

May 28, 1974

TALKING POINTS ON PHASE I AND PHASE II

TRANSITION AND ECONOMICS AND FINANCE

I. First, define possible timeframe for Phase I and II.

- Phase I from signing agreement until new government own constitution in place and ready to function (Target June-July 1976)(Your proposed changes in Ad Hoc Committee report acceptable).
- Phase II - MPSC has suggested a seven-year period beginning in FY 1978). U.S. has proposed a five-year period. I am willing to recommend to my government a seven-year Phase II period. Would suggest that it begin in FY 77 rather than FY 78).

Second, MPSC estimated need for federal assistance during Phase II and the U.S. offer, are not too far apart and I am confident that early agreement on Phase II levels is possible.

II. Comments on MPSC Paper of 15 May 1974. Do not think detailed point by point examination is necessary but do have following general and specific remarks to make before addressing the MPSC's new proposal.

- First, I would like to clear up any misunderstandings that the U.S. intends that the Marianas Government and future development programs should be restricted to a level which would permit progress toward a self-sufficient economy and then stop there. This simply not so! We are interested in helping the Marianas establish a (1) sound and healthy, and a balanced and growing economy, (2) an improved infrastructure system, (3) better public services, (4) higher average levels of personnel income, and (5) rising standards of living.

- Our proposals are all directed toward these ends.
- They included increased amounts of economic development assistance, a larger CIP than in the past, and a wide range of federal programs and services. Added future income from rebates on federal income taxes paid, and payment for land use for military purposes should further contribute to these ends.
- Certain of these benefits and payments would continue indefinitely. Others would be gradually reduced as the Marianas approached and gained self-sufficiency - but like all members of the U.S. family, continuing federal assistance for a wide variety of programs would be available just as they are now to those political units of the U.S. federal system which long ago attained self-sufficiency.
- Second, self-sufficiency - standards of living - poverty levels, etc.: a few comments
 - all are relative terms
 - levels of self-sufficiency, standards of living, income per capita of course vary widely between the rich and the poor within and between countries communities - and especially between the developed and so-called developing countries.
 - by most international standards the Marianas today would be considered to be a developed economy, i.e., by UNDP standards; and by many multi-lateral financial institutions. The Marianas simply would not qualify for soft loans and grant assistance from such institutions since your per capita income is much higher than the ceiling for determining eligibility for such programs.
 - Also only Japan, Australia and New Zealand in all of the Western Pacific and Asia have higher levels of personal income than the Marianas now enjoy.

- So standards of living, poverty levels, etc., depends upon who is being compared with who. Also comparative poverty levels based simply on money income levels may fail to take into account other important considerations which bear directly on the quality and standards of the individual life - such as the harshness of environment, the rigors of climate, the easy availability of food, and the degree to which the whole society is monetized.

III. Marianas Financial Resources

- We are sorry that the Commission found it difficult to share the U.S. optimism about the availability of financial resources for your new government.
- Rather than greatly overstating these resources, we believe if anything we have leaned to the conservative side and understated the potential revenues and resources that should be available during Phase II.
- Let me take up your five specific points under this heading -
 - First you suggest that federal income tax rebates will not be significant during the next several years - and you do not make any reference to revenue from this source in your calculations. We simply cannot agree with this omission.
 - The Tinian base development plan calls for an expenditure of an average of more than \$40 million per year for seven years or a total of \$300 million.
 - Tax rebates on American construction and military personnel will increase gradually and substantially over this time span.
 - 1,450 jobs will need to be filled locally if possible, according to current estimates.

- Local buying and expenditures for services and entertainment and the purchase of local construction materials could easily range from between \$5-10 million per year.
- Certainly government revenues from income tax rebates, from income taxes from those locally employed on Tinian and added tax revenues resulting from the general increase in business as a result of the base construction would not, in our judgment, be insignificant and should be included in your calculations.
- Second, you suggest that the Tinian base might not be completed on schedule. You may be right. There may be some time slippage. This could mean that the income to the Commonwealth government would be in smaller annual amounts and spread over a slightly longer time span. However, present plans call for its completion by the early 1980's.
- Third, The MPSC reaffirms the intent to raise income locally through substantially increased taxes. This should be a steadily increasing source of revenue for your new government. We have noted you estimate that your tax revenue should increase from 4.2 to 7.3 million during the first five years after Phase I begins. This rapid projected rise is most important as it indicates a growing income producing economic base in the early years of the Commonwealth.
- Fourth, The Commission seems to believe that the government's income from public land other than income from the federal government for military lands will not be sufficient to support even the administration of the public lands for a number of years - and will not be an important source of government income during Phase II.

- We find this hard to believe. First the Government of the Commonwealth will probably be given title to all public housing now being used by the TTPI - valuable housing which could be leased or sold. Potentially the income from 192 dwellings given their location, construction, size and condition could be a very real and early source of income for the Commonwealth government.
- Also, given your statements regarding land value for commercial development, especially your public beach areas for hotel and tourism development and the potential income from rental of lands from "A" Dock north, Isley Field and other public land, we would assume that revenues from leases for this property would be rising during Phase II -- assuming also of course that the terms of your future leases of public land will have "government income" as a goal.
- Fifth, While recognizing that Federal Programs and Services will be available their value in dollar terms is not included in your revenue column since you suggest that such programs and services are uncertain and that it is impossible to determine their impact on requirements for other financial assistance.
- We agree that your eligibility and the range and level of assistance under this category needs further study. This is why we proposed such a study as part of Phase I.
- We agree further that such assistance does fluctuate but the amounts involved are substantial and the direct and indirect benefits to the people are potentially very great.

- Base on Guam experience over the years and averages, we believe that the Northern Marianas will benefit greatly from these programs, especially in terms of raising individual standards of living and in providing supplementary assistance to the community and the Commonwealth Government in areas of public service and public works. The list is a long and impressive one and I will refer to it later.
- In the meantime we believe that to omit these services and programs from the calculations of your future government potential resources to meet individual and community needs is a mistake.

IV. Now to your specific comments on the U.S. December proposal

- You have said our proposal is inadequate in three respects.

First, you suggest that there should be flexibility as between allocated funds and that such funds that are unexpended be carried over to the following year.

- Congress may not approve reallocation of allocated funds as between major line item categories, i.e., government operations and CIP, but we will investigate this matter.
- We will also look into the possibility of encumbrances, i.e., carry over of funds from one FY to another but you should know that Congress traditionally has been wary of carry overs. Indicates recipient doesn't really need the money or schedule indicates can't spend it properly.
- As for five vs. seven we do not see anything magic about a seven year Phase II as opposed to the U.S. proposal of five years with the understanding that assistance would continue beyond that date. Nevertheless; as I have already said I am prepared to recommend that the U.S. Government's first multi-year "start-up" commitment be for seven years.

Second, you express concern over inflation. Your position is fully understandable and we are prepared to say that our figures will be in terms of constant dollars based on the value of the 1975 dollar.

Your third point raises questions about the adequacy of the U.S. December offer of \$14.5 million minus the estimated 3.0 million for federal programs and services or 11.5 millions

- We believe that it is wrong to compare the U.S. offer for Phase II with the TTPI three-year budget plan (1975-1977) for a number of reasons and that even then the comparisons that are drawn are incorrect.
- First, the TTPI budget plan is a planning document. It has not been approved by the Executive Branch of the U.S. Government, let alone the Congress. It is a tentative document and it will undoubtedly be revised and amended along the lines I described in Rota, that is along the lines of the U.S. plan for transition as presented at Carmel in April.
- Second, the pro rata share of TT-wide Operations included in your estimates is much too high. The need for an \$18 million plus TT headquarters is only justifiable under the present administrative arrangement. Under a new commonwealth status only a fraction of the activities now being carried on by the Headquarters will have to be assumed by the new Commonwealth Government. Supervisory and coordinating functions, along with functions deemed necessary for the convenience of the Administering Authority will no longer be relevant. We estimate about 1/6 of \$10 million rather than \$18 million as reasonable. Therefore in terms of your future government operations costs we would suggest that a 1.6

- million dollars is more reasonable than the \$3 million in your budget.
- Third, the direct Operations costs represent very large increases over current levels. The 1974 figure is \$5.1 million; the 1975 figure has been raised 23% to \$6.3 - largely to replenish stocks that had been drawn down and because of increased personnel costs. We are prepared to increase our \$7.5 million offer to \$8.0 million a year beginning in FY 1977. Given the increased level of internal taxes and other financial resources becoming available to the Commonwealth, there should be no difficulty in meeting the cost of your operations in succeeding years.
 - With respect to your CIP requirement, I would point out that the \$5.37 million figure shown on the TT proposed budget for 1977 is a non-representative figure - since it includes funds for about \$4.5 million worth of power projects in one year - the implementation of which will probably take a number of years. If we look at the whole period 1970 through 1980, you will find the annual average at about \$2.5 million. Therefore we feel our \$3 million offer is reasonable - and in addition, there will be Federal programs to augment these regular financial resources for CIP.
 - Fourth, your paper states that "the U.S. offer 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.

- We are sorry we have left the Commission with this impression.

- We have in fact tried to give you the opposite impression.
- We have urged you to consider using your future income such as income from land for just this
- We were prepared to make our contributions and in fact our offer of \$1.0 million for an Economic Development Fund (non-repayable to the U.S. Government) is about six times the Marianas pro-rata share of the TTPI's EDLF.
- Furthermore upon our further consideration and given our belief that availability of capital on a low cost long term basis is a key element in promoting economic development and higher standards of living. We are prepared to increase that amount to \$1.5 million, with the understanding that the additional \$500,000 annually for seven years will be used for small loans to farmers and fishermen and agricultural and marine cooperatives. These earmarked funds can help commercial farmers and fishermen in acquiring needed equipment and working capital and can by contributing to the growth of these income producing activities, also contribute to the goal of self-sufficiency and a balanced economy.

V. The MPSC revised position on Economics and Finance.

- With regard to your first point our difference is one of timing. We suggest Phase II beginning in FY 1977. You suggest FY 1978. Much will depend upon when Phase I begins and how long it will take the Marianas to organize and get a new government under its own constitution in place, but unless we are unduly delayed FY 1977 appears to be more realistic.

- With respect to flexibility as between categories and carry-over funds I have indicated that we will look into this matter.
- With respect to inflation some several weeks ago I asked for a revision in my instructions and I am happy to say that I can commit the U.S. Government (Executive Branch) to constant dollars.
- MPSC revised Phase II Requirements: Looking at your chart No. II on page 8 we note that total estimated required expenditures is:

FY 78	19.8
FY 79	20.8
FY 80	22.3
FY 81	22.3
FY 82	22.3

- We believe it would be interesting to compare these estimates with our estimates of your potential government revenues (we average it over seven year period FY 77-82).

1. Estimated revenue local taxes	5.75 million
2. Estimated income from public property (sale, rental, lease, concessions, etc.)	2.5 million
3. Estimated income U.S. military presence Tax rebates, income tax from local employees, import duties, expanded buying and flow of capital and increased local purchasing	1.5 million
4. Proposed U.S. assistance	
Government Operations	8 million
CIP	3 million
Economic Development Loan	1.5 million
	12.5 million
5. Federal Programs and Services (see illustrative list which is attached)	3.0 million
	<u>3.0 million</u>
TOTAL	25.25 million

- Even if you were to discount the 1.5 million for income from military presence and the 3 million from federal programs and services - total estimated revenues would not be far below your estimated expenditures.
- In conclusion
 - In joining the U.S. family, I can assure you we are concerned with your economic development and improved standards of living. This will be a constant and continuing concern of the U.S. Government.
 - Our differences in estimating the requirements for financial assistance are chiefly in the area of cost of government operations. This is based on our conviction that growing costs of government interfere with rather than help the development process.
 - We believe that a careful assessment of all the financial resources and government programs becoming available to the Commonwealth will demonstrate that the new government will have sufficient resources to meet the needs of its people and provide the basis for continuing progress in improving the standards of living.
 - Phase I studies will furnish the details of how to proceed; the proper or most appropriate development strategies and government policies. The problem will not be lack of money; it is more likely to be inexperience in managing the development effort.
 - We feel that our proposal is reasonable and generous one. We are amending our December proposal in the following manner:
 - (a) U.S. assistance will be stated in constant 1975 dollars to guard against the effects of inflation.
 - (b) An upward adjustment of U.S. assistance toward the cost of govern-

ment operations - from \$7.5 million to \$8.0 million a year.

(c) A new offer of loan assistance to small farmers and fishermen.

(d) Extending the original commitment from a five year to a seven year period.

- We hope MPSC will consider this new American proposal carefully and favorably.

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FEDERAL PROGRAMS AND SERVICES

Selected from Guam program list and likely to be applicable to the Commonwealth.

1. To improve individual standards of living in the areas of health and welfare:

Maternal and Child Health Services
Family Planning
Social Security - Old Age Survivors
Social Security - Disability Benefits
Old Age Assistance
Aid to Families with Dependent Children
Medical Assistance Grants
Child Welfare Services

2. To provide for self-improvement, training and educational opportunities:

Manpower Development and Training Grants
Head Start Grants
Adult Basic Education Grants
Bilingual Education
Educational Opportunity Grants
Work Study Program
Upward Bound
Vocational Rehabilitation Services
On-the-Job Training
Non-Food Assistance to School Programs
Grants for Public Libraries
Teacher Education
Institutional Training - Manpower Development and Training Act (MDTA)
Economic Opportunity Loans to Small Business
Small Business Financial Assistance Program

3. To improve community life:

School Lunch Program
Child Breakfast Program
Social Services for Public Assistance
Home Mortgage Insurance
Economic Opportunity Programs
Grants for Community Planning
Grants for Law Enforcement Assistance

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Neighborhood Youth Corps
Environmental Protection Research
VISTA
Community Action Programs
Federal Crop Insurance

4. To contribute to improved infrastructure and capital improvement programs:

Construction of Public Libraries
Supplementary Educational Centers - construction
Urban Renewal Programs
Basic Water and Sewer Facilities
FAA - Airport and Airways Construction
Roads - Harbors
Construction Waste Water Treatment Works

5. To provide essential public services:

The Postal Fund
FAA - Operations
FAA - Equipment and Facilities
School Assistance to Federally Assisted Areas (SAFA) -
Maintenance and Operations