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MARIANAS POLITICAL STATUS COMMISSION
POSITION PAPER ON U. S. PHASE II
ECONOMIC AND FINANCIAL ASSISTANCE

15 May, 1974

In papers presented to the Marianas Political Status Commission on 12 December and 15 December, 1973, during the third round of negotiations, the U. S. Delegation outlined U. S. views as to the Phase II economic and financial requirements of the Marianas, and proposed specific levels of U. S. financial assistance over a 5-year period. The Commission responded to U. S. views on Phase II requirements in a paper presented to the U. S. Delegation on 14 December, but postponed their response to the U. S. financial assistance proposal until the fourth round of negotiations.

I. Review of the Marianas Political
Status Commission Response to U. S.
Views on Phase II Economic and
Financial Requirements

The U. S. paper of 12 December, UNITED STATES PRESENTATION ON PHASE II GOALS AND FINANCIAL ASSISTANCE, appears to present the basis for the U. S. financial assistance proposal presented on 15 December. In particular, the paper emphasizes the U. S. judgment that Marianas government and development programs should be restricted to a level which will permit a self sufficient Marianas economy to support them. Further, it suggests that a 10 percent target growth rate, resulting in two thousand dollars (\$2,000) per capita income by 1987, will create a self sufficient Marianas economy within 15 years or so. Finally, the paper emphasizes the range of financial resources which the U. S. believes will be available to the Marianas.

While the Commission is in complete accord with the U. S. in regard to the desirability of developing a self sufficient Marianas economy, the Commission does not agree with the U. S. as to either the level of income or the point in time at which the Marianas should become self sufficient.

Also, the Commission believes the U. S. has greatly overstated the financial resources which will be available to the Marianas.

A. Marianas Self Sufficiency

The issue of Marianas self sufficiency has been addressed many times during the course of these negotiations. The Commission fully recognizes the desirability and importance of creating a self sufficient Marianas economy. However, the Commission's position is and will continue to be that self sufficiency is secondary in importance to establishing a base for generating acceptable levels of income and public services in the Marianas. It is the conviction of the Commission that U. S. financial assistance should continue until the Marianas become self sufficient at a level of income which exceeds the poverty level of income.

In estimating requirements for U. S. financial assistance, the Commission has attempted to establish general development goals for Phase II. These goals reflect the need to establish, within a reasonable period of time, living standards in the Marianas which are comparable to those enjoyed by other Americans. Our request for U. S. financial assistance is based on our assessment of the external resources which will be required to support the target growth rates implied by Phase II general development goals.

B. Marianas Financial Resources

The Commission is well aware of the financial resources potentially available to the Marianas. However, it is difficult to share U. S. optimism about the availability of these resources during Phase II.

First, assuming that the United States will return to the Marianas all Federal taxes collected on economic activity or Federal income in the Marianas, there is little reason to believe that such taxes will be of any real significance during the next several years. There is only a small Federal

tax base in the Marianas at the present time and, with the exception of the long term, low level U. S. construction program for Tinian, there will be few activities which will contribute to an expanded Federal tax base prior to the time when the Tinian facility becomes operational.

Second, in regard to the Tinian facility, the Commission notes that current plans call for a seven (7) year development program. Given normal delays for programs which must be politically processed, it seems unlikely to the Commission that the Tinian facility will become operational before the mid-1980's.

Third, the Commission agrees with the U. S. as to the ability of the new Government of the Marianas to obtain tax income from domestic (local) sources. Indeed, the Commission has expressed their confidence that the people of the Marianas will increase substantially the rates at which they tax themselves. All of the Commission's estimates of financial assistance requirements have explicitly assumed that the people of the Marianas will accept an increased tax burden.

Fourth, in regard to revenues which might be provided by lease of the public lands of the Marianas, other than to the U. S. military, it is now obvious that such revenues will not be sufficient to support even the administration of the public lands for a number of years. It is not anticipated that land leases for private use will be an important source of public revenues during Phase II.

Finally, the Commission recognizes that Federal program funds will be available to the Marianas as a result of the new political status of the Marianas. However, it is not possible at this time to determine the impacts of these funds on requirements for other U. S. financial assistance. The Commission has noted that many Federal programs require matching or other expenditures by local governments, and the limited financial resources of the Marianas will restrict participation in such programs.

Also, the Commission is aware that the eligibility of the Marianas to participate in Federal programs will not necessarily result in the allocation of program funds to the Marianas.

II. Marianas Political Status Commission
Comments on the U. S. Proposal for Phase II
Financial Assistance

The Commission regards the U. S. proposal for Phase II financial assistance to be inadequate in three respects. First, by proposing constant annual payments the proposal does not appear to recognize requirements to program expenditure and assistance payments to coincide with project implementation schedules and the development of government administrative capabilities. Second, the proposal does not appear to recognize the likelihood that inflation will seriously erode the value of annual assistance payments. Third, and most important, the proposal simply does not reflect U. S. recognition of the amount of assistance needed to meet Marianas development requirements.

A. Assistance Programming

The U. S. proposal calls for constant annual assistance payments over a period of 5 years to be specifically allocated to capital improvements, government operations and economic development. The proposal does not provide for flexibility in using assistance funds. Further, by limiting guaranteed assistance to 5 years, the proposal does not meet the basic requirements of a 7 year Phase II program. The Commission's position paper of 14 May, 1973, established a realistic time frame for Phase II (7 years), and presented realistic estimates of annual program magnitudes during Phase II. The Commission believes that U. S. financial assistance should be aimed at supporting this 7year Phase II development effort.

B. Inflation Protection

The U. S. proposal makes no reference to adjusting annual assistance payments to account for price inflation.

The Commission believes that levels of assistance agreed to by the Marianas Political Status Commission and the U. S. must be in constant dollars, and that a procedure must be established for adjusting annual payments to account for inflation.

C. Adequacy of Assistance

The U. S. has proposed to provide \$14.5 million as annual assistance for a period of 5 years, programmed as follows:

	<u>Millions of Dollars</u>
Capital Improvements	3.0
Operations	7.5
Economic Development	1.0
Estimated U. S. Programs	3.0
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TOTAL	14.5

For reasons already discussed, the Commission does not believe that it is possible to meaningfully discuss the value of U. S. programs to the Marianas, although the Commission does acknowledge that some program funds will surely be available. Accordingly, the Commission will restrict their comments to those elements of the U. S. proposal which would provide direct cash support, amounting to \$11.5 million annually.

First, in regard to capital improvements and operations assistance, the Commission notes that the U. S. proposal would provide substantially less funds for the Marianas than are currently scheduled for the Marianas in the current TTPI 3year budget plan (1975-1977). Considering both direct and indirect support of the Marianas, the Trust Territory budget would provide \$12.1 million in 1975, increasing to \$16.5 million in 1977. In addition, the Marianas would benefit from U. S. program funds currently available to the Trust Territory of the Pacific Islands. It is obvious that the U. S. proposal does not meet the requirements of the

limited TTPI development programs for the Marianas, much less the estimated requirements of Phase II programs.

Second, in regard to economic development, the U. S. proposal to provide economic development funds, amounting to \$1.0 million annually, does not reflect U. S. understanding of the need to build economic institutions which will allow the people of the Marianas to participate in the development of their islands. Events are moving rapidly, and unless resources are made available immediately, the people of the Marianas will be excluded from the development process as others preempt investment opportunities.

III. Revised Marianas Political Status
Commission Position on Economics and
Finance

In the spirit of cooperation, and because of a sincere desire to reach agreement on economic and financial matters, the Commission has carefully reviewed its own position, the U. S. financial assistance proposal, and current TTPI budget plans. Accordingly, the Commission proposes the following:

1. Given the likely schedule of events, U. S. funds for Phase II probably will not be available before FY 1978. However, the TTPI budget plan does provide substantial funds for the Marianas for FY 1975, 1976 and 1977. Thus, the Commission is prepared to agree to a U. S. 5-year financial assistance program commencing in FY 1978.

2. The Commission agrees to the U. S. proposal for a constant level of earmarked (Operations, CIP, and EDLF) annual assistance payments, providing unspent funds may be carried over from one year to the next, and that carry-over funds may be reprogrammed by the Commonwealth government in the year they are to be spent.

3. The Commission believes that provisions must be made to protect Phase II programs from inflation. Accordingly, the Commission proposes that the U. S. commitment to provide financial assistance be stated in constant 1975 dollars and that annual payments be adjusted to reflect price increases measured by the Guam Consumer Price Index. This index is currently used by the TTPI in measuring inflation in the Trust Territory.

4. The Commission has revised its estimates of financial requirements for Phase II as follows:

a. Understanding the U. S. concern that the Marianas may not be able to undertake capital projects on the scale implied by the Commission's original Phase II estimates presented to the U. S. in May, 1973, the Commission has reduced its estimates of Phase II annual capital projects expenditures. The Commission now assumes that annual CIP expenditures during Phase II will not exceed the largest annual program currently planned for the Marianas by the Trust Territory of the Pacific Islands. The TTPI budget plan provides for \$6.0 million in CIP expenditures for the Marianas in FY 1977.

b. While the Commission continues to be concerned about financing economic development institutions, they do recognize that financial resources from military land payments will be available to fund economic development. Accordingly, the Commission has substantially reduced their estimates of required U. S. support for economic development.

Based on these revisions, the Commission now proposes a 5-year U. S. financial assistance program, commencing in FY 1978, to support Phase II development programs. Annual assistance payments would be:

	<u>Millions of Constant (1975) Dollars</u>
Capital Improvements	\$4.5
Operations	\$10.0
Economic Development	\$1.5
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TOTAL	\$16.0

The Commission believes that this proposal is fully supported by recent TTPI budget plans aimed at improving economic and social conditions in the Trust Territory prior to the termination of the trusteeship.

A comparison of the TTPI budget plans, the U. S. proposal for financial assistance, and the Commission's proposal for Phase II assistance (all in constant 1975 dollars) is presented in the attached table.

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TRUST TERRITORY OF THE PACIFIC ISLANDS BUDGET PLANS; U. S.
 FINANCIAL PROPOSAL; REVISED MARIANAS POLITICAL STATUS
 COMMISSION, ESTIMATED PHASE II BUDGET AND FINANCIAL
 ASSISTANCE REQUIREMENTS

Fiscal Years

1975 1976 1977 1978 1979 1980 1981 1982
 -----Millions of Constant (1975) Dollars-----

I. TTPI BUDGET
 PLAN, MARIANAS
 DISTRICT
 (April 1974):

6.37

Operations:								
1. Direct	6.32	7.00	7.03	--	--	--	--	--
2. Indirect <u>a/</u>	3.66	3.26	3.02	--	--	--	--	--
Total	<u>9.98</u>	<u>10.26</u>	<u>10.05</u>	--	--	--	--	--
CIP:								
1. Direct	1.15	2.54	5.37	--	--	--	--	--
2. Indirect <u>b/</u>	.35	.40	.40	--	--	--	--	--
Total	<u>1.50</u>	<u>2.94</u>	<u>5.77</u>	--	--	--	--	--
Compensation for Catagorical Assistance Reduction: <u>a/</u>	.47	.47	.47	--	--	--	--	--
EDLF Increments:	.17	.17	.17	--	--	--	--	--
TOTAL	<u>12.12</u>	<u>13.84</u>	<u>16.46</u>	--	--	--	--	--

II. U.S. FINANCIAL
 ASSISTANCE PROPOSAL
 (December 1973):

Operations:	--	--	--	7.5	7.5	7.5	7.5	7.5
CIP:	--	--	--	3.0	3.0	3.0	3.0	3.0
EDLF Increments:	--	--	--	1.0	1.0	1.0	1.0	1.0
TOTAL	--	--	--	<u>11.5</u>	<u>11.5</u>	<u>11.5</u>	<u>11.5</u>	<u>11.5</u>

III. REVISED MPSC
 PHASE II BUDGET
 ESTIMATES
 (May 1974):

Operations:	--	--	--	12.3	13.3	14.8	14.8	14.8
CIP:	--	--	--	6.0	6.0	6.0	6.0	6.0
EDLF Increments:	--	--	--	1.5	1.5	1.5	1.5	1.5
TOTAL:	--	--	--	<u>19.8</u>	<u>20.8</u>	<u>22.3</u>	<u>22.3</u>	<u>22.3</u>
Less Local Government Revenue: <u>c/</u>	--	--	--	4.2	4.5	5.4	6.3	7.3
TOTAL REQUIRED ASSISTANCE:	--	--	--	15.6	16.3	16.9	16.0	15.0

IV. REVISED MPSC PROPOSAL FOR ANNUAL U. S. ASSISTANCE
GRANTS FOR PHASE II SUPPORT (5 Years/1978 82):

Operations:	10.0
CIP:	4.5
EDLF Increments:	1.5
TOTAL	<u>16.0</u>

- a/ Marianas Pro Rated Share of TTPI Headquarters Operation and Programs Budget
- b/ Marianas Pro Rated Share of TTPI Headquarters CIP Budget (Maintenance/Rehabilitation and Construction Support only.)
- c/ Excludes U. S. Payments for Military Land Use. These estimates of local revenues assume that the Commonwealth will have been established by FY 1978. In the event that the Commonwealth has not been established by FY 1978, local revenue will be substantially less because of lack of local taxing authority.

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