

BRIEFING PAPER FOR DISCUSSION IN GUAM

16
4,216

Week of August 27
1973
WITH MPSC REPRESENTATIVES

ECONOMICS AND FINANCE

Resume of previous exchanges with MPSC with emphasis on Phase I and the role of the Joint Working Group on economics and finance.

The subject of U.S. economic assistance was broached in Senator Pangelinan's opening statement at the December 13, Plenary Session in Saipan. (See printed Report "Opening Rounds" for following items I and II).

I. Pangelinan's Statement (page 7 and 8)

Without attempting to list all the issues in this area, let me identify a few of the key questions involving economics and finance which should be on our agenda during these discussions.

A. First there is the question of providing funds for supporting institutions of self-government. (*Budget Suppmt*)

B. We will want to explore continuation of U.S. grant programs at the same time as we strive to make them more responsive to the needs of the people. (*C.I.P.*)

C. Additional funds are clearly needed for the economic development of the Marianas --- it would be desirable to develop small industries --- rational exploitation of our resources. We want to take advantage of the planning which has already been completed. (*E.D.P.*)

D. We also need to discuss capabilities of the Marianas to raise money through taxation and the extent to which additional funds could be provided by the U.S. on an unrestricted basis. It would obviously be desirable to have the amount of

03- 027076

BASE

these funds calculated annually upon some objective basis (Such as)... the matching of Marianas tax revenues.... ^{BASE} had the U.S. contribution on the value of the land it uses or plans to use -- . In addition, a grant of funds to bring the Marianas infrastructure up to par during the early years--- may be appropriate.

E. A last important item in this general area relates to the opportunity for foreign investors-- under a new political status.

II. Ambassador Williams Opening Statement. (pages 9 and 10)

We recognize the importance of the financial considerations ----. These will be important items on our future agenda as well as --- trade, foreign investment---

In looking ahead to our further discussion of finance, we are not thinking in terms of quid pro quo but rather a joint exploration of needs and resources. We foresee the following -- federal grants matching revenues collected locally, additional budgetary support as may be required until the Marianas develop adequate tax base, full range federal programs and services.

I can assure you -- future financial needs and your concern for economic progress will be given very consideration.

III. The May 14 Marianas Political Status Commission Paper on Economic Aspects

A. Financial requirements can not be met internally until an expanded tax base has been developed.

B. Therefore propose a program of U.S. economic assistance and budget support to establish a base for economic development.

C. Transition process will take many years beyond formal acceptance of new status - three phases of transition.

1. Phase I

One year - detailed plans to facilitate changes in government structure, accelerate industrial and social infrastructure development, establish institutions for economic and social development, and to establish a legal basis for self-government.

FINANCIAL REQUIREMENTS FOR PHASE I

a. Physical Plan

Cadastral Survey	\$3,000,000	
Master Planning	300,000	
Schematic Design of Facilities	450,000	
		<u>\$3,750,000</u>

b. Government Reorganization Plan 125,000

c. Economic and Social Development 125,000

d. Legal Plan (including political education,
constitutional convention, and development
of legislative programs) 500,000
\$4,500,000

The Commission (MPSC) proposes that funds sufficient to allow the implementation of Phase I be made available as a grant to the Commission immediately after the conclusion of successful negotiations for a new political status.

2. Phase II

Seven years - plans formulated in Phase I are implemented in Phase II. By the end of Phase II, the standard of living should be at an acceptable level and the basis for long term growth and development should be firmly established.

Financial Requirements for the Seven Year Period in Phase II

A. Capital Improvement Projects - \$47.7 million

B. Annual Budget Operations - \$8.6 million in 1975 rising to \$18.0 million in 1979.

(This assumes raising the Marianas Government employees' pay scale to level of Guam's and increasing size of bureaucracy by about a third between 1975 and 1979).

C. Capitalization of Marianas Development Corporation \$40 million.

After estimating tax revenues, MPSC calculates need for U.S. assistance in the order of \$162.8 million for the seven year period 1975 - 1981.

3. Phase III - to year 2000 and beyond. No details.

IV. Ambassador Williams' Response. (Paper entitled "Economics and Finance").

A. Our efforts at this time will be directed to exploring general principles leading to general understandings rather than concentrating on budgetary details.

B. We are desirous of exploring jointly-----

C. We agree with general thrust of MPSC paper and the goals sought.

D. Under the agreement we are working toward, the U.S. would assume certain obligations to provide budgetary support and economic assistance until Marianas are able to meet financial responsibilities from their own resources.

E. Two forms of financial assistance we have in mind are: (1) direct financial grants in support of government operations and capital improvement programs and (2) federal programs and services.

F. For direct grants, we propose the annual budget program approach - the actual level to be determined on the basis of mutually agreed needs minus anticipated local revenues. (Including earnings from the U.S. military).

V. U.S. Commentary on Phase I. (See page 3 of paper entitled "U.S. Commentary on MSC Paper on Economics and Finance, dated May 23, 1973).

With regard to the MPSC request for a figure to be used for planning purposes during Phase I, 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 have to work with you in the Commission and with the district legislature during this period on a joint basis to determine the actual needs.

VI. MPSC Response to Items ~~III~~ and ~~IV~~. (See paper entitled "Response to Comments of Ambassador Williams and Mr. J.M. Wilson, Jr. on the MPSC Economic and Financial Position Paper").

- A. Acknowledge U.S. Acceptance of Three Phase Transition Program.
- B. (Responding to U.S. questioning of rising costs of Government). Estimate of capital improvement and budget operations expenditures are related to requirements rather than to arbitrary restrictions imposed by Congressional Appropriation limits. We are prepared to review these needs with you in detail.
- C. The Commission is interested in obtaining specific commitments-----

If the U.S. wishes to examine a specific proposal in greater detail, can the U.S. suggest any procedures which can yield a joint assessment of Marianas' needs before any final agreement is approved by the parties?(page 3, item 4).

VII. U.S. Response. (Paper entitled "Response to MPSC Comments on Finance of May 25, 1973).

- A. We believe the best way to make progress is by utilization of a joint working committee.
- B. Detailed figures can be drawn up in the economic studies which will take place in Phase I, but we would also hope that the Joint Committee could, in the meanwhile, come up with more accurate data for our joint planning needs.
- C. With respect to Phase II capital improvement projects-- we would recommend that this be another area to be ~~assessed~~ ^{ASSIGNED} for consideration to the Joint Working Committee.
- D. The U.S. Delegation concurs in principle with the Phase I proposals subject to further consideration of the exact elements of Phase I timing, funding, and procedures. We believe these questions should be addressed initially by the U.S.-Marianas Working Committee on Economics and Finance (page 3).
- E. The U.S. suggests that the economic analysis required for full response to questions on orders of magnitude be assigned to the Joint Committee on Economics and Finance.

- F. Procedurally, the U.S. suggests the establishment of such a Joint Committee.
- G. The U.S. will assist the Marianas - the U.S. proposes that this assistance be via the regular annual federal budgetary process. The U.S. is nevertheless, prepared, subject to Congressional approval, to agree to a fixed guaranteed level during an initial period of years. (page 4).

VIII. Draft Terms of Reference for Joint Working Group

Will study;

1. Timing, range, cost, and funding of planning activities envisaged in Phase I of the position paper.
2. Revenues, development goals, priorities, growth rates, CIP, military expenditures, private investment, etc. during Phase II.

IX. Joint Communique (pages 6ff).

The two delegations discussed a preliminary planning effort including such matters as a land cadastral program, preparation of a physical plan, and legal planning..... The U.S. will agree in principle to finance this planning effort, subject to the outcome of a review of such questions as timing, the range of activities contemplated and funding procedures to be undertaken by a joint working group on economics and finance.

The parties have agreed that special attention will be paid to finding means to implement a land cadastral survey program in the Marianas as soon as possible.

X. Press Release

Covers same ground in abbreviated form.

XI. Pangelinan Comment on Press Release

MPSC is prepared to accept the joint press release, but wants the U.S. Delegation to know that in the area of economic and financial support, the commitments made by the U.S. are not as specific, definite, or generous as the Commission believes appropriate.