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Excerpts from Washington Meetings with JCFS

Drafting Committee, Third Session - November 17, 1973

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Mr. Silver:.....

"Table 2 - JCFS Plan - It appears to us that the second line items of \$18.5 million a year for three large CIP projects should be deleted. These items, shipping, airlines and banks, are properly bankable items. If any one of them is a solid project it can be supported by a bank (EXIM) and the loans paid back from the earnings. For this reason we have not included this item in our estimates."

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"Mr. Warnke replied to Mr. Silver's presentation by stating...."With regard to the three large CIP items, they could be bankable but in fact these three were not included in the \$100 million program."

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Drafting Committee, Fourth Session - November 19, 1973

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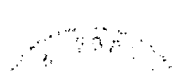
"Mr. Wilson stated that.... With regard to the development assistance offer, the U.S. offer is much lower for two reasons:

- a. There are definite limits to Micronesian absorptive capacity and maintenance capabilities.
- b. There are other sources of income and revenue definitely available to the new GOM and the U.S. feels it is decidedly in the interests of both the USG and GOM to have them increasingly less dependent on a single U.S. source."

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"Mr. Warnke responded for the JCFS by saying....(on) CIP - The question of absorptive capacity was a problem for the GOM. If they couldn't use it they might bank it for future use."

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TALKING POINTS ON BASIC ECONOMIC PRINCIPLES

1. A number of points have developed as a result of February discussions in Saipan and joint examination of "needs" that took place there.

2. Need for Micronesians to have a series of realistic development goals.

a. Brave words from all Micronesian leaders regarding self-sufficiency, even during last COM session.

b. Recognition this can never be achieved in practice (no nation today is really self-sufficient) but in relative terms this should still remain target for economic development.

c. But better to speak about goal of decreasing present virtual absolute dependence on outside support, i.e., U.S. support, over period of years.

(1) Micronesia on its own can't possibly afford present government and scale of living.

(2) Truth in Carl Heine's remark that Micronesia needs a revolution - "A revolution of declining expectations".

d. Decreasing dependency needs to be gradual to avoid trauma of abrupt fall in living standards - need a leveling off and a spreading around of income to larger base.

e. Necessary corollary is development of basic means of economic production and livelihood which will provide progressively greater income for the people in real terms and progressively greater revenues for the government so that Micronesia can stand increasingly on own feet.

3. Not all assistance in the future need come from U.S. grants.

a. Where projects are income producing they should be bankable - either commercially or from established international institutions.

b. U.S.-provided loan funds for a development bank to use directly as loans or basis for commercial guarantees can help materially and would not involve greater dependence on foreign sources.

c. Liberalized foreign investment policy also represents major potential source of new capital and financing.

d. Experience elsewhere has shown that discipline of loan application process and repayments is a very healthy thing for developing countries.

(1) Decreased reliance on hand-outs.

(2) Increased sense of assurance and confidence.

4. Simply building up a large infrastructure base will not assure economic development.

a. Recognize need for basic infrastructure - roads, docks, airfields, utilities, schools, hospitals, etc..

(1) Adequate austere standards initially, however, rather than deluxe trimmings.

(2) Priorities and timing also important - no reason to move ahead of anticipated economic capabilities and needs.

b. Also need a purpose beyond gratifying basic wishes of the moment, i.e., infrastructure planning should be directly related to goal of raising productivity and increasing sources of income.

(1) Little or none of this apparent in February listing of "wants" other than vague thoughts of increasing tourism in some districts and Marshalls direct, tie-in with agricultural and marine resources build-up.

(2) "Unmet needs list" essentially meaningless except where related to specific income producing goal.

(a) No need to pave roads unless paving ~~it~~ will materially enhance the users' income.

(b) Necessary ingredient or test is careful cost benefit study of most projects beyond the most basic ones, and this hasn't really been done.

(c) Thoroughly endorse COM's idea that what is needed is first class development planning effort in Micronesia.

c. Careful consideration must be given as well to implications of large infrastructure projects on cost of government operations and maintenance.

(1) Added personnel and maintenance costs must be figured in and how government is going to pay for them.

(2) Danger of simply programming increasing dependency on outside support over indefinite future, as Iehsi so eloquently pointed out.

5. Goal of decreased dependency on outside support dependent/combination of progressively decreasing costs of government (in constant dollar terms) and increasing revenues from local sources.

a. Vital to former is keeping tight lid on operational costs and taking every opportunity to reduce them.

(1) Trend since 1969 has been exact opposite: 50% increase in government personnel (4,400 to 6,600 Micronesians) with over half of work force on government payroll; 135% increase in salary levels; this is unconscionable.

(2) GOM on its own simply could not afford this luxury and neither can U.S. on continuing basis countenance it.

(3) Stifles initiative and private development and insures continued dependency (salary levels should follow, not lead private enterprise).

(4) If political goal is decentralized government, great savings should be possible by progressive dismantlement of overstuffed central government bureaucracy, provided districts don't take the occasion to make the same mistakes.

(5) Other major savings should be possible by progressive elimination of expensive expatriates in all jobs except those where technically qualified Micronesians simply cannot be found.

b. Increasing revenues can be derived from many sources with careful planning and intelligent programs.

(1) Much more needs to be done to make people pay for services provided by government: no need for free water and electricity; pay-off factor in future utilities projects should do much to defray their costs.

(2) Tax base in monetized sectors of economy is woefully inadequate and is badly in need of reform; this could result in progressively greater revenues especially as tax base improves with growth in internal income.

6. Another basic consideration is attitude of U.S. Congress.

a. Recall that we have just completed extensive consultations.

b. While it has been and is likely to continue to be generous toward Micronesian needs, it will not stand still for providing extravagant levels indefinitely or a

higher level of assistance to someone outside the family than it provides for its own.

c. With ending of the trusteeship, Congress likely to view Micronesia more in light of foreign aid recipient (remember Julia Butler Hansen's remark that if Micronesia went independent it would have to take its case for aid across the hall to the Passman's Committee and "God help you then".)

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