

BRIEFING PAPER - ECONOMICS AND FINANCE

I. Background

A. Marianas Proposal - Round 2, May 14, 1974  
7 year Phase II 1975-1981.

1. CIP \$47.7 million in constant 1975 dollars.  
\$60.5 million in current dollars.
2. Development Grants \$40 million in constant 1973 dollars.  
\$44 million (sic) in current dollars.
3. Operations \$72.5 million in current dollars  
(no constant dollar figure given because of  
other major adjustments made in pay scale etc.)  
[\$45 million is our estimate of 1975 constant dollar  
equivalent of \$72.5 million current dollars using  
same deflator used by MPSC for converting constant  
dollars to current dollars in CIP category.]
4. Total 7 year request - stated in approximately 1975 constant  
dollars - \$133 million.

B. U.S. Proposal - Round 3, December 15, 1973.  
5 year Phase II.

Per Annum:

\$3	CIP - \$15 million.
.1	Development Grants - \$5 million.
<u>7.5</u>	Operations - \$37.5 million
\$11.5	Total \$57.5 million (all stated <u>now</u> in <u>constant</u> 1975 dollars).

To convert 5 year program to 7 year period for comparison purposes  
with MPSC request:

$57.5 + 2/5 (57.5) = \underline{\$80.5 \text{ million.}}$

II. Talking Points

- A. Constant Dollars insure maintaining real purchasing power of our  
commitment for financial assistance.
- B. Comparison U.S. proposals Marianas vis-a-vis Micronesia on per  
capita basis.

1. Marianas - population 14,000

Operations	- \$7.5 million	= \$535/capita
CIP	- 3.0 million	= 215/capita
Dev. Grants	- 1.0 million	= 70/capita
Fed. Programs	- 3.0 million (est)	= 215/capita
Total Grants		= 1035/capita

2. Micronesia (ex Marianas) - population 100,000

Operations	- \$35 million	= \$350/capita
CIP	- 12.5 million	= 125/capita
Dev. Loans	- 5 million	= 50/capita
Fed. Programs	- 2.5 million	= 25/capita
Total		= 550/capita

C. Other Financial benefits resulting from new status and general growth of economy.

1. Payments for land for military use likely have amortized value \$2-3 million a year.

2. Public lands returned to Marianas - sale and lease such lands for commercial and other private use could yield \$1 million a year.

3. Return of U.S. Federal income tax will yield some \$3 - \$4 million a year after base has been completed and fully operational.

4. From Marianas Government's income tax on local population, import duties, excise taxes, etc. - yield should be in order of \$6 million a year at the end of 10 years of self-government and growth in the economy. This will be rising with time.

5. Foreign investment - \$1 million a year.

6. Presence of U.S. military will stimulate local production, private job opportunities, improve local facilities. Over 10 year period this could have same effect as \$20 million additional investment in economic development projects and economic and social infrastructure or some \$2 million a year.

7. Increased levels local private investment as personal income levels increase and domestic savings rise - \$250 thousand annually.

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D. Total Economic Impact

- |                                     |              |         |
|-------------------------------------|--------------|---------|
| 1. U.S. Grants and Federal Programs | \$14.5       | million |
| 2. Items listed under B above       | <u>15-17</u> | million |
| 3. Total                            | approx \$30  | million |

E. Growth Potential

Projected Investment Capital available more than adequate to yield a 10% annual growth in the output of the economy provided there is a prudent use made of such availabilities.

This will require:

1. holding cost of bureaucracy in check;
2. rationalizing rate structure of utilities and other federal services;
3. raising taxes to finance social overhead;
4. government policies and programs facilitating private investment in productive enterprises as opposed to use of capital for speculative non-productive schemes.

5. Government investments keyed to economic growth with increases in social benefits limited to increased capacity of government to support from local taxes etc.

6. Special attention to questions of immigration policy; foreign investment; growth in tourism; composition of development program etc.

III. Transition

A. Carmel Program - Marianas included in projection of financial assistance and stepped up CIP

B. Marianas can have separate administration whenever it so requests. Until new constitution and self-government machinery established, Marianas will receive directly approximately 1/8 annual amounts discussed at Carmel for Transition.

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C. When new government established, Phase II financing would become operative. (See IV below for Comparative Advantage analysis.)

D. So long as Trusteeship remains, "Common Use" services and facilities (shipping, communications; equipment pool, CCM, etc.) will continue to be available to all districts as is the case now.

E. During the transition, Marianas will work out detailed agreement with COM for permanent arrangement:

1. continued access to selected common use facilities such as CCM;
2. breaking up and equitable disposition of other common assets TT headquarters, equipment pool, inter-island shipping fleet, inter-district communication facilities, etc.

IV. Comparison Marianas Phase II Commitment vis-a-vis Carmel Commitment for Transition.

	6 Districts			Marianas Share @ 1/8			Phase II Assistance		
	OPNS	CIP	TOTAL	OPNS	CIP	TOTAL	OPNS	CIP	TOTAL
1976	55	25	80						
1977	53	30	83	6	4	10			
1978	50	35	85	5+	5	10+			
1979	47	20	67	6-	2	8-	7.5	3.0	10.5
1980	45	15	60	6-	1	7-			
4 Year Total				23	12	35	30.	12	42

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