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NOTES ON THE MEETING OF THE JOINT WORKING GROUP ON MARIANAS
ECONOMIC AND FINANCE, OCTOBER 5, 1973

Mr. Silver said that the disposition of public lands and related private land questions are important issues. He agreed that they should be dealt with as rapidly as possible. This might be done even before Phase I through a supplemental appropriation to complete a cadastral survey for all of Micronesia.

Mr. Leonard thought that it might be difficult to separate the land question from Phase I and that his client would in any case want to see a concrete proposal to insure that the concerns of the Marianas were, in fact, to be dealt with adequately. He agreed that it should be done as quickly as possible and asked to be kept informed.

Mr. Silver said that there would be no problem with helping to finance a Constitutional Convention and a Legislative Program. However, the question of cost was still to be resolved. Mr. Willens said his group had already begun to study what costs are involved in legal planning.

Mr. Silver also said he agreed on the priority that should be placed on economic development and in fact thought the cost was probably underestimated. Such questions as the composition of teams, feasibility studies and marketing studies would have to be discussed. Mr. Silver also mentioned the desirability of avoiding the development of as precarious an economy as the one that exists on Guam. Mr. Leonard agreed that diversification and encouraging productive agriculture were important goals, but said the trend is strongly against it.

Mr. Silver discussed the \$1.2 million item for master planning and schematic design. He said a lot of work has already been done on master plans for the islands and he presented examples of those for the Marianas. Mr. Leonard said that master planning was a very important issue. He said that the existing master plans were inadequate for his purpose, that they interpreted U.S. Government policies of the past. For example, they were based on natural population increase and did not take into account the probable great need for immigration. In addition to being based on a faulty set of assumptions, they contained no detail on utilities such as water supply and telephones. He said the people of the Marianas wanted to make a "jump" to American living standards and a great deal of planning would be necessary to avoid the unplanned squalor of another Guam. He

explained that a schematic design includes all but architectural details and even sets a trend for private developments. He suggested getting his planners together to discuss some of the technical details and concluded that the existing Saipan plan is completely inadequate. Mr. Willens added that there had been very little client participation in the planning effort so far.

Mr. Silver suggested a "joint secretariat" to manage the funds and the planning effort. It would consist of representatives of the U.S. Government and the Marianas Legislature and would not be a policy group. Mr. Leonard thought that it would be important for such a group to avoid policy making as the Marianas representatives think the U.S. has no business in the policy area. He suggested that Mr. Silver prepare a paper with his thoughts on this proposal. Mr. Silver agreed and thought that a system of informal working papers on various procedural subjects would be a good idea for discussion within the group.

Mr. Silver discussed the question of U.S. assistance during Phase II. He said that some budget support would be provided through the return of U.S. taxes to the Marianas and this would have to be augmented with appropriated funds for a few years. He thought the objective should be support for economic development to allow a growth rate of, for example, 10% annum over a period of years. Assuming a 3 to 1 capital output ratio, one could readily calculate the investment requirements. The U.S. would then agree to try and insure that this level of investment and economic growth could be financed. U.S. assistance could be furnished through grants as well as loans; the loans would be on a long-term basis and would be for self-liquidating projects such as power and telecommunications. Such loans could also help to capitalize a development bank for private investment. Another possible source of funding would be the income of land sales to the U.S., through placing the proceeds in a fund, the earnings from which would be used for development. Mr. Silver stressed that a scenario or formula that held out hope for light at the end of the tunnel would be helpful in presenting the program to the U.S. Congress.

Mr. Leonard said there were serious problems with this traditional approach to calculating investment requirements in the case of the Marianas. In such a micro-economy, there are discontinuities. For example, key management people will rapidly emigrate when they can move to the U.S. unless salaries go up at least to levels comparable to Guam. There are also backed up needs for Capital Improvement which he estimates will require a \$50,000,000 expenditure over 10

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years. Since many of these capital improvements are not income producing it is inappropriate to use capital output ratios. The approach would have to modify the traditional approach in regard to this backlog of needs. Mr. Silver said he would like to see more resources for income producing investments, in order to increase tax revenues rather than just raising the need for maintenance expenditures.

Mr. Leonard pointed out that the Marianas expect a lot. They have been promised U.S. standards of medical service, etc. and they would be shocked by the suggestion of a delay in the \$50 million of capital improvements. The catchup would have to be fast and could not be done on a smooth schedule.

Mr. Leonard, in summing up, said he wanted to get more specific on some points. It was agreed that Mr. Leonard and Mr. Silver would get together on Monday, October 8, to discuss the requirements for economic development planning and that a meeting would be held later in the week with the people who made the specific assessment on physical planning.

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