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MARIANAS POLITICAL STATUS COMMISSION

December 14, 1973

MARIANAS POLITICAL STATUS COMMISSION RESPONSE TO THE UNITED STATES PRESENTATION ON PHASE II GOALS AND FINANCIAL ASSISTANCE

In our position paper of May 14, 1973, we proposed a U.S. financial assistance program directly related to the process of transition to a new political status. We suggested that the transition process will continue for many years beyond the acceptance of a status agreement by the United States and the people of the Marianas. In particular, we did not believe then, and we do not believe now, that complete transition will be accomplished until the Marianas are a self sufficient member of the American political family with a level of economic development which will provide a standard of living comparable to that enjoyed by other Americans.

Disregarding standards of living, self sufficiency can be achieved by any economy capable of producing enough to sustain life. For generations, indeed for hundreds of years, our people were self sufficient at a subsistence level. If self sufficiency alone was a goal, we are confident that we could achieve that goal in much less time than the 25 years or so the U.S. has suggested. However, we do not believe either the people of the Marianas or the United States Government are willing to accept a perpetually inferior standard of living in the Marianas as the price of self sufficiency.

We understand that living standards in the Marianas are well beyond the subsistance standards of our traditional society. We also understand that living standards in the Marianas will probably improve whether or not we become part of the American political family. As a member of the American political family, however, it is not sufficient that our living standards merely improve; rather, in both our interests and those of the United States, living standards in the Marianas must bear a reasonable relationship to living standards in the rest of the United States. It is simply not acceptable for per capita income in the Marianas to be 20 or 25 percent of U.S. National per capita income after 15 or 20 years of political union. In our view, it is essential that our development plans and U.S. financial assistance take explicit account of the need for the Marianas to achieve economic parity with other parts of the United States at some forseeable time in the future.

Our proposal for Phase II is aimed at establishing the foundation for long term development in the Marianas. If properly implemented, Phase II could result in income levels and living standards which, although well below the levels and standards for most other Americans, would begin to be a a realistic relationship to those which have been established for all Americans as the objective of U.S. National policy. We believe that by the end of Phase II the people of the Marianas should have made the leap which will permit their eventual achievement of self sufficiency without condemning themselves to be the poorest of all Americans.

Turning now to the UNITED STATES PRESENTATION ON PHASE II GOALS AND FINANCIAL ASSISTANCE, dated December 12, 1973, the Commission has serious reservations in regard both to U.S. views of the Commission's proposal for Phase II and to the specific assumptions underlying the financial assistance proposal of the U.S.

RESERVATIONS IN REGARD TO U.S. VIEWS

1. Many of the U.S. conclusions about the Commission's proposal of May 14, 1973, appear to be based on economic analysis which is more applicable to a closed economy, such as an independent Marianas, than to a regional economy in the United States. The status agreement we are negotiating will provide a U.S./Marianas relationship which will provide the Marianas with access to the huge markets of the United States, unrestricted access to the pool of skilled U.S. labor, a stable currency, and adequate foreign exchange reserves to meet local needs. It is not anticipated that

the status agreement will in any significant manner result in institutional impediments to a flow of resources between the Marianas and other parts of the United States.

This regional character of the Marianas economy, combined with the Commission's own projections of population and income growth, leads the Commission to believe that U.S. concern about the ability of Marianas economy to eventually support our proposed accelerated capital improvement program and expanded government programs is not valid.

2. In regard to our proposed economic and social development loan fund, which would provide $80 million in development funds, it is anticipated that $40-$45 million will be required for economic development and $30-$35 million will be required for social development by 1981.

At least 1,000 hotel rooms will be constructed in the Marianas between 1975 and 1980. At an average cost of $20,000 per room, a total hotel investment of $20 million will be required. The Commission estimates that an additional $20-$25 million in investment will be required to develop tourist related retail and service industries, retail and service industries required to meet general population and income growth and to develop other economic sectors. This $40-$45 million for economic development might be provided by foreign investors. But, as we have said so often before, the people of the Marianas feel that they must own Marianas industries. Given past and current Marianas incomes, and the level of local savings, low cost investment funds must be made readily available.

In addition to the required \$40-\$45 million for economic development, \$30-\$35 million also will be required for social development, particularly housing. According to the 1970 Census of Housing, there are approximately 1,000 substandard housing units in the Marianas. It is estimated that the cost of upgrading these units will be \$4,000 - \$5,000 per unit. Based on the Commission's population projection, 1,300-1,400 new units, at \$20,000 each, will be required by 1981. Given past experience with private financial institutions, it is doubtful whether any significant portion of these required social development funds will be made available from such institutions unless the Marianas agree to alienate land.

The Commission's request for \$40 million in economic and social development funds is aimed at providing the necessary funds for the capitalization of local development institutions which can meet essential economic and social development needs.

RESERVATIONS IN REGARD TO U.S. ASSUMPTIONS

1. We do not quarrel at this time with the U.S. assumptions about the sources of resources which will be available to the new Government of the Marianas. As we indicated in our May 14th proposal, we are well aware of these sources, and we are committed to assuming an internal tax burden consistent with local economic conditions. However, we do believe that the "surge of foreign investment" which the U.S. forsees must be tempered by making adequate investment funds available to the people of the Marianas so that they can control their own economy. Equally important, we believe, is the postponement of decisions as to specific kinds of taxes which the Government of the Marianas must levy until the studies and planning work of Phase I are completed.

2. The United States asks the Commission to accept as a development goal the attainment of self sufficiency and "appreciably higher living standards" within 25-30 years. Given the U.S. standard of living which we believe must be attained before the Marianas becomes self sufficient, this goal would appear to imply a rate of growth well beyond any rate which we believe sustainable or desirable in the Marianas. Nevertheless, we are prepared to explore with U.S. experts the feasibility of achieving such a goal.

3. The Commission has no objection to the U.S. proposition that the development of the Marianas will require our "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." However, the Commission recognizes that the determinants of the "efficient use of capital" and government expenditures "harmonized with economic growth" can only be identified after appropriate analysis by experts. The Commission is prepared to work with U.S. experts to identify these determinants.

4. The United States has suggested a target rate of 10 percent annual growth in income. It has further suggested that Marianas population will increase at a rate of 3 percent per year, and that "immigration will add 3-4 thousand more over fifteen years." The Commission believes that these assumptions are not consistent with either the goal of self sufficiency in 25-30 years, or with recent past and current experience in the Marianas. Preliminary projections based on Trust Territory Administration data have been prepared by the Commission. The projections have been made available for U.S. review. We emphasize that we think that our projection of $2,000 per capita income in 1981 is politically and economical

more realistic than your objective of $2000 per capita income in fifteen years. We do not believe that the people of the Marianas will tolerate per capita income of only $2000 when the per capita income of Guam and the rest of the United States is $8,000 - $10,000.

5. The Commission is prepared to compare the basis for its estimates of current populations and income (15,000 population and $15 million income) with the basis used for the U.S. estimates (14,000 population and $12 million).

6. The appropriate capital/output rate to be used in planning an economy must be determined by experts who have examined and projected the industrial structure of the economy. The Commission is not prepared to accept arbitrarily a capital/output rate of 3:1 without an examination of the current and likely future industrial structure of the Marianas by experts.

RESOLUTION OF TECHNICAL QUESTIONS

To facilitate the resolution of the technical questions which have been raised by the Commission, we propose that the Co-Chairmen of the joint working group on economics and finance meet, starting immediately, to explore fully the possibility of resolving some of these questions during this round of negotiations. We recommend that this work continue as necessary during the recess before the next session of negotiations and that a written report on these issues be prepared jointly by these technical advisors, listing the areas of agreement and disagreement, and submitted to the two delegations in advance of the next session.