

1
SSilver/
AdeGraffenried:7-2-74:kkc

1101 $\frac{13}{4}$

POSITION PAPER
JCFS COMPACT - TITLE IV - SECTION 404(a)

1. Summary

The JCFS has requested authority to transfer 15% of Section 404(a) CIP funds to the Section 401 Operations category. The absolute amounts transferrable under such an arrangement would be \$1.875 million a year during the first five years (to a \$35 million Section 401 account); \$1.65 million during the next five years (to a \$30 million account); \$1.425 million for the last five years (to a \$25 million account)..

2. Issue

Does the JCFS proposal exceed U.S. instructions or conflict with established U.S. policy?

3. Background

a. In the meeting at Carmel when Ambassador Williams first announced the figures the U.S. was proposing, he said they were "not cast in concrete" and may have left the impression there was some flexibility to transfer between accounts. The U.S. was, however, not talking about budgetary transfers from CIP to Operations.

b. In dealing with the Marianas, we proposed an operations funding level at approximately the 1975 level. The U.S. proposal to the JCFS (after adjustment for five districts) is almost 25% below the 1975 level and the accelerated CIP program during transition will have in itself generated increasing requirements for Operations funds.

03-033164

c. The Micronesians would not have had full control of the government apparatus (i.e., budgetary matters, staffing, etc.) during transition and therefore on change of status are likely to have certain fixed expenditures in the budget passed on to them. The same kind of argument could be made on the income side. Therefore there is some basis for the argument that Micronesia needs some "turn around" room (budgetary flexibility).

d. The JCFS position also reflects the COM's experience with the U.S. Congress in the annual budget hearings when they were rebuffed in attempts to shift funds from operations to CIP (for field trip ships); the lack of TTPI-U.S. flexibility in the budgetary process was clearly offensive to the COM members testifying before the U.S. Congressional committees.

4. Analysis

a. The transferability authority may be an attempt to "bank" some U.S. grant funds or may be some recognition that operational costs will increase as the accelerated CIP program is completed.

b. The JCFS request would set an unfortunate precedent in budgetary controls by permitting government spending to fluctuate outside the annual and five year development budgets.

5. Options. There are three possible approaches:

a. Reject. Under this option we will retain our Carmel position.

PRO

(1) Retains pressure on COM to accept concept of "self-sufficiency" and to curb expenditures in operations sector of the budget.

(2) GOM will have enough flexibility from their own revenues.

(3) Awaken GOM to stringent loan requirements of international organizations vice more lenient U.S. approach.

(4) U.S.-GOM can examine situation at the end of the periodic review period or GOM can request an amendment to the Compact at any time.

CON

(1) Reduces the Micronesian dependency on the USG (and thus "close ties") for funds to operate their new government

(2) Permits an entry for U.N. organizations to exert their influence over Micronesian internal affairs.

(3) Makes the U.S. appear to be inflexible over such small amounts.

b. Full Acceptance. We would agree but would have to condition the acceptance to only supporting the JCFS position to the U.S. Congress noting that the U.S. Congress is not likely to accept the JCFS position.

PRO

(1) Would permit Salii to show some negotiating success and prowess.

(2) Would permit the U.S. to show flexibility toward grant funds to meet unforeseen operations needs of the GOM in the future.

CON

(1) Would establish that USG has not considered budgetary requirements adequately to promote GOM operations.

(2) Would set a precedent for future shifts of funds by GOM.

c. Partial Acceptance. The U.S. would recognize that the new government needs some "turn around room" after they have taken over their own government. We agree to permit the GOM to have authority to transfer funds for a period of five years - 15% for the first two years; 10% for the next two years; and 5% for the last of the five year periods.

PRO

(1) Would permit USG to show some flexibility.

(2) Would permit Salii to show some U.S. concessions to JCFS positions.

CON

(1) Would establish that USG has not considered budgetary requirements adequately to promote GOM operations.

(2) Would set a precedent for future shifts of funds by GOM.

6. Recommendation

a. Reject JCFS Proposal.

b. Rationale:

(1) Not in keeping with concept of "self-sufficiency" posed by JCFS and supported by U.S. at Round Seven and Carmel. The principle of holding government expenditures in check is too important to permit the resolve be weakened even before Micronesians have begun to govern themselves.

(2) Don't need as practical matter as U.S. funds for operations are sufficient. We believe the amounts will be adequate for five districts. The Transition period will be devoted to cutting the cost of government, simplifying the administration, replacing expatriates, eliminating duplication and waste, etc. The transition will also be used to try to raise revenues so that the new government will have a significantly larger income from local taxes than is now the case.

(3) GOM will have sufficient local revenues to provide their desired flexibility.

(4) U.S. Congress will not buy, because of its potential for becoming a "thin edge of the wedge" in eroding the principle of austerity in government operations.

(5) U.S.-COM can always reduce CIP agreement levels to shift funds before a change in status so as to enlarge operations sector.

(6) Can always adjust during five year review period.