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U.S. COMMENTARY ON MSC PAPER ON ECONOMICS AND FINANCE -5/23/73

I. - Introduction

As Ambassador Williams remarked in his opening presentation this afternoon we have reviewed the commission's paper on economics and finance with great care and find it a very useful contribution to our joint thinking. In particular, we find merit in the four long range economic objectives set forth in the paper. These objectives are aimed at finding the resources:

- a - To facilitate an orderly transition;
- b - To build towards an adequate social and economic infrastructure;
- c - To provide necessary public services and programs; and
- d - To find adequate means to encourage and to promote the future economic development of the Marianas.

In addition you have stated your long range goal of self-sufficiency with which we concur.

We believe these need to be developed with particular reference to the basic economic needs of the people of the Marianas and the anticipated sources of income - both those now available and those likely to become available - in determining any ultimate shortfalls.

II. - Planning Goals and Criteria

Similarly we have no conceptual difficulty with the three-phased approach suggested, though we may differ on details and some aspects of timing. We need to discuss with you, however, where all of this is expected to lead - at least in terms of planning goals. 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 aimed, as Ambassador Williams has said, at the goal of regularized programming in a relatively self-supporting commonwealth.

We would be interested in hearing from the Commission its views on what it considers to be realistic rates of economic growth for the Marianas. We note a high level of annual growth in district income projected in your study in the early phases - approximately 10% - which appears to decline in later years. Has this been a deliberate part of your thinking?

We also note a projected rate of population expansion at inordinately high levels - 6% annually through 1981. We are most anxious to have you expand on this critical factor and to learn your views on how it should be handled in terms of its effect on your economic development and your ability to realize otherwise attainable goals in terms of per capita growth in income.

In a related area we would be most interested to learn your views regarding the present and future absorptive capacity of the Marianas economy. This is particularly significant in view of the high level of anticipated income to be derived in a relatively short time from the projected U.S. military construction and activities in the Marianas. There are important questions involved here such as the availability of manpower resources, the possible need for alien labor to meet temporary shortages, the economic (and social) fall out from such a new presence, the ability to provide new technical training and otherwise to develop new skills, the critical matter of maintenance capabilities, etc. etc.

III. - Requirements

A - Phase I

With regard to the Commission's request for a figure to be used for planning purposes during Phase I (transition), we will need to explore with you further the nature of these requirements and possible alternative sources of funding to meet them. It may be, for example, that with the requirements agreed the sums necessary to fund these or alternative projects could be included in the regular budgetary requests. In any event we will need to work with you in the Commission and with the district legislature during this period on a joint basis to determine the actual needs.

B - Phase II (Build up)

Regarding the list of capital improvement program items included in the Commission's paper, we are by no means clear about the basis on which your total figure of \$47.7 million was reached. This averages \$6.8 million per year over seven years and is considerably in excess of the \$6.5 million CIP budgeted by the Trust Territory during the entire FY 75-79 period. We will of course be examining this list further.

So far as Program Operations Requirements are concerned, these are items peculiarly susceptible to regular budgetary review. We draw attention to the large increase in government employees over the planning period (50%). We would tend to question the need for application of the Government of Guam pay scale and would be interested in hearing your rationale for this. In this connection we believe that the territorial wage board process utilized in the Virgin Islands and American Samoa would be a useful precedent for your consideration since it provides a handy tool in determining the appropriateness of

wages and wage increases and could be readily adapted for the Marianas. There appears to be no clear reason for following Guam, which has a territorial minimum wage substantially above the federal minimum wage.

With respect to Economic Development Requirements we have some difficulty with the specific suggestion for a Marianas Development Corporation if its principal purpose is to stimulate private investment and accelerate growth in the private sector. We need to discuss this with you at length and in particular to examine the prospects for private investment and growth under the new commonwealth without such extra stimulus. We also wonder if sufficient funds might not be available in any event from such things as land rentals and from private capital sources without making special efforts for federal funds for this purpose should this be determined finally to be a worthy expenditure. Indeed it is our preliminary feeling that to a certain extent our study may underestimate the amounts of private capital which may find their way into the Marianas Commonwealth and the major effect such an influx could have on your income and sources of revenue.

C. - Phase III (Long Term Developments)

With regard to long term prospects and goals there is little that can be added here to what Ambassador Williams has already said. We are not sure that if the approach he has suggested is followed it will be either necessary or appropriate to schedule a specific review at the end of five years. This in our view should rather be a continuing process. It would be accomplished each year, or more often as part of the regular programming process if this approach is adopted.

IV. - Revenues

We have been particularly interested in the projections contained in your TABLE III. As Ambassador Williams explained, we believe there are a greater number of potential sources of income and additional revenues available to you than appear on that chart. It is important that we sit down with you and examine these at length.

We believe that as a result of this examination a rather radically different picture is likely to emerge so far as your own potential resources are concerned. When we are able to get a better fix on this we will then be prepared to begin to put the pieces of the equation together and consider the final column indicating the critical shortfalls.