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REPORT TO THE CONGRESS OF MICRONESIAN ON THE SEVENTH
ROUND OF NEGOTIATIONS - NOVEMBER, 1973 - WASHINGTON, D.C.
JCFS January 1974

Part IV Provisions for Financial Support pages 99-115

1. The report states that the two delegations are close to agreement on the language of the Compact but far apart on amounts.
2. As for areas of major disagreement, the report points to:
 - (a) the five districts vs. six district approach
 - (b) the 10 year vs. 15 year time frame.
 - (c) Fundamentally different concepts of "need" as a prerequisite for self sufficiency.
3. In dealing with ^{Operations}~~amounts~~, the JCFS contends that the cost of government operations will increase (as opposed to the U.S. contention that they should decrease) because any ^{Savings}~~surveys~~ due to streamlining government will be more than offset by "the need to provide a greater level of services than is presently being provided for, by the requirement of some duplication of facilities and resources as a result of decentralization; and by a cost-increase factor based primarily on inflation". The Joint Committee's average figure, according to the Report, is almost 48% higher than the U.S. delegation figure.

In accompanying tables, on ^a5 districts basis, the Report shows JCFS's proposal for government operations in the period immediately following the end of the Trusteeship at \$48.5 million per year and USG proposal at \$32 million a year (somewhere ^{at} less than 40% higher ~~in the early years~~)

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according to our calculations). The Report uses a 1975 estimate ^{of Operations Cost} as its basing point for future requirements.

[Note: the first footnote on page 106 of the Report, referring to the table alluded to above, is incorrect. It should have read, "The figures in this column were derived by increasing U.S. proposed levels by 20% for computation purposes.]

5. With respect to "CIP", the Report states that the Joint Committee proposed an annual figure of \$30 million, as contrasted with present funding levels of almost \$10 million and a U.S. Delegation proposal of approximately \$7.2 million (this is on a ⁶ district basis when reduced to 5 districts, the accompanying tables show ^{the} JCFS proposal at \$25 million and the USG at \$6 million).

The Report explains the differences ^{as follows} ~~along the following~~ lines: It is the JCFS position that the level of financial support should enable Micronesia to complete construction of its infrastructure and provide a basis for self-sufficiency --- accordingly, the JCFS figure is based on "existing master plans for the six districts of Micronesia, with additional amounts included for other enterprises, primarily in the field of banking and transportation".

The USG position on the ^{other} hand, (the Report continues to explain), is that much of the Master Plans would be implemented prior to the end of the Trusteeship and that Micronesia itself, furthermore, ^{would} have access to other sources of capital.

for such projects, such as the Asian Development Bank. (The Report does not attempt to ^{counter} deal with this argument) ~~at all~~).

4. The Report ~~tends to~~ ^{or} dismiss ~~any~~ differences on Development Loans and Federal Programs as inconsequential.

5. With respect to total figures the Report states that the present U.S. annual grant to the Trust Territory is approximately \$68 million (Department of the Interior Appropriations plus Federal Programs); the ^{JCPs} ~~USG~~ proposal averages \$83 million (presumably loans are not included in this average figure otherwise the average over a 10 year period for 6 districts would be \$88 million); the ^{Comparison} ~~USG~~ proposal is almost \$46.8 million per year ^{of} recalculated for 6 districts ^{rather} (apparently this ^{later} figure does include loans) -

6. Critique on the Report

A. Government Operations

1. We pass over the 5 district vs. 6 district differences for purposes of this analysis; it ~~do~~ does not present ^{impossible} ~~insurmountable~~ obstacles in dealing with the figures, since all have been adjusted to provide a convenient basis for comparison ~~to~~ ^{using either 5 or 6 districts}

2. It is our view that 1973 should be the base period for ex-trapolating future requirements. In the first instance, we don't know what 1975 will turn out to be.

Secondly the COM itself has instructed that total ^{(especially} ~~operating costs should not exceed 1973)~~ ^{extricably} ~~1975~~ levels. Finally, the costs of government ^(costs) personnel are escalating at a far faster rate than cost of living and productivity -- this trend must be ^{reversed} revised if Micronesia is to grow economically.

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3. We disagree that the cost of government will increase with decentralization, dismantling of the TT Headquarters, and the reduction of the number of expatriates. We have disaggregated the Headquarters costs (as shown in the table on pages 114 and 115 of the Report) to determine which costs could be ~~expected~~^{expected} to continue and which could be expected to disappear or decrease when the U.S. interest is no longer involved in the administration of Micronesia. The JCFS has merely taken ~~the~~^a 1975 projection in tota, 48.8 million, and increased it to \$55 million. We believe the \$48.8 million base is unwarranted and we believe the increase is similarly unwarranted. As for future price inflation, that was to ^{be} handled ~~separately~~^{separately} - the ^{underlying} calculations and the Agreement, ^{itself} ~~at this time~~, should be stated in Constant ~~1973~~^a dollars, with provision for annual adjustments on the basis of actual changes in prices.

4. We believe our offer of \$32 million a year for 5 districts for the first 5 years, was generous. Our calculations on page 112 of the Report showed an estimated requirement of \$22.5 million in constant 1973 dollars. It is in the interest of the the Micronesian Government itself to contain these costs - ~~as expansimary~~^{as expansive} policy will, by its own calculations, lead only to greater deficits and greater dependence, rather than self-sufficiency.

Page 109 of the Report shows that the JCFS program as originally presented, and which has not undergone any radical conceptual changes, would have resulted in a budget deficit of \$154.8 ^{million} ten years after a change in status contrasts to a \$111.9 ^{million} deficit in the first year of such a change in

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status (six districts).

B. CIP

The differences in approach have been fairly stated in the Report. The USG believes the high priority CIP needs will have been met in the transition period (the *next* 3-5 years) through larger annual appropriations for the

Trust Territory, and after the change in status, the annual level should fall back to current levels. This position is based on two considerations:

1. Absorptive capacity. During recent years the Trust Territory has fallen behind in obligating and expending the total funds appropriated for CIP. There is reason to expect that the new government's capabilities in this respect *will* ~~can~~ not show marked improvement, *unless* ~~unless~~ it may experience more difficulties as experienced *in* staff leave.

2. The CIP program, with the most urgent social *needs* having been met during transition, should be harmonized with the country's capacity to maintain

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and replace. Each new ^{installation will} ~~instruction~~ ~~could~~ add to the cost of government both in human ~~resources~~ and financial ^{resources} terms. The new government is going to be short of both. It should concentrate more of its efforts in developing production and otherwise income producing facilities (fishing, agriculture, tourism, ^{ic} handcraft, etc).

It should explore means of having the private sector finance (either directly or through taxes and domestic government ^{borrowing}) a large share of the essential infrastructure needs of the country. In the same ^{vein} ~~vein~~; the government of Micronesia should develop a strategy for having more and more of the economic and social infrastructure become self-supporting through metering of services, land and property taxes, and higher charges for medical services, etc.