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UNITED STATES PRESENTATION ON PHASE II GOALS AND FINANCIAL ASSISTANCE

- Preliminary views -

I. Introduction

- Easy to spend time arguing over details of planning activities to take place in the immediate future, but much harder to think ahead to what these planning efforts are meant to accomplish.

- Yet, in last analysis this is what it is all about: we need to discuss where you want the Northern Marianas to be economically several years from now and to have some broad ideas about how you are going to go about getting there and how much that is likely to cost.

- If we don't have these pretty clearly in mind there is not much point in spending a lot of time and effort in planning or in arguing about large sums of money.

II. What we agreed to in May--June

- At last session we agreed on two ultimate goals;

1 - A significant increase in the per capita income of the people of the Northern Marianas.

2 - Progressive development toward economic self-sufficiency.

- We also set out four objectives for any long term economic development program aimed at accomplishing these goals.

1 - Facilitation of an orderly transition to a new political status.

2 - An adequate social and economic infrastructure.

3 - Necessary public services and programs.

4 - Encouragement and promotion of the future economic development

of the Marianas.

- The U.S. agreed in principle to assist the Marianas to obtain these objectives and said that while it believed long-term support for the Marianas could best be assured by extension of federal programs and services to the Marianas and financial assistance provided annually through our normal budgetary process we were prepared to agree with Congress' approval to provide financial support over a period of years at guaranteed fund levels. This would be over and above the normal range of federal programs for which you would be eligible as a member of the family.

- The U.S. continues to stand by those promises.

III. What Marianas asked for

- Last May MPSC submitted its proposals on how it felt all this might be accomplished - calling it Phase II.

- It covered a period of seven years.

- Summarized it went as follows:

-- Estimated a requirement of \$47.7 million in 1975 constant dollars for CIP expenditures.

-- Called for a \$40 million grant for an economic development fund as leverage for \$80 million of investment.

-- Required \$105 million to meet the cost of government current operations.

-- This latter item would involve major increase in all government salaries during that period as well as increase in size and staff some 50-60 percent over present district government.

-- From 1,000 plus to 1,600 plus.

-- It is difficult to add these items as presented here because some are stated in constant dollars while the operations costs of the government are stated in current dollars - that is the estimated actual cost year by year.

-- Roughly it adds up to a financial assistance requirement (after estimated government tax revenues) of almost \$162 million or an average of \$23 million a year or about \$1,600 a year per capita.

- The U.S. replied at that time with some preliminary observations and suggested the matter be examined further by the working group on economics and finance. This was done, but not very deeply.

IV. U.S. Views on Marianas May proposal

- For the record would now like to summarize our views as they have now emerged from those discussions.

- First, with respect to the proposals for assistance to government operations it is our considered view that if we continue to let the financial requirements for government operations and new capital improvement projects outdistance the capacity of the economy to support them -you will never be able to develop the economy and reach economic self-sufficiency or attain higher standards of living for all of your people.

- We think that projecting a rise in government employment of 50-60% in seven years and an increase in government operations cost of 300% invites disaster.

- We therefore cannot undertake to support it because we believe it is against your own best interests. But we do agree still on the need for U.S. assistance to government operations in the development years, and we have agreed ways must be found to absorb TTPI employees.

- As for CIP, we do not find the \$47.7 million figure as far out of line as the government operations estimate but we believe that also to be overly ambitious in terms of capacity to manage and maintain in terms of highest priority needs. We are certainly prepared, however, to provide substantial assistance in this category.

- As for the economic development loan fund proposal of a \$40 million U.S. grant contribution to leverage \$80 million of capital funds available for investment in economic projects, we find it hard to imagine that there actually exists a requirement of this magnitude.

- The proposal speaks of \$40 million of public funds going into private housing in this period which is an average of about \$10,000 for every family in the Marianas.

- We consider this would be, at best, an inefficient allocation of capital.

- There must be help, of course, to meet the most urgent cases and the Commonwealth will be eligible for federal grants for urban renewal and housing and above regular appropriation for the commonwealth.

- There may be need for some government funds beyond that which is available under the federal programs - but \$40 million in seven years is in our view an unrealistic assessment of priorities.

- There was no elaboration on the need for the additional \$40 million. To date less than \$500,000 has been used in the Marianas from the Micronesia-wide EDLF. Should note that you will, however, ^{also} be eligible for Small Business Administration loans and this should meet much of the need in the future.

- All of these views have been communicated previously to your representatives.

V. Where has this left us?

- Despite our criticisms of your proposal we are not discouraged by the discussions to date, which have served to bring out many things.

- We continue to share the same goals and objectives and we seem to be closer together on a number of principles and concepts.

- We seem to be rather closer together on timing; when U.S. assistance should begin and how long it might last.

- Both sides now seem to feel Phase II should get underway just as soon as the new government is established and functioning.

- We also seem to be agreed that seven years is too short a period, though we have not yet got together on how much longer would be appropriate. (We'll have more to say on this in a moment).

- But before getting into these further should pause to examine results of research into resources that will become available to new GOM after that change in status.

VI. Resources Available to GOM

- As in the case of Guam and other territories, the United States will return to the Marianas Treasury all federal taxes collected on economic activity or federal income earned in the Marianas.

- That means that all federal import duties would be returned. Federal income taxes on military and civilian personnel on Saipan and Tinian will accrue to the Marianas not the U.S. Treasury.

- This should yield in excess of \$4 million a year after the development of a base on Tinian has been completed, not to mention the potential revenue and development on Saipan - and this continues indefinitely.

- The Marianas will have a substantial yield from the use of land on Tinian by the United States military forces. We don't know what the final price will be nor the terms of payment, but based on the fair market value of land we assume the annual return to the Marianas could be in the millions per year.

- The government of the Marianas will, we expect, want to increase its level of revenue from domestic income. We expect a higher yielding tax system both on current income, land and other real property, as well as import duties, excise taxes, etc. - all designed to promote domestic economic development and

economic self-sufficiency.

- In the earliest years the yield from taxes should be \$1 million - rising as the general economy rises.

- With the return of public lands, the commonwealth will be in a position to dispose, sell or lease, we hope judiciously, parcels for tourism, agriculture, industry, etc. We cannot estimate the income from this source, but it can become a very sizeable item as the economy expands.

- Finally, with respect to sources of government income, we point out the economic advantage of belonging to the American political family - eligibility for federal programs and services. The variety of sub programs is too great to enumerate here.

- We have a list of all the programs that Guam is benefitting from and we will be glad to make that available to you to give you some idea of the things you can qualify for.

- On the basis of our experience and taking into account your population, we think these programs will have a value of several million a year for the Marianas.

- If we think of resources coming into the economy - not necessarily coming under the control of the government - we must take into account a potential surge in foreign investment which has not been available under the Trusteeship Arrangement. No one can predict with precision how much that will be - but it is likely to be a very large factor in the pace and direction of economic development here.

VII. Other Considerations Underlying Plans for Financial Assistance

- It seems to us after study that a number of other considerations have material relevance to any discussion of long term financial assistance to the Northern Marianas.

- These include:

-- The shortage of labor in the Marianas.

-- The need to keep government expenditures down and in harmony with the rest of the economy.

-- The need to keep capital improvements in phase with government's capacity to manage, maintain and finance.

-- The aspirations of the political leaders and the people for economic self-sufficiency.

-- The availability of other sources of financial resources for government and for private investment.

-- The need to provide sufficient additional financial resources so that the economy can grow with financial stability so that ultimately the Marianas will be another self-sustaining member of the United States Government family.

VIII. Prospects for Agreement

- It seems to us on the basis of the foregoing that the prospects for achieving a mutually satisfactory meeting of the minds in the very near future on the general outline and dimensions of a program of future economic assistance for the Marianas are excellent.

- This will require, however, preliminary agreement between ourselves on a number of basic concepts underlying any such program and setting the parameters within which the planners can operate and draw up their detailed plans and recommendations.

- If we can agree on these concepts we are prepared in this session here in Saipan to outline our views on the financial guidelines we would be prepared to recommend and see applied in the future.

- Without agreement on concepts we would be simply haggling about essentially meaningless figures and would have not real basis for justifying the figures to the U.S. Congress which must approve them in the last analysis.

- Should say at the same time, to ease your minds, that the figures we presently have in mind when all sources are added together come to a great deal more than the level per capita of assistance provided the Marianas District under the Trusteeship Administration.

- Indeed we think these levels would put you at the highest per capita level of external assistance of any area in the world.

CA. 1. How to proceed from here

- Having gone thus far next step is how we proceed from here to develop basis for agreement on future levels of financing from the U.S.

- Two methods are possible

-- We could wait till Phase I planners have done their work and have developed all the models necessary for a fully integrated economic development plan.

-- Then have annual programs each year and individual annual appropriation requests.

-- This would be precise, is consistent with our present budgetary practice and if we had time would provide the best basis.

-- But it takes a long time and would not permit us to enter into commitments at this stage.

-- Also the planners should if possible have some guidance as to the amount of external resources available to them—chiefly from the U.S. federal government.

-- Alternative method is to agree on what are known as basic macro-economic planning criteria and goals.

-- This discussed in working group.

- Must be based on agreed estimates of other resources and realistic assumptions.

- But should provide basis for determining overall levels of external assistance needed.

- U.S. has now worked out levels it thinks appropriate geared to the following criteria, estimate of goals and available resources.

- Before sharing these estimates with you, however, need to know if MFSC can agree at least in general terms on what these macro-economic goals and criteria should be.

- These are U.S. assumptions:

-- Working together with us you will be able to approach economic self-sufficiency and appreciably higher standards of living in a matter of a generation or slightly longer.

-- This will require your commitment to an efficient use of capital and a pattern of government pay scales and operations and a level of capital improvement expenditures harmonized with economic growth.

--- We have suggested a target of 10% annual growth in income in the economy as a result of public and private investments in productive enterprises, economic infrastructure, and social improvement projects. Do you agree?

--- For purposes of our extrapolations, we estimate current income in the Marianas at \$12 million and population at 14,000. Is this also your assumption?

--- We estimate population to grow naturally at 3% a year and immigration to add some 3-4 thousand more over fifteen years. Does this also reflect your thinking?

--- We used a capital/output rate of 3:1 to determine the economic benefits accruing from all capital expenditures, i.e., one dollar of increased output annually for every three dollars invested. Can you agree to this?

-- With regard to estimates on resource availabilities we believe an increasing share must come from local taxation and revenues and to this end ask for a commitment that the new government will enact a progressive income tax geared to local economic conditions and a complementary system for raising the maximum amount of revenue consistent with a steady growth in the local economy.

- If The Commission is prepared to agree at this point to these broad goals and criteria, I have outlined on which our calculations are based, the U.S. for its part will be prepared to go forward now with some basic figures and the rationale underlying them.

- Our estimates are admittedly very crude. We have not built an economic model - that will be done by the economic development planners.

- We have not introduced refinements - lack of data, lack of time.

- But we conclude that if the available financial resources are used carefully, for essential purposes in the context of a balanced development program, then at the end of fifteen years, with no special appropriations from the United States:

-- Per capita income would be almost \$2,000 (at today's value of the dollar of course)

-- The government would have enough income to fund a \$15-16 million annual budget.

-- The economy could generate enough domestic savings which when added to foreign investment would keep the economy growing steadily.

-- At the end of a generation it would be materially greater.

- You will want to consider these matters very carefully with your advisors

- We hope you can tell us very shortly what your views are.