputy high commissioner, explained it: “the Navy does not govern these islands — it administers them.” This policy was also explained by Admiral Louis Denfield this way: “...We see no need to interfere unduly with the happy, simple life of these new charges of the American government.”

This “policy of minimum government” set the tone for the American administration for the next fifteen years. Even the establishment of the United Nations Trusteeship in 1947 did little to alter the naval policy in Micronesia. As pointed out by Fran Hezel, S.J., “... (the trusteeship) effect on the machinery of administration in the islands was little more than a change of name—from military government to civil administration.” The budget for the entire Trust Territory was a little over \$7 million and it stayed at that level until the 1960s.

With a meager budget, the United States attempted to build its new colony. The American administration established elementary schools in every community; and later added junior high schools in every district center. The elementary schools were mostly housed in native thatched roof buildings. In 1952, the first general high school opened in Chuuk and students from all over the Trust Territory were brought in to attend. It would take another eight years for each of the six districts to have its own high school.

Development of public health was also slow. Americans were finding out that training of local health personnel was prerequisite to the delivery of adequate health care to the Micronesian population. For this, they relied heavily on the Fiji School of Medicine.

Fishing and agriculture did not offer much hope for the American administration to develop the Trust Territory economy. They tried to export fish to Guam, but they stopped because of uncertainty in the industry. The agriculture program in Pohnpei identified several promising products such as ramie, cacao, pepper, and rice. However, benefits did not materialize because of farmers’ loss of interest in the project, largely due to damage done by pests. With the failure to develop fisheries and agriculture, copra remained the most reliable cash crop in the Trust Territory.

Economic development was not easy with the unenthusiastic approach taken by the American administration. Foreign investment was prohibited; and with the constraint of a small budget, the Trust Territory administration had to rely on old industries such as copra for export. Small freighters would bring copra from other parts of the Trust Territory to the dock in Majuro for transshipment. The Majuro dock was the only one in the entire Trust Territory capable of handling large transoceanic vessels.

Many writers have referred this period in the American administration of the Trust Territory as the period of “benign neglect.” Critics of American policy started calling the islands the “Rust Territory.”

The second identifiable period of the American administration started in the early 1960s. Three important events converged to focus American attention on the Trust Territory. These were: (1) the 1961 UN Visiting Mission report; (2) the polio epidemic in the Marshall Islands; and, (3) the fact that by 1960, the Trust Territory was among the last few remaining trusteeships the United Nations had created after WWII.

The UN Visiting Mission report was very critical of the way the United States was administering the Trust Territory. This report ended up on President John Kennedy’s desk. In 1962, the president signed National Security Action Memorandum No. 145 creating an inter-agency committee to oversee policy development in the Trust Territory. In addition, President Kennedy authorized an eight-member task force headed by Anthony Solomon to survey the islands and draw up a master plan for development that would secure American goals and interests in the area. After visiting the islands in 1963, the task force produced a three-volume report on how to improve the economy, raise the standard of living, and ensure that Micronesians would choose in a plebiscite a political status compatible with United States security interests. These recommendations became the basis of the new American policy in the Trust Territory.

In 1962, the new administration in the United States doubled the budget for the Trust Territory to \$15 million. In 1963, the United States administration allotted \$10 million to start a crash education program that would construct more than five hundred classrooms and bring four hundred American teachers to the elementary and secondary schools. By 1964, all districts, including Kosrae and Ulithi, had started their own high schools.

The US government was pouring money into the Trust Territory in unprecedented amounts. The budget went from a meager \$7.5 million annually from 1947 to 1962, to \$58 million annually from 1963 to 1978. A whole array of new US federal education and healthcare programs were introduced.

One important initiative taken by the United States that would change the political landscape of the Trust Territory and serve as counterweight to American aims, was the creation of the Congress of Micronesia in 1965. In just two years after its creation, the Congress of Micronesia had served notice to the United States that it intended to play an active role in deciding the future political status of the Trust Territory. In 1967, they requested the American administration to form a task force to look into alternative political positions for

the Trust Territory. When the United States government failed to act, the Congress of Micronesia created its own Joint Committee on Future Political Status to investigate political alternatives to the trusteeship. After a year of visiting other dependent territories, the Joint Committee recommended negotiations with the United States for free association status.

Formal negotiations with the United States started in 1969. The negotiation for the Compact of Free Association took seventeen years to complete. During those seventeen years, the Trust Territory was fragmented into four political entities: a commonwealth and three independent nations with Compact of Freely Association treaties with the United States. The formal break-up of the Trust Territory came when the Marianas, Marshalls, and Palau Districts did not ratify the draft constitution for the Federated States of Micronesia in the 1979 referendum. In that year, the Chuuk, Kosrae, Pohnpei and Yap Districts officially formed a political union called the Federated States of Micronesia.

2.3 Self-Government and Compact I

The four districts of the Trust Territory that ratified the Constitution of the Federated States of Micronesia attained self-government in 1979. Members of the new National Congress were elected in March and took office in May. After taking office, they elected the first president and vice president from among themselves.

The first task of the president and vice president was to form the executive and judicial branches of the national government. The new administration modeled the bureaucratic structure of the executive branch after that of the United States government. The judicial branch was created when the FSM Congress confirmed Edward King as the first Chief Justice of the FSM Supreme Court. The legislative branch inherited the administrative staff and offices of the interim FSM Congress.

Prior to the implementation of the Compact of Free Association in 1986, the FSM National Government was gradually building its administrative staff to a level where critics were comparing it to the Trust Territory government. To attract qualified employees to work for the new national bureaucracy, the compensation level was set higher than the wages paid to state employees. When the Compact was implemented in 1986, there was a new flurry of hiring. The national government was also staffing federal programs. Some were hired as permanent employees at the end of the programs. By 1987, the national bureaucracy had come to rival the former Trust Territory headquarters staff in size and funding.

In the same year, the new FSM Administration submitted a reorganization plan for the executive branch to the FSM Congress. The plan was rejected mainly because the ruling politicians felt there was nothing wrong with the current system. The congress approved an emaciated version of the proposal, which at least eliminated most of the independent agencies and folded their functions into existing offices of the executive branch. It is interesting to note that when the governments at the national and state levels were forced to reduce employment and wages in the 1990s, no reference was made to the attempt to reorganize the executive branch of the national government in 1987.

Under Compact I, the national and state governments had so many workers that they could not withstand the impact of the second step-down in funding. It was deemed politically risky to lay-off staff members and reduce wages. So the national and state governments initiated an early retirement program for employees that paid two-years' wages to those who were willing to leave their government jobs. In the national government, some employees were allowed to take the two-year salary and retire even though the jobs were not targeted for abolition. In some states, employees who were removed under the early retirement program were actually hired back. Some as consultants to the government, doing the same work that they did prior to retirement.