Openings in the body of 'capitalism': trust funds, 'marginal' places and diverse economic possibilities

Katherine Gibson and Michael Pretes

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Introduction

Until quite recently much of the research on the geography of finance has been concerned with the growth of capitalist financial services and the tracking of capital flows within and between developed industrial economies, rather than on issues of economic development in marginal places. Yet geographical research into finance *does* intersect questions of economic development in marginal places and what we might call 'alternative economic development' in a number of ways, one of them being the formation of sovereign wealth funds by governments in the periphery, which invest their capital in core regions, rather than locally. In this paper we will explore the Micronesian state of Kiribati and its practice of investing locally-generated capital in global financial markets through its own trust fund, and how this financial practice contributes to Kiribati's own development project. Our case study of Kiribati demonstrates that alternative and unconventional economic development strategies on the part of developing countries can produce results equalling or surpassing those of more conventional neo-liberal development models.

Geography of finance literature has engaged tangentially with issues of economic development in marginal regions. There is, for example, a burgeoning literature on microfinance that focuses on the mobilization of scarce funds within the developing world for the purposes of investing in local development—usually in small and medium sized private enterprises (Brau and Woller, 2004). Underpinning much of this work is attachment to the familiar development dynamic—private business growth as the pathway to generalized well-being. Research on the mobilization of pension funds generated by workforces in developed economies and their investment to procure future benefits has explored the potential for these funds to act as a major source of ethical investment in alternative capitalist and socially beneficial activities but shows that this potential is usually stymied by economic conservatism (Clark, 2000). In the face of the capacity to make an economic difference even labour unions back capitalist growth as their foothold on the future. Research has been conducted on offshore banking focusing on capital generated in so-called core economies that flows to the periphery and returns again to the core having avoided the regulatory appropriations of core states. Development practitioners are usually highly critical of small states that establish themselves as outlaw spaces—offering tax haven status—to try to leverage local development (Hampton and Christensen, 2002). Links to criminal business operations and the hostility of core states, let alone competition with the likes of Switzerland, make this a highly risky development strategy.

The case we want to focus on here involves resource, and other windfall-based, capital that flows in the form of trust fund investments *from* the periphery *to* the core. Here capital takes advantage of large-scale, global finance markets to increase in value and returns augmented to the periphery where it can, in certain circumstances, have the potential to develop or sustain diverse noncapitalist economies. We are particularly interested in sustaining the community economy which recognizes and builds upon the diversity of practices that sustain livelihoods—including non-market as well as market exchange, unpaid and differently remunerated as well as wage labour, and non-capitalist and alternative capitalist businesses (cooperatives, socially responsible firms, green enterprise, etc.). What distinguishes the community economy is an emphasis on relationships rather than logics of development, and the re-visioning of economy as a political and ethical space. It is in the community economy that the economic interdependence of individuals and groups is acknowledged and built upon, where surplus generation is a force for strengthening communities, where increased wellbeing is delivered directly rather than through the circuitous route of capitalist industrialization, and where communities make and share a commons.

Our case acts as a counterpoint to the classic dependency argument which sees capital engendering capital as core investment in the periphery expands through various practices of extortion and exploitation and returns to the former in the form of commodity, productive, and finance capital. We are interested in this ‘other’ anti-capitalocentric narrative in which investment in mainstream capital markets begets non-mainstream kinds of ‘development’ and in which the spatiality of capital flows reverses the usual directionality of the development/underdevelopment story (capital flow from core to periphery brings development/underdevelopment). It’s not that these narratives don’t have purchase—we just want to exemplify another possible pathway that illustrates the potential for diverse economic dynamics (emanating from contingent relationships rather than assumed logics).

Capital flows and economic development

Non-renewable resource revenues, usually associated with mineral exploitation, form the basis of many small, marginal economies. Other potentially non-renewable resources associated with such economies are foreign aid, remittances from non-resident nationals, or 'sovereignty resources', such as sale of passports, web domains or tax haven status. These non-renewable windfall resources are seen as inherently unsustainable over time and certainly unstable and potentially unreliable foundations on which to build a self-reliant and robust economy that provides a high level of benefits to residents. Resource curse theorists, for example, argue that to found an economy on non-renewable resources is to predispose and prejudice policy makers to make decisions that ultimately work against long-range economic development (Auty, 1993). They point to the practice of withdrawing labour from renewable activities in agriculture and manufacturing, encouraging rent-seeking and provoking misallocation and corruption.

Clearly resources themselves are not necessarily a curse. Development depends on the kinds of policy choices made about how to exploit the resources and how to invest and distribute the revenues that they generate (Karl, 1997). This policy terrain is, however, heavily influenced by dominant assumptions about development dynamics. For example, uppermost is the centred, productivist commitment (based on the experience of European nations)—that the only way to develop and generate self-sustaining economic well-being is via investment in industrialization and the expansion of private accumulation. This universalizing commitment assumes that all places can (and should) develop in this manner. Thus developing nations and other marginal places are encourage to follow the same pathways, by progressing from being primary producers to becoming secondary and tertiary economies. Developing economies are expected to seek investment capital from surpluses in core economies. Development in marginal places is linked to retaining close ties with the core, but on terms most beneficial to the core economies, which exercise control over capital and provide it on their own terms.

The alternative to this mainstream process that we wish to explore here is a process of reversing the traditional flows of investment capital from core to periphery by examining how investment capital flowing *from the periphery to the core* can lead to economic outcomes that work in favour of developing economies (Pretes, 2005). Capital can be generated in marginal regions through resource extraction and other activities. This capital can then be invested in core economies, producing economic returns that can then flow back to the peripheral economy as investor. A trust fund (or sovereign wealth fund[1]) is the instrument by which this process can be facilitated.

Trust funds

Trust funds are a mechanism by which *non-renewable natural* resources are transformed into *renewable fiscal* resources. A trust fund can save a portion of natural resource or windfall revenues and invest these to generate earnings while preserving the original fund capital. If earnings (or some portion of them) are reinvested into the trust fund, then the fund will continue to grow, even after resource revenues have stopped flowing in. The trust fund thus becomes a renewable resource, similar, for example, to a fishery, in which fund capital is analogous to the fishery's breeding stock and the fund earnings analogous to the harvestable part of the resource. If sustainably managed, trust funds, like fisheries, will continue to generate a sustainable harvestable yield in perpetuity (Pretes, 2005).

Trust funds have many advantages over the direct use of resource revenues. They promote (1) savings, by saving resource revenues that would otherwise be spent and possibly misallocated into immediate direct consumption; (2) equity, by extending benefits of resource revenues over many generations or in perpetuity; (3) income, by providing an additional source of budgetary income for the state; (4) investment capital, by providing an additional or alternative source of investment capital; (5) intervention, by helping to intervene in the economy to achieve state objectives, such as diversification or stabilisation; and (6) macro management, by externalising windfall effects and preventing distortions arising in the economy.

The trust became an important modern institution because it is a convenient method for a small number of persons to hold property on behalf of many others (Sheridan, 1993). As the name implies, the rules associated with 'trust' funds enshrine a form of responsibility to the collective interest and as such open up a key economic arena—that of investment decisions and funds management—to ethical considerations outside of and beyond individual self-interest. There is also an element of paternalism inherent in the trust fund mechanism that connects it with its feudal origins when knights off to the crusades handed over the duty of care of their estates to trusted guardians. As Hayton notes in the 11th edition of his *The law of trusts and equitable remedies*:

[1] A sovereign wealth fund generally refers to a large pool of investment capital under the control of a national or sub-national government and which is invested offshore, whereas a trust fund also contains the idea of investments being held in trust for beneficiaries (the citizens of the place) and thus subject to additional controls and investment guidelines.

> The interests of the beneficiaries are paramount and the trustees must do their best to hold the balance fairly between those beneficiaries … interested in income and those beneficiaries … interested in capital. Indeed, the trustees have a paternalistic function of protecting each beneficiary against himself (2001, 6).

Unlike a corporation, the trust is not a legal person, and cannot be sued. Trustees, however, are legally obligated to act prudently in the best interests of all beneficiaries when managing the funds or property entrusted to them.[2] How the collective is imagined (for example, as the present beneficiaries or their descendants, or as the state as a whole or its individual citizens) and how the trustees position themselves with respect to the collective interest will influence their behaviour and that of the fund (Pretes, 2005).

What is clear is that there is considerable ethical room to move in the management of trust funds. In this discussion, we will use the term 'trust fund' to refer to moneys held in trust by a government (trustee) on behalf of the nation's legal residents (beneficiaries) (Duncan *et al.*, 1995). What we are interested in here is the different ways in which small and putatively economically marginal states have used trust funds in diverse development pathways. We take up the case of Kiribati.

Case study: The Republic of Kiribati

The Republic of Kiribati is a Micronesian island state in the Central Pacific. The country comprises the Gilbert Islands (Kiribati proper), the Phoenix Islands, and the Line Islands, including Kiritimati (Christmas Island). Prior to independence in 1979, Kiribati was part of the British Gilbert and Ellice Islands Colony (GEIC). Kiribati contains 34 islands, all but one of them coral atolls, with a combined area of 811 km^2. The total population is about 100,000 and consists primarily of Gilbertese, known as I-Kiribati. Nearly half the population lives on the capital island of South Tarawa. Kiribati's small land area and generally unproductive coral soils means that today most of the nation's wealth is derived from offshore fishing licences granted to overseas fleets. Copra and seaweed are the most important domestic exports and their production provides cash income for residents.

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[2] The relationship between trustees and beneficiaries in a trust is very different from that between directors and shareholders of a corporation. The fact that a corporation is a legal person and can be sued can create a sense of immunity among the corporation's executives and managers, whereas the trust principle restricts greed because the decision-makers do not themselves profit from increases in the value of the trust: they are helping others, not themselves.

Kiribati is a low-income country with an estimated 2006 GNI (PPP) of about US$9060 on a per capita basis. The country has what Bertram and Watters (1985) have called a MIRAB economy—one maintained at higher than expected levels of economic performance by migration (MI), remittances (R), foreign aid (A), and bureaucracy (B). Almost all the resident population is engaged in aspects of community (rather than capitalist) economy. Only about 20% of the working-age adult population is formally employed, and most of those hold jobs in the public sector (Throsby, 2001). The remaining 80% depend on a combination of subsistence (fishing and agriculture) and family support (from both resident and non-resident family members) for their livelihood. The generation of new wealth depends heavily on offshore income from fishing access fees, remittances, and development aid, in addition to revenues from the country's trust fund.

To conceive of a MIRAB economy as viable it is necessary to reimagine the economic spaces of Pacific island states to include Pacific islanders resident overseas (Bertram and Watters, 1985; Bertram, 1993). Bertram is adamant that 'conventional notions of what constitutes economic development cannot be applied mechanistically to the very small island economies of the Pacific' (1993: 257). Mainstream imaginings of development argue that to be sustainable a country must be 'underpinned by productive activity within the territorial boundaries of the island economy itself' (Bertram 1993: 248). But in the context of microstates, in which non-capitalist productive industry is important mainly for *sustaining a subsistence base and cultural identity*, he proposes that: 'there are viable paths to modernity and welfare that do not rely upon a repetition of the European large-country model of industrialisation and primitive accumulation' (1993: 248). His alternative interpretation of development is that it can be sustainable:

> so long as the indigenous people, wherever they reside, retain a set of entitlements sufficient to support material welfare standards over the foreseeable future, while preserving or enhancing their collective identity and the natural environment of their home territory (1993, 248).

So for a country like Kiribati, rent flows are more critical to island survival than the formation of productive forms of industry:

> It is continued rent entitlements that are required to render current living standards sustainable. The promotion of productive activity within the territory of these micro states

finds its rationale not in its direct contribution to real income, so much as in its role in defining and reinforcing the roles of individuals within indigenous society and culture (1993, 253).

In Bertram's view, economic sustainability will depend on the ability of microstates to sustain rents over the long term. For many microstates this means continued reliance on remittances and aid. But investing rents in financial markets can also provide a means of sustaining this flow in the long term. In Kiribati, where the generation of new wealth depends heavily on offshore income from fishing access fees, the country's trust fund has played a major role in stabilizing the economy and supplementing income flows from remittances and development aid.

Kiribati's trust fund

The Revenue Equalisation Reserve Fund (RERF, hereafter referred to as the fund) was established in 1956 when Kiribati was still a British colony. It was the brainchild of Michael Bernacchi, the Resident Commissioner of the colony for much of the 1950s who oversaw the rebuilding of the country after its devastation during WWII and took seriously the need for the colonial administration to demonstrate concern for locals' welfare and lack of exploitation (Macdonald, 1982: 173).

The trust fund began in 1956 with A$555,580 provided by the colonial administration. The source of the trust fund capital was royalty revenue from the extensive phosphate deposits on the island of Banaba (Ocean Island). Phosphate mining had begun on Banaba in 1900 and continued until 1979 even after the removal in 1945 of all Banabans to a new home on the island of Rabi, in Fiji (at that time another British colony). From 1956 to 1979 25% of phosphate revenues from the Banaba mines were deposited into the fund. Mining ceased when Banaban agitation, falling world phosphate prices, and depleting reserves convinced the newly-independent Kiribati government to close the mines.

Year	*RERF Balance*	*RERF Income*[a]	*Deposits*	*Drawdown*	*Return*[b]	*Population*	*Per Capita Value*	*Per Capita Income*
1956	0.55	…	…	0	…	42,000[c]	…	…
1968	1.6	…	…	0	…	54,000[c]	…	…
1979	68.0	…	…	0	…	57,100	1192.9	…

1989	185.9	29.9	0	5.0	7.1%	70,389	2641.0	424.8
1990	220.4	38.6	0	4.0	7.2%	72,335	3046.9	533.6
1991	261.1	42.3	0.4	2.0	6.7%	73,465	3554.1	575.8
1992	295.8	28.7	12.5	6.5	6.5%	75,146	3936.3	381.9
1993	353.4	63.0	0	5.5	5.7%	75,901	4656.1	830.0
1994	318.3	63.2	0	4.4	4.6%	76,737	4147.9	823.6
1995	367.9	20.5	0	3.5	4.0%	80,169	4589.0	255.7
1996	371.8	22.0	0	5.6	4.5%	81,612	4555.7	269.6
1997	458.9	36.9	0	8.0	4.6%	83,081	5523.5	444.1
1998	570.1	72.0	0	0	4.4%	84,577	6740.6	851.3
1999	601.5	54.5	5.0	0	3.6%	88,000	6835.2	619.3
2000	658.0	58.9	0	0	4.0%	92,000[d]	7152.2	640.4

Table 1. Selected Statistics on the Kiribati Revenue Equalisation Reserve Fund. A$ millions (except per capita).

Source: Pretes, 2005.

Notes:

… = not available

[a] including interest, dividends, and realized currency and capital gains and losses

[b] interest and dividend rate of return (does not include currency and capital returns)

[c] includes Tuvalu (Ellice Islands)

[d] estimate

The fund has grown considerably since its inception and in 2000 reported a balance of A$658 million. Table 1 gives some statistics for the RERF including assets, earnings, and drawdowns. At present all fund assets are invested offshore by two London-based fund managers. It aims for an equal balance of equity and fixed income investments and assets are held in various currencies with half denominated in Australian dollars (also the currency of Kiribati). Fund assets held in other currencies helped increase the value of the fund during the 1990s as the Australian dollar depreciated against many currencies (ADB, 1998, 52). The fund is administered by a Committee, which consists of the Minister of Finance (chairman) and five other senior officials and parliamentary approval is needed for all drawdowns.

Prior to independence, all income generated by the fund was saved and reinvested, thereby expanding the fund base. Upon independence, Kiribati was successful in convincing aid donors that fund capital not be considered in aid decisions (Macdonald, 1982: 273). So while aid still is sought for large capital projects like building new roads and hospitals, trust fund incomes are used to supplement recurrent government revenues. Importantly, in Kiribati the function of the fund is to stabilize government revenues, especially at times when copra prices and fishing revenues are low. At these times the government is authorized to make drawdowns against fund income. The government did this annually between 1989 and 1997, when about 13% of earnings were removed. Table 2 illustrates how the RERF drawdown is used to augment government revenues. Between 1998 and 2000 no withdrawals were made from the fund. The fund income thus provides the Kiribati government with a cushion against downturns in its resource industries. Redeposit of fund earnings ensures that the fund continues to grow. So Kiribati basically lives now off its trust fund income (few people are employed in the formal economic sector so there is a very limited tax base).

Revenue Source	***Amount***
Corporate taxes	2.5
Import duties	10.0
Fishing licences	29.4
Passports	4.0
Personal taxes	4.0
RERF drawdown	*8.0*
Other	3.0
Total	*60.9*

Table 2. Kiribati Government Revenue Sources, 1997, in A$ millions.

Source: 1999 Budget, Government of Kiribati, Tarawa

The fund allows the Kiribati government a degree of self-sufficiency unmatched by most other developing countries. The government does not need to borrow from abroad to finance deficit budgets, and it does not have to levy heavy taxes on the population. Having the additional cushion of fund earnings also allows the Kiribati government to subsidise services in the outer islands, which are remote and distant from Tarawa and thus expensive to service. An inter-island airline, freight service, communications, power, and health services are among the public goods supported in part by fund income. To some extent, the provision of these services prevents outer islanders from migrating to crowded South Tarawa (Pretes, 2005). Moreover, the income provided by the fund means that Kiribati does not have to over-exploit natural resources (like fish)[3] or turn to corrupting activities like offshore banking. Given the remote location of Kiribati and its very limited land area and poor soils, it has done much better in providing opportunities for an acceptable quality of life than similarly resource-limited places in Africa or South Asia.

The Kiribati Statistics Office conducted three household surveys in 1996 in order to determine income and expenditure patterns in the country, using the islands of South Tarawa, Onotoa, and Butaritari as case studies (ADB, 1998; Kiribati Statistics Office, 1996a, 1996b, 1996c). These surveys found that expenditures on food on the three islands were similar, but that the two outer islands of Onotoa and Butaritari had much lower percentages of income spent on fish and meat (about 18% of total food expenditure on Tarawa, but less than 8% on Onotoa and Butaritari). Household income on South Tarawa was $268 per fortnight, on Butaritari $93 per fortnight, and on Onotoa $10 per fortnight. Both of these figures indicate the much higher dependence on subsistence on the outer islands.

Kiribati's economy still depends heavily on subsistence. But, as the Asian Development Bank notes, 'while household production can continue to sustain a basic livelihood, it cannot produce the funds needed to purchase imports of fuel, machinery, and the other items that are now essential components of the I-Kiribati lifestyle' (ADB, 1998, 187). I-Kiribati have been increasingly integrated into a cash economy since the 1920s, when missionary and colonial influence led to a rising demand for imported clothing, foods, and other goods such as pots and pans, knives and axes, and soap (Schutz and Tenten, 1979). The cash economy has altered I-Kiribati society in substantial ways. As Talu and Tekonnang note:

> Parents are eager for their children to be educated, not for what it will do to them, but because it will enable them to obtain jobs which bring home money. It is also changing their attitude to marriage. Formerly, parents wished to see their children married so they could have grandchildren; today some people are opposing marriages because this cuts off a source of income for them. In quite a few cases money has taken precedence even over land values. Many cases are known of people who have sold their land to buy a motorcycle or other assets (1979, 163).

I-Kiribati of today are well connected to the modern world and thus have need of cash and imported goods to supplement their subsistence-based household economies.

[3] Thomas (2002: 163) notes that the inshore fishery "currently satisfies both subsistence and local commercial needs".

The mainstream development response to the country's need for cash income is recommending an expansion of the private sector (ADB, 1998; Duncan *et al*., 1995). The Asian Development Bank notes, however, that past efforts to develop productive industries 'have been disappointing' (ADB, 1998, 187). The Bank sees the encouragement of the private sector as the solution (because of the perceived need for formal employment); the trust fund, however, may at some point provide an alternative source of revenues that could provide a basic income to I-Kiribati if distributed as dividends. Dividends could provide a supplement to subsistence livelihoods.[4] As the Asian Development Bank notes, 'the people of Onotoa and Butaritari seem to be able to maintain an acceptable standard of living with minimal cash incomes' (ADB, 1998, 65). The Bank also notes, however, that the need for cash to finance children's education and other goods has prompted many people to relocate to South Tarawa in order to enter wage labour.

Transfer payments through the trust fund may help encourage people to remain on outer islands and reduce overpopulation and consequent urbanisation problems in South Tarawa. At the moment the RERF generates about $640 per capita. A redeposit of at least a portion of this revenue is needed to maintain the fund's real value and offset inflation. In future, if fund earnings continue to rise, a portion may be available for dividend payments. The amount available would be enhanced by an increase in Kiribati's fishing licensing fees.

Kiribati's Revenue Equalisation Reserve Fund has been considered a success by a variety of analysts (ADB, 1998; Toatu, 1993; Throsby, 2001). The Asian Development Bank further notes, for example, that the health of the average I-Kiribati has improved during the past two decades, and that the Kiribati government has been able to maintain a high level of health expenditure (ADB, 1998, 192). With a window of phosphate revenues lasting only from 1900 to 1979, preceding Kiribati's independence, the fund has grown to hold assets of $658 million, or about $7152 per capita, increasing by a factor of ten during the independence period.

In Kiribati, the fund's trustees chose to mitigate the disadvantages of the country's peripheral position by engaging directly with global financial markets. Using fund managers based in London and Sydney, Kiribati built up a portfolio of offshore investments that provides an annual income. This income assists the country when it experiences budget deficits. In doing so, Kiribati avoids having to impose or increase taxes on its subsistence-

[4] Most I-Kiribati also depend on the production of copra for part of their cash income. The Kiribati government's policy guarantees the same copra price to all producers, on whatever island they may be located. The price paid is not means-tested. This has the effect of reducing differences in incomes between producers on outer islands and those on South Tarawa, equitably distributing that income to all (ADB, 1998, 190).

dependent population, and avoids the need to request aid from international donor agencies, placing it in debt and in a position of dependence.[5] Capital generated years ago on the remote Pacific island of Banaba is now being invested throughout the world. Kiribati has transformed a local, non-renewable resource into a renewable one that stimulates local development.

Conclusion

The post-development agenda signals the unhinging of notions of development from the European experience of industrial growth and of *capitalist expansion*, the decentering of conceptions of Economy and the de-essentializing of economic logics as the motor of history. What is interesting in this case of trust fund usage is that a small nation can use global finance markets to translate a windfall gain (that did, we must not forget, dispossess and displace a whole island population) into ongoing fiscal support for a community economy made up of independent subsistence farmers and fishers and public servants. The productive noncapitalist economy acts more as a marker of cultural identity and provider of necessary subsistence than as a generator of surplus wealth that could be developed, or made more productive. The prudent management of the Kiribati commons (phosphate royalties) affords a surplus garnered from developed world investments that is redistributed to I-Kiribati as a public good. If, as a post-development orientation encourages us to do, we loosen the discursive grip of unilinear trajectories on all narratives of change and the abandonment of hierarchical valuations of cultures and economic practices we can see this case as one small example of an economic dynamic that fosters difference of a sustainable and perhaps desirable sort.

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[5] As Teiwaki notes, foreign aid is a ‘strategy by the metropolitan countries to exert their influence in national politics’ and that the conditions of foreign aid ‘tend to undermine national sovereignty’ (1988, 153).

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