

Amb. Williams

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THE FUTURE FINANCIAL RELATIONSHIP

In my opening remarks on Monday, I included in the list of issues which we would like to explore with you, the broad question of funding and future financial relationships. This is a very practical matter to us both--and to your people. We have no proposal to lay before you covering this question--no dollars and cents figures in mind. The specifics, the amounts, are not important at this stage. What is needed and what we seek are your views on how you envisage our possible financial relationships under a new status agreement and under a future Micronesian government.

We believe that our future relationship should not be dictated by financial considerations. This is not our intent and we are positive that it is not yours. Nevertheless, we feel that it would be useful to us to have your preliminary thinking on a number of questions which I will raise later in this presentation. At the same time we believe that for practical reasons, you may have a legitimate interest in knowing what some of our views are on this general subject.

As I have already indicated and as I hope to make clear in my further remarks, we will not be thinking in terms of amounts.

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More important to you are questions such as (1) what are your future budgetary needs, (2) how will funds to meet these needs be raised, (3) and how will such funds be distributed and administered; these are, of course, internal matters to be determined by your own future legislation. Of most importance to us will be your views on what future role you see the United States playing in supplementing and providing financial, technical, and other forms of assistance as may be needed under the form of relationship between us.

I have sketched out in previous meetings our views as to the land and legal aspects of a mutually beneficial future relationship. I shall go on later today to share with you our views on provisions for amending or changing, in the future, the compact which

would form a new association between us. Financing is, of course, intimately involved in the land use question as it relates to fair compensation. As pointed out yesterday, financial implications would also be related to the extent to which you might desire an extension of Federal services and programs to Micronesia under a new relationship. Therefore it is clear that the form, substance, and continuity of a future association will have a direct bearing in the long term on our financial relationship. It is thus our view that such considerations should be discussed prior to our later views on termination procedures.

We agree that financial questions are subordinate to other questions to be decided. It was for this very reason that we have not come to these meetings to describe a specific form of financial relationship or to offer or promise specific amounts of future levels of U. S. budgetary support. Such ^{specifics} could not possibly have been arrived at in Washington in the absence of a mutual understanding between us as to the nature of a future association, and without your views on what you might seek and expect in terms of a future financial relationship.

It might be useful to keep in mind the present scale of U. S. funding. The current level demonstrates the present willingness of the U. S. Congress to appropriate funds to Micronesia. It is the only tangible indicator we have concerning the level of support that might be anticipated in the future. Even this figure is of course subject to the annual budget process and to Congressional review. I can, however, speak for the Executive Branch, and it would be the intent of the latter to assure that in the future, the U. S. financial obligations that it assumes under any future relationship would be met.

During the past fiscal year, the budget for the Trust Territory as appropriated by the U. S. Congress to the Department of the Interior, was approximately \$60 million. Local revenues of the Congress of Micronesia provided further available resources of ^{over} \$1 million, and a similar amount was available for appropriation by the six district legislatures.

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In addition, some \$7.4 million was provided by a number of U. S. agencies for specific purposes and programs, such as Peace Corps, Community Action programs, U. S. Department of Agriculture food programs, HEW programs in education, and OEO Legal Services.

The operations of other Federal agencies, in addition to direct appropriations and grants, have contributed to Micronesia's economy. The U. S. Post Office, for example, spent a net amount of \$1.8 million in Micronesia in FY 1971, providing postal services in the islands. The Coast Guard expended \$1 million, and the Weather Service nearly \$500,000, in providing their services, at least some of which directly benefitted Micronesia.

In addition to the above there are a number of expenditures which are difficult to calculate but may be significant. These expenditures of the Department of Defense, for example, are difficult to put a dollar figure on, but include excess materiel programs, the transfer and loan of ships and other craft, Civic Action Teams, and search and rescue and medical evacuation operations. In addition, the economy of Micronesia is served by Kwajalein Micronesian payroll--over \$2.5 million annually--as well as sales and income taxes of over \$2 million^{in FY 1972} as a result of operations there.

Another example might be the activities of the Office of Emergency Preparedness, which has been able to provide rapid assistance in times of emergency and tragedy in Micronesia.

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While such assistance cannot undo an unfortunate situation, it can help to minimize the extent of loss and suffering.

Total U.S. expenditures on Micronesia thus exceed \$75 million per year.

This speaks of the present. The future is another matter. Under a new government, responsibility for determining your priority and overall economic needs will be yours. The questions of what future direction Micronesia will wish to take, in terms of its economic growth; the relationship of this development to your own cultural and traditional values; the pace of change and other considerations affecting the quality of life for your people will be for you to debate and to decide. Certainly your own desires, your own needs as you see them, and your own initiative and resolve will be the determining factors in your economic future.

Current policies related to economic development may indeed be in need of review. We and the leadership of Micronesia should reassess these policies and inquire whether they have or are leading to desired results, and if not, why not. The problem may not be the level of funds allocated but rather their use. However, as you understand far better than I, the basic costs of meeting the needs of your people, dispersed as they are and separated by distance, adds a burden of cost not faced by continental or more compact island groupings. Nevertheless, what I am saying is that your further economic and other needs, and how they can best be met are not unimportant questions and we realize that you have already given thoughtful consideration to this very practical question.

Any future relationship between us should certainly take into full account your thoughts on these problems. On our side, we are prepared to listen and to work further with you on how the United States can be of assistance. We are further prepared to carry your views back to Washington in order to seek understandings in both the Executive and the Legislative Branches of my Government as to how your needs and wishes may be accommodated in the future.

In order to assist us, we will need your preliminary thinking on questions such as these:

(1) Through what mechanisms would the Congress of Micronesia hope to have U. S. financial support? Would you seek a matching formula? or some form of lump sum subsidy-- and what would be the basis on which we would justify such a lump sum payment? Would you seek support from specific U.S. agencies to specific programs in Micronesia? Would you seek a continuation of the present budgetary support provided by the U. S. Congress through the Department of the Interior? Or would you look to some combination of these mechanisms?

(2) How in your view would the U. S. support be channeled to meet Micronesian needs? Would the Congress of Micronesia anticipate that most U.S. funds would be channeled through a central Micronesian government? Or would they go in part to the District governments? or to individuals in compensation for land and services provided in support of specific U. S. needs in the area?

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(3) What financial responsibilities would the central Micronesian government or the districts expect to undertake?

What proportion of Micronesia's budgetary needs would Micronesia expect to develop from Micronesian resources? Would it, for instance, plan to expand its own income tax system, or would it wish to have the U.S. Federal Income Taxes extend to Micronesia, with the revenues to be returned to Micronesia?

(4) Another aspect of Micronesian responsibilities involves certain issues already raised concerning land. Would the Congress of Micronesia envisage that it would be responsible for making the arrangements for meeting the minimum and definable U.S. land needs as previously discussed? Would it then undertake the responsibility for compensation to the districts or private landholders?

These are of course very difficult questions. I do not anticipate that you will be able to answer them in detail or authoritatively at this session, but I would be interested in any preliminary reactions which you may have. I will of course provide a copy of this presentation to you, so that you may read and study the questions at greater leisure.

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As I have said, I am not able to commit my Government at this time to any particular sum or formula, and we should discuss this subject in a separate forum after we have agreement on the broad outlines of your future status. At this stage, we cannot go further, without your participation, your thoughts on the questions we have posed, and your overall views on how you envisage a possible future relationship with respect to the financial questions involved. This concludes my informal statement on this subject.

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