

THE WHITE HOUSE

WASHINGTON

February 13, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
JEFFREY FARROW

SUBJECT: Territorial Policy Message

Attached is a message to Congress which outlines your territorial policy decisions. It is scheduled for transmittal Thursday.

The message departs from your decisions in two respects based upon developments subsequent to their being made. Appropriate agencies concur in the changes.

1. We have deferred your decision to assign responsibilities for handling post-trusteeship relations with the three freely associated states of Micronesia to State pending finalization of the negotiations. This is done at the behest of Senator Bennett Johnston, who now seeks to have the Senate Energy Committee retain jurisdiction over Micronesian issues post-trusteeship. Johnston's support is considered essential to Senate passage of the Compact. His change in position is due to changes in our negotiating posture subsequent to the State decision.
2. The territorial tax matching formula has been altered with improved incentives for territorial financial responsibility. The revision is expected to add only \$3 million to the FY 1981 budget.

FOR IMMEDIATE RELEASE

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

I am announcing today the framework for a comprehensive Federal territorial policy towards Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands. It strengthens our Nation's fundamental commitment to encourage the self-determined political, economic and social development of our territories.

The legislative proposals and executive actions that make up the basic elements of this policy were developed through an intensive Domestic Policy Review of current policy conducted by my Administration in consultation with territorial leaders and Members of Congress.

A number of developments precipitated this review:

- Congressional leaders and Administration officials have joined territorial residents in concern about inadequate economic development in the territories;
- Growing deficits have brought both Guam and the Virgin Islands close to insolvency, despite considerable Federal assistance;
- Territorial income tax revenues, as a percentage of gross territorial product, have dropped substantially;
- Some territories are having increasing difficulty in providing essential public services. This failure impairs the quality of life of their populations, inhibits economic expansion, and leads to requests for extraordinary Federal support;
- The territories have been confronted with new social problems which have reached near-crisis proportions in some instances;
- Federal policies toward the territories are often inconsistent, inappropriate, or confusing, exacerbating problems and frustrating well-intentioned programs; and
- The government and the administration of the territories have changed considerably over the last decade, creating the need for a reconsideration of organizational arrangements within the Executive Branch and possibly status.

Over the past several years, the Federal government has attempted to rectify many of the pressing problems facing the territories. In many cases, however, the piecemeal solutions devised have failed to clear up the underlying causes of those problems. While some Federal actions have contributed to the development of the territories, others have not promoted the greater self-sufficiency to which they justly aspire.

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Our new policy is significant not only because of the scope of the individual initiatives it proposes; it is also significant because it is comprehensive. The interrelated elements of this policy seek to improve the full range of the Federal-territorial relationship.

Because the Congress is mandated plenary power for the territories by the Constitution, I ask that you join my Administration in adopting and implementing this comprehensive policy. Through legislation and the exercise of oversight responsibility, the Congress can ensure that the policy goals I outline here are realized. They include:

- detailing a procedure for the orderly political development of the territories;
- providing opportunity for and a stimulus to their economic growth;
- rationalizing the existing Federal-territorial financial relationship and improving local financial management;
- enhancing territorial treatment under Federal programs; and
- elevating the Federal organization for dealing with territorial matters.

I especially want to request the involvement of those Members of both Houses and of both parties who have shown consistent leadership and sensitivity on territorial issues: Senators Jackson, Johnston, Matsunaga, McClure, Stevens and Hatfield; Representatives Phillip Burton, Yates, Murphy, Clausen, Lagomarsino, Duncan; and Delegate Won Pat. Their views have been essential to the development of this policy and their help is essential for its implementation.

They know that we in Washington have an obligation to protect and nurture the unique cultures and fragile economies of these islands, which are so distinct from the rest of the Nation in terms of history, geography, economic potential, tradition and ethnic composition. Our goal should be to recognize these distinctions as assets rather than to expect the territories to conform to practices and policies designed for the States and often inapplicable to insular areas.

That is why this policy was not simply adopted in Washington for the territories; it was formulated in conjunction with the elected officials of the territories whose input was obtained at every stage and played a major role in shaping this policy.

Executive Branch Reorganization

To implement the initiatives I announce today, I will continue to rely upon the Department of the Interior, which for some time has had principal responsibility within the Executive Branch for territorial matters. To help it perform this function, I propose the following reorganization steps:

- the Secretary of the Interior will be given clear responsibility for all matters related to the territories and will be accorded increased support from other agencies and the White House staff;

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- the office charged with territorial liaison and assistance responsibility will be enhanced organizationally to help it deliver the services expected of it and will be headed by a new Assistant Secretary of the Interior for Territorial and International Affairs; and
- to further ensure a coordinated Federal effort, territorial matters will be among the major responsibilities of a senior assistant on my Domestic Policy Staff.

These measures will improve the attention given the territories. They will make explicit Interior's responsibilities for the Northern Mariana Islands but will not change the Department's responsibilities for the Trust Territory of the Pacific Islands prior to the termination of the Trusteeship.

The organizational arrangements for handling United States relations with the freely associated States of Micronesia after termination of the Trusteeship, however, will not be determined until the final character of our responsibilities with regard to those island States is fully defined through the agreements now being negotiated.

The present policy of assigning no one department specific responsibility for liaison and assistance to Puerto Rico will continue until the government of that island requests such an assignment.

Under this reorganization, the Federal Comptrollers will continue to provide the territories with technical assistance and to perform their traditional and essential auditing function.

Political Development

In keeping with our fundamental policy of self-determination, all options for political development should be open to the people of the insular territories so long as their choices are implemented when economically feasible and in a manner that does not compromise the national security of the United States.

If the people of any of the territories wish to modify their current political status, they should express their aspirations to the Secretary of the Interior through their elected leaders, as is the case now. The Secretary, along with representatives of the appropriate Federal agencies, will, in turn, consult with territorial leaders on the issues raised. Following such discussions, a full report will be submitted to the Congress, along with the Secretary's proposals and recommendations.

This procedure will permit an orderly development of the Federal territorial relationship. To maximize local self-determination, however, I want to encourage the people of Guam and the Virgin Islands to continue in the constitution-drafting process. By doing so, they will in due course replace the Federal laws under which their local governments now function with instruments of their own design.

The Secretary of the Interior will also make recommendations to me on the other proposals for political development considered during the Administration's Domestic Policy Review, including: Federal court reform in Guam and the Virgin Islands, Congressional representation for the Northern Mariana Islands, and other changes in current law.

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Economic Development

Attainment of the political aspirations of the people of the territories, as well as the quality of their lives, is vitally dependent on the economic viability of these insular areas. Therefore, this policy framework places special emphasis on furthering the economic development of each of these areas. As with other aspects of this policy, the Department of the Interior will be given new responsibilities to accomplish this end. Chief among these will be coordination of the work of the Federal government's economic development agencies with respect to the territories.

So that we may make sense out of the somewhat confused pattern of Federal laws that now apply or fail to apply to the territories, I will propose legislation to establish a Presidential Commission to examine the application of Federal statutes on a case by case basis to Guam, the Virgin Islands and American Samoa. On this Commission, representatives of each of the territories would join Federal legislative and executive representatives in recommending legislation to the President for his submission to Congress.

The Commission would not examine the applicability of Federal laws to the Northern Mariana Islands because our Covenant with that Commonwealth stipulates the appointment of a separate commission for that purpose. I will shortly appoint members to that Commission.

I will also direct the Department of the Interior, with the assistance of Federal economic development agencies, to undertake an analysis of Federal constraints on territorial economic expansion. This study will provide information and policy guidelines for the Commissions on Federal laws and will propose concrete action to remove administratively-imposed constraints.

I have, further, directed the Secretary of the Interior to devise methods of encouraging private sector development in the territories by providing technical training and public and private financing assistance. Again, in this effort the Secretary of the Interior will coordinate the involvement of all relevant agencies, particularly the Economic Development Administration of the Department of Commerce, which I expect to play a major role in fostering the growth of the private sector in the territories.

Capital Development

Federal constraints, the need for technical assistance and training, and the lack of local venture capital are not the only factors inhibiting private sector growth in the territories. There is also a serious need to develop and maintain the basic capital infrastructure to meet business and human requirements. In many of the islands, meaningful economic growth -- as well as a decent standard of living -- will be an unattainable dream unless elementary facilities are constructed.

My 1981 Budget recognizes this fact. In it I have proposed substantial Federal support for several essential capital improvement projects. The funding level proposed would have the Federal government finance 90 percent of the cost of these projects. This method of cost-sharing of capital improvement projects in the territories is a major element of the territorial assistance proposals I announce today. I urge that it be standardized until the territories become sound enough financially to assume a greater portion of the cost of needed projects.

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Joint Federal-Territorial Planning

To plan and set priorities for territorial capital development, my Administration will propose a program for joint Federal-territorial, comprehensive, multi-year planning, financed by Federal grants. This planning will serve other purposes as well. It will help to improve the effectiveness of Federal grant programs in the territories and it will assist the territories to better manage their finances.

Federal Grant Programs

Several other initiatives will be undertaken by my Administration to enhance the effectiveness and usefulness of Federal grant programs, including:

- encouragement to territorial governors to strengthen their grant coordinating units and to participate in joint planning efforts,
- a directive to all Federal agencies to keep the Department of the Interior informed of all grant applications and decisions affecting the territories and to provide it with data related to the applications and the programs to which they apply,
- a waiver of matching requirements for programs or projects the Federal government wants to encourage in the territories, and
- development of a test proposal to provide the territories with block grants replacing the categorical grants-in-aid which the territories find increasingly difficult to administer effectively.

Financial Assistance

The initiatives I propose to ameliorate territorial financial difficulties are part of a major revision of the financial relationship between Washington and the territories. This change is designed to promote greater self-reliance in the territories. It recognizes that somewhat greater levels of assistance are required in the short run to enable the territories to be more self-sufficient in the long run. It focuses on capital improvements, economic development, and gradually increasing territorial contributions to the funding of local programs and projects.

Thus, while my Administration will continue to oppose measures that provide a disincentive to prudent budget practices -- such as the financing of deficit spending -- I will submit legislation designed to enable Guam and the Virgin Islands to alleviate immediate and near-term budgetary pressures while improving their financial management practices.

This proposal is expected to provide an additional \$25 million in financial aid to the two territories in Fiscal Year 1981, as well as to provide an incentive toward greater local tax effort. It will be accompanied by assistance designed to improve budget-making and planning in the territories. It will make continued additional Federal support contingent on sound budgeting and accounting practices, including a plan to eliminate accumulated deficits.

My 1981 Budget proposes a continuance of significant Federal support for American Samoa and budgetary support for the Northern Mariana Islands as required by the Covenant. Both will also be able to participate in our program of budget

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planning assistance. As an incentive to self-reliance in American Samoa, I propose that in the future our operational assistance to that territory be limited to the previous year's base plus a five percent inflation adjustment.

To increase territorial revenues, I propose that we fully extend the Internal Revenue Code, now limited to the States and the District of Columbia, to the territories. I will submit legislation similar to S. 2017, sponsored by Senator Johnston, that will replace the so-called "mirror" systems of income taxation imposed by Federal law and eliminate restrictions on the local imposition of a local income tax.

This measure would provide the territories with many advantages in addition to according them State-like Federal income tax treatment. Collections by the Internal Revenue Service would be covered over to territorial treasuries for an anticipated significant net gain. Anomalies in current tax laws would be eliminated, encouraging business activity and increasing collections. Employees of territorial tax agencies would be given preference in hiring for Internal Revenue Service positions in their territories. And the legislation would create new incentives for business investment.

As I noted at the outset, the legislative proposals and administrative actions that make up this policy framework seek to reaffirm our fundamental commitment to self-determination. They recognize as well our unique relationships with the territories and our special obligations to their peoples.

This comprehensive territorial policy will enhance the political, economic and social development of those territories to which we owe so much and which need our assistance. Territorial Americans can rest assured that we will pursue this new policy with diligence and perseverance.

JIMMY CARTER

THE WHITE HOUSE,

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