

03  
6.4

May 22, 1973

MEMORANDUM FOR AMBASSADOR WILLIAMS

SUBJECT: Review of MSC Economic Proposal.

The following is intended as a brief review of the MSC proposal of May 14th of the economic aspects of an association with the United States. In addition, I am preparing a comprehensive list of questions which might be addressed to the MSC in an informal working session.

General. I have no basic problem with the basic principles set forth in the paper. The four long-range economic goals set forth on page 1 appear realistic, when combined with the other goal of self-support, which is mentioned at the bottom of page 1.

Next, I concur with the three phases of decision referred to on page 2 although not necessarily with the details set forth. It is clear that there will need to be a planning phase for development of the constitution, economic plans, government reorganization plans, etc. The second phase, when taken in conjunction with the military construction proposals which we will be making, appears to be a period during which the Marianas will make a major jump toward self-sufficiency. By the third phase, development and the governmental process should be regularized in a relatively self-supporting commonwealth. It should be noted that the timing of implementation of the new status and the relationship of any military construction to the new status are factors which must be included.

03 033555

I. Financial Requirements for Phase I

The Commission's request for \$4.5 million for planning purposes in Phase I appears excessive and we shall, in any case, wish to question and the MSC carefully on the requirement for/alternative sources of such sums. (FYI - It is possible that such sums as may actually be needed could be sought in an FY 1974 supplemental appropriation within the expected authorization of \$60 million, assuming that the TT budget for the FY will be \$56 million.) In any case, we would want to work with the MSC and the District Legislature on most if not all of the transitional planning which might be done--most of these are joint-type projects.

II. Financial Requirements for Phase II

With respect to capital improvement requirements, it is not clear what the source of the \$47.7 million figure is, but it is clear that these sums are far in excess of the approximately \$6.5 million budgeted for the program for CIP by the Trust Territory during the FY 75-79 period. Certainly it is likely that exception would be taken to a number of the CIP projects included in the list. Since we are working on a program basis, however, we should be postponing the actual consideration of funding of these specific projects to the budget analysis process in the Executive and Legislative Branches of the USG.

In the respective Program Operations Requirements the need for subsequent budgetary review also holds true. We draw attention to the large increase in government employees over the planning period. We would also question the need for application of the Government of Guam payscale without greater rationale. In particular, we would expect that the territorial wage board process utilized in the Virgin Islands and American Samoa would be a useful

tool in determining the appropriateness of wages and wage increases in the Marianas. There is no clear reason for slavishly following Guam, which has a territorial minimum wage substantially above the federal minimum wage.

With respect to Economic Development Requirements, I can see no rationale for the USG to set up a Marianas Development Corporation if sufficient funds for this purpose could be generated by military land payments, other income from public lands and from private capital sources. While I have sympathy for their desire to establish a local development corporation, it should be funded by other than direct U. S. grants.

With respect to government expenditures and revenue, I agree that capital improvements should be scheduled over at least 7 years so as not to put an undue burden on local construction capabilities. I am unclear as to the meaning of the statement that the tax burden of the Marianas by 1981 is expected to be at least 50% of that borne by the people of the United States--is this simply a reflection of a lower per capita income or are tax rates intended to be lower?

With respect to U. S. Military Impacts, I am unclear as to the meaning of the statement that "any benefit from military operations which might reduce the level of required budget support should be provided in some other form in the event military plans are not implemented." The MSC states that it desires specific financial commitments which would not be contingent on military activities in the Marianas. Regardless of the military activity which might come, this present a problem in trying to develop a program basis for U. S. assistance. It would be my view that

that the program nature of assistance would provide the level of budgetary support which might be required under any given set of circumstances. More specifically, if military activity is higher, I would expect the need for U. S. budget support to be less than if the military does not have a major impact on the District. Using a program basis, there is no need for a commitment in either case. Rather, the flexibility of the program approach would meet their needs as they developed.

### III. Financial Requirements for Phase III

The MSC suggests that in the 5th year of Phase III that there be a joint review of budget support requirements for the Marianas for the years beyond 1981. Again, if a program approach is accepted there is no need for specific commitments for years in advance. On the other hand, there would be value in reviewing the fiscal and financial requirements of the Marianas in the ways in which U.S. laws and program can be structured to meet long-range needs.

#### Suggested Language on Finance for Agreement

Consistent with the program approach the following section is suggested for inclusion in the agreement for the purpose of covering U.S.-Marianas understanding on finance:

"Until such time as revenues available to the Government of the Commonwealth of the Marianas are sufficient to meet the obligations of such Government, the United States Government shall make available to the Government of the Commonwealth of the Marianas such sums as may be appropriated by the U. S. Congress for the purpose of paying such obligations."

*dictated*

*tw*

Tom Whittington

033558