

**12/29/79 [3]**

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 12/29/79  
[3]; Container 144

To See Complete Finding Aid:

[http://www.jimmycarterlibrary.gov/library/findingaids/Staff\\_Secretary.pdf](http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf)

THE WHITE HOUSE  
WASHINGTON

DOMESTIC POLICY REVIEW  
U.S. TERRITORIES AND THE  
TRUST TERRITORY.

OUT 12/29

(ID 800077)

DECISION MEMO IN 12/29 FILE.

THE WHITE HOUSE  
WASHINGTON

12/29/79

COPY GIVEN TO STU EIZENSTAT

Rick

THE WHITE HOUSE  
WASHINGTON

To Stu  
J

December 27, 1979

MEMORANDUM FOR:

*The President*  
RICK HUTCHESON

FROM:

STU EIZENSTAT *Stu*

SUBJECT:

Domestic Policy Review, U.S. Territories  
and the Trust Territory

Attached is a decision memorandum on territorial policy which should be read as soon as possible, due to potential budget impacts for FY '81. Although the DPR memo, report, and comments consist of two volumes, the President need only read our cover memo and Tabs A and B.

Thanks.

**Electrostatic Copy Made  
for Preservation Purposes**

THE WHITE HOUSE

WASHINGTON

December 27, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT  
AL STERN  
JEFFREY FARROW

*Stu*  
*Al*  
*Jeff*

SUBJECT: Domestic Policy Review, U.S. Territories and  
the Trust Territory

At your direction, a sub-cabinet level interagency task force was established in February to review Federal policies toward the territories of Guam, Virgin Islands, American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, under the Domestic Policy Review system. It was charged with answering six questions (Tab C) on Federal policies for these areas (and, in one respect, for Puerto Rico as well.)

The report of the task force, which was ably headed by Interior Under Secretary James Joseph, is attached. It has been reviewed by us and does not require your perusal. (An executive summary is found at Tab D and the full responses to the questions are at Tab E.)

Background

A number of developments precipitated this examination of U.S. territorial policy:

- Individuals in some of the territories have lately displayed a new interest in modifying their political relationship to the United States;
- Administration officials and Congressional leaders have been increasingly concerned about inadequate economic development in the territories;
- Increased deficits have arisen. Both Guam and the Virgin Islands are close to financial crisis despite very high levels of Federal assistance;
- Territorial income tax revenues, as a percentage of gross territorial product, have dropped substantially;

- Some territories have had increasing difficulty in providing essential public services, prompting requests for extraordinary Federal assistance;
- Policies promulgated by agencies or through unrelated legislative acts are inconsistent and often work at cross-purposes, confusing the territories and frustrating well-intentioned programs;
- The territories have recently been confronted with social problems such as crime that have reached, in some instances, a crisis level; and,
- The government and administration of the territories have changed considerably in recent years prompting the need for a reconsideration of organizational arrangements within the Executive Branch.

Your concerns were expressed November, 1978 in vetoing legislation authorizing special appropriations for Guam and the Virgin Islands, compensating their treasuries for the impact of changes in the U.S. Tax Code. In that message you said that the practice of ad hoc funding of territorial deficits "does not sufficiently encourage responsible financial management" and directed a study of the fiscal relationship between the United States and Guam and the Virgin Islands. That study was incorporated into this policy review.

#### Decisions

As a result of the Domestic Policy Review, the task force proposed solutions for many of the deficiencies inherent in current Federal policy toward these off-shore areas. On issues of political development, financial assistance, improving territorial tax systems, reforming the Federal grant process and Federal organization, there was consensus among the agencies as to a preferred course of action. (These decisions are conceptual, however, and will require translation into proposed legislation or administrative actions before final agency clearances are given.) We concur with the consensus recommendations and suggest that you approve these policy decisions itemized at Tab A.

On a few major issues, however, there was substantial disagreement within the task force and a consequent need for a choice by you among options. These issues relate to mechanisms to foster territorial economic development and the Federal presence in the territories. Domestic Policy Staff recommendations on those issues are included along with those of the task force agency and EOP participants. Those decisions are to be found at Tab B.

The decisions contained herein are intended to serve as the framework for a comprehensive Administration policy toward the

insular possessions. The lack of such a policy is exhibited by unrelated, often contradictory budgetary and other administrative actions and policy determinations. Combined with Congress' jealous guarding of its Constitutionally-mandated plenary power over the territories, it has inspired sharp criticism of the Administration's record in this area...some of it justified.

Jack, Frank, Anne, and Sarah concur in these recommendations.

#### Territorial Views and Participation

In the preparation of responses to the six questions addressed to it, the task force consulted extensively with territorial elected officials. Their comments were solicited on draft papers and incorporated, where it was felt useful and appropriate, in revised papers. (Territorial comments on draft papers are attached.)

Not all territorial aspirations would be met by the recommended policy. The task force believes, however, and we agree, that the territorial aspirations to which we would be responding would resolve many of the most pressing irritants in the Federal-Territorial relationship.

#### Congressional Interest and Consultation

Because the realization of many of the policy objectives contained in this memorandum would require legislative action and because of Congress' responsibility for the territories, the task force also worked closely with those congressmen who regularly devote much attention to these issues. Although the number of this group is small, it includes such key individuals as Senator Bennett Johnston and Congressman Phil Burton, whose interest in these areas is strong and continuing.

#### Implementation

The decisions to be made below are intended to be reflected in our FY '81 budget request and through a legislative package to be submitted early next year as well as through a series of executive orders. A public statement outlining the major elements of our territorial policy would be issued subsequent to your decisions.

Task Force Recommendations

The task force recommended (OMB disagreed with points two and three below but did not think Presidential decisions on the issues were warranted), that the Administration do the following:

- (1) Issue a Presidential statement reaffirming the United States commitment to the fundamental policy of encouraging the self-determined political, economic, and social development of the territories. It should indicate that all political status options are available as they become economically feasible and that the President would support any decision with respect to status freely reached by the people of the territories that is implemented in a manner that does not compromise the national security of the United States.
- (2) Announce that any territory whose people aspire to modify significantly their current political status should, through their elected political leaders, express those aspirations to the Secretary of the Interior. He will in turn, conduct talks with pertinent territorial leaders along with representatives from other Federal agencies. Following such talks, a full report would be submitted to the Congress, along with any proposals needed to effect changes recommended by the Secretary.
- (3) Propose a Constitutional amendment to permit citizen residents of the territories to participate in Presidential elections. The task force recommended no initiative with respect to an amendment providing voting representation in the Congress for the territories, but suggested that the President should be willing to support such an amendment if one is advanced in the Congress, so long as the territories are not accorded the level of participation as they would receive if they were States of the Union.
- (4) Encourage Guam and the Virgin Islands to continue in the constitution drafting process under existing enabling legislation, so that in due course such local instruments can replace the organic acts of the U.S. Congress which now constitute the framework for these territorial governments.
- (5) Establish a single commission to examine the application of Federal laws, on a statute-by-statute basis, to each

*Why announce this? - Just state it as continuing established policy.*

*Prefer no Presidential position*

of the territories (other than the Northern Marianas, for which a Federal Laws Commission will shortly be appointed.) Representatives of each territory would join Federal representatives in recommending proposed legislation which flows from this examination to the President for submission to the Congress.

- Permit*
- (6) ~~Direct~~ the Secretary of the Interior to consider and make further recommendations on: *to the President*
- a) Senate representation for the territories;
  - b) Representation in the Congress for the Northern Marianas; and
  - c) Court reform in Guam and the Virgin Islands.
- (7) Direct the agency with lead responsibility for economic development in the territories to undertake an analysis of Federal constraints on economic development in the territories. Financial resources and employment authority would be made available. Other Federal agencies with programs affecting economic growth in the territories would be directed to assist the lead agency in these efforts.
- (8) In order to improve the effectiveness of Federal grant programs in the territories:
- a) Issue Presidential Memorandum to encourage territorial chief executives to strengthen territorial grant coordinating units and develop comprehensive multi-year development plans and annual investment plans as a basis for grant coordination for the evaluation of requests for project or program assistance.
  - b) Issue an Executive Order directing Federal grant agencies to keep Interior currently informed of grant applications, approvals, and disapprovals, and with financial data related to the grants.
  - c) Draft legislation, authorizing joint-Federal/territorial multi-year planning with Federal planning grants.
  - d) Develop a test proposal to provide block grants on a pilot basis in lieu of categorical grants-in-aid.

- (9) To improve the organization of the Executive Branch for dealing with territorial issues:
- a) Announce that the Secretary of Interior will retain lead responsibility for U.S. territories with increased support from other agencies and the White House staff.
  - b) Propose legislation to establish an Assistant Secretary within Interior to coordinate Federal activities.
  - c) Commit that staff assistance for territorial matters will be among the major responsibilities of a senior assistant on the Domestic Policy Staff.
  - d) Continue the existing policy of assigning no agency responsibility for special liaison, advocacy, and assistance for Puerto Rico until there is an expression from that island's government to the contrary.
  - e) Assign the Interior Department responsibility for Northern Mariana Islands.
  - f) Assign post-trusteeship administrative responsibility for the freely associated states of Micronesia to the Department of State, perhaps through an interagency arrangement.
- (10) Propose legislation to extend the Internal Revenue Code with IRS administration to the territories, replacing their so-called "mirror system" of taxation.
- (11) To improve the mechanism by which the Federal Government assists territorial governments financially:
- a) Issue a Presidential statement indicating a focus on capital improvement projects, economic development and greater territorial contributions over time toward the funding of local programs and capital development, and an unwillingness to fund territorial budget deficits.
  - b) Incorporate 90/10 Federal-territorial cost-sharing ratio for capital projects funded by Interior in the FY '81 budget. (Currently projects that are approved are generally funded 100% by the Federal Government.)
  - c) Selectively waive territorial matching requirements only for those Federal categorical programs which

*does Andrews agree? →*

the Federal Government wants to promote in the territories. (Current law allows for waiver of matching requirements for all categorical programs.)

- d) Propose legislation to be included in the FY '81 budget that would authorize a Federal match of increased territorial tax collections over a given base. (Estimated cost in FY '81 is \$22 million using a 50% match over a FY '76 to '78 base. This additional assistance would be structured to decrease over time.)
- e) Increase Federal oversight over territorial budgets.
- f) Set a specific ceiling on operational funding provided by Interior to territories at the previous year's base plus a five percent inflation adjustment.

Concur \_\_\_\_\_ ✓ (Recommended)

Do not concur \_\_\_\_\_

*as amended*  
*J*

**Electrostatic Copy Made  
for Preservation Purposes**

Disputed Issues

(1) Lead Agency for Economic Development

While there was no disagreement within the Task Force that the Federal Government should take additional steps to foster the growth of the private sector economy in the territories, there was disagreement regarding which Federal agency should have primary responsibility. The options are between:

- (A) Interior, coordinating the work of normal economic development agencies such as EDA and DoD's Office of Economic Adjustment, and
- (B) EDA, through a special unit responsible for territorial planning and funding, in close coordination with Interior which is being reaffirmed as the overall lead agency for territorial matters.

Arguments for Option A

Supporters oppose dividing the lead responsibility for territorial assistance. They argue that if economic development is to be integrated with other aspects of development assistance to these distant and different small islands, the lead agency for territories should perform a coordinating function, calling upon the resources of pertinent agencies such as EDA for strategy planning and implementation. They assert that the task force's recommendation of a substantial upgrading of territorial priorities within Interior and a budgetarily enhanced ability to foster economic development would produce a departure from Interior's poor record of promoting economic development. A lead assignment to the territories office would not be an incursion into the purview of single mission agencies such as EDA.

Arguments for Option B

Responsibility for program areas as they affect the territories should remain with the agencies with lead responsibility for them throughout the nation even though the territories face special problems. Supporters cite EDA's expertise in this field and point to Interior's admitted lack of success. They contend that it is unrealistic to expect an economic development unit within the territories office to ever match the expertise of the national economic development agency.

(DPS, Interior, State, Defense) Approve Option A            ✓ J

(OMB, Commerce, Treasury) Approve Option B

(2) Territorial Development Bank

The task force debated whether Interior should develop legislation to establish a territorial development bank to encourage private sector development. The role of the bank would be to tailor financing and assistance packages to the particular needs and opportunities in each of the territories, promoting private sector growth and helping to coordinate development assistance from other agencies as well as the private non-profit sector.

The bank would be developed as a private non-profit corporation with the government providing the bank with the majority of an initial equity capitalization of between \$50 million and \$100 million. Operating costs would be funded through a mechanism suggested by Interior. The bank's major goal would be to develop effective ways to using risk-sharing and indirect funding techniques to stimulate the flow of private capital and credit into territorial ventures.

Arguments For

This option is perceived by some agencies as being directly tied to a decision above to charge Interior with the primary responsibility for economic development drawing upon its own resources and the programs of other agencies such as EDA. The proposal recognizes there is a need for both technical and financial assistance for private sector development in these islands. It would assure that projects are feasible and sufficiently capitalized.

Arguments Against

Under legislation which would expand the role of EDA, that agency would have all the development tools that would be the elements of a territorial bank. Consequently, there is no need for a new mechanism. EDA proposes as an alternative, (assuming Option B is selected immediately above and it becomes the lead agency for economic development in the territories) the establishment of annual development finance funding targets, contingent upon the formulation of realistic territorial development plans which specifically identify private sector financing opportunities.

(DPS, Interior, Treasury, Defense) Approve \_\_\_\_\_

(OMB, Commerce) Disapprove \_\_\_\_\_

*I do not favor  
starting another bank -  
Assess ability of an existing  
entity (even Ex-Im), for laws  
to be modified to accommodate  
territories needs -*  
J

(3) Federal Field Offices

There was agreement within the task force that a continuing Federal presence is needed in the territories over and above that provided by regular programs or services because the annual Federal financial contribution is such a substantial portion of territorial revenues and because of the need for technical assistance to developing territorial governments. Although there was much sentiment in the territories for replacement of the Federal Comptrollers by a local auditor, the task force uniformly supported retention of the Comptroller's auditing function. It was split, however, on the question of whether the Comptrollers should provide technical assistance in the field of financial management or whether that service should be part of the mandate of new Interior field offices in the territories. The options are:

- (A) The Federal presence will consist primarily of the offices of the Federal Comptrollers which should continue to provide not only auditing functions but technical assistance to territorial governments in financial management as well. (This would be a non-add to the budget since it represents the status quo); and
- (B) The Comptroller's functions will be limited to auditing functions only with new field offices of the lead agency for territories providing technical assistance in economic and social development, public administration as well as financial management. They would serve as a policy liaison to the recommended Assistant Secretary for territories in Interior and a coordinating mechanism for the myriad Federal activities in the territories. (Estimated cost in FY '81 is \$1.6 million plus 26 FTP.)

Arguments for Option (A)

The status quo would not require any additional full-time permanent personnel. There is at least some territorial support for the existing situation and dispute as to whether field offices could provide the coordinating functions contemplated. Further, it is conceivable that if the mission of the offices is not properly explained, their policy liaison assignments could be perceived as

an intrusion on local decision-making rather than as an effective channel of communication, as well as a duplication of the role of existing Federal regional personnel.

Arguments for Option (B)

This option would help ensure the provision of a range of technical assistance that is currently requested and vitally needed, but not always provided. It would ensure greater cognizance of territorial problems at the Federal level and enhance high level policy attention. It would meet the need for a coordination of Federal activities. It would enhance understanding of policy objectives between the Federal and territorial governments.

(OMB, Treasury)

Option A

J

(DPS, Interior,  
Defense, State)

Option B

**Electrostatic Copy Made  
for Preservation Purposes**

TAB A

TAB B

TAB C

9

Interagency Policy Review  
U. S. Territories and the Trust Territory  
Questions

Question No. 1. What should the United States Government be seeking to achieve in or for each of the territories, giving due regard to our legal responsibilities, territorial aspirations, U.S. national security objectives and our commitment to self-determination? What should the United States Government be seeking to achieve in the Trust Territory before the end of the Trusteeship?

Question No. 2. How can the United States Government best encourage development in the territories, given scarce resources, small populations, untrained labor forces, distances from supplies and markets, etc.?

Question No. 3. How can the system of providing Federal financial aid to the territories be improved so as to eliminate the need for ad hoc subsidies and so as to encourage wiser planning and greater fiscal self-reliance in each territory?

Question No. 4. Does any practical device exist to refine the application of Federal grant programs to the territories and the Trust Territory, so as to eliminate those without substantial value to the territory or the Trust Territory and to make more effective those that do have value?

Question No. 5. Should any change be made in the organizational arrangement that places the focus for Federal assistance and liaison for the territories in the Interior Department? Attention should be given to post-Trusteeship Micronesia, Puerto Rico and the Northern Mariana Islands.

Question No. 6. With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptrollers?

TAB D

November 30, 1979

Interagency Policy Review  
U. S. Territories and the Trust Territory  
Executive Summary

The following summarizes the responses to the six questions put to those engaged in the Interagency Review of Policies pertaining to the territories and the Trust Territory, and reflects the views received from leaders of the territories and the Trust Territory and from pertinent Federal agencies.

Question No. 1. What should the United States Government be seeking to achieve in or for each of the territories, giving due regard to our legal responsibilities, territorial aspirations, U. S. national security objectives, and our commitment to self-determination? What should the United States Government be seeking to achieve in the Trust Territory before the end of the Trusteeship?

The United States' historic policy of encouraging the political, economic, and social development of its territories and the Trust Territory should be reaffirmed. It is consistent with our legal obligations and with our national security objectives. The United States' commitment to the policy of self-determination by the people of the territories, implemented in such diverse areas as Alaska, Hawaii, Puerto Rico, and the Philippines, should similarly be reaffirmed.

There are no substantial complaints from any of the territories about incomplete local self-government -- clearly a reflection of the fact that local self-government in all of the territories is close to complete. Equally, so far as their fundamental political status and relationships to the United States are concerned, it appears that the aspirations of the people of three of the territories -- American Samoa, the Northern Marianas, and the Virgin Islands -- have been, for the present, substantially met. The people of Guam, on the other hand, have recently begun to express dissatisfaction with their relationship to the United States.

The political status alternatives for the territories, ranging from admission to the Union as a State to sovereign independence, are examined, but most are recognized as only theoretically available.

Political development for the Trust Territory, and economic and social development for both the territories and the Trust Territory, are discussed, with the conclusion that economic development in all of the areas has not matched political development, and that notwithstanding substantial Federal

assistance, programs in health and education have also fallen short of acceptable levels.

Nine policy questions, with optional answers, are presented:

(1) Should amendments to the U. S. Constitution be sought, to provide for voting in the Congress by representatives of the territories, and for voting in national elections by United States citizen residents in the territories?

Guam's political leaders appear to regard this question as lacking in real importance; the Governor of the Virgin Islands and the Delegate endorse such amendments; the Governor of American Samoa believes these rights to be unnecessary for Samoa at this time; Northern Marianas leaders do not comment on the proposal. The Department of State supports both proposals, as does the Interior Department, but Interior urges that (a) the President take the initiative in proposing a Constitutional amendment to permit citizens of the territories to participate in national elections, according to them collectively one electoral vote, and (b) the President take no initiative with respect to an amendment providing voting representation in the Congress for the territories, but he should express approval in principle of such an amendment if it is advanced in the Congress, so long as the territories are not accorded the level of participation they would receive if they were States of the Union. The Department of Transportation also recommends support for an amendment providing voting in national elections, but not voting representation in the Congress. OMB recommends that the President take no position on either amendment.

(2) Should the Executive sponsor legislation to permit territorial Delegates to the Congress to participate in the deliberations of the Senate?

The Virgin Islands Governor and the Delegates support this proposition, as does the Department of State. Guam's leaders are silent on the question; the Northern Marianas would support the proposition if a second individual were its Senate representative (instead of having one representative serve in both bodies); the Governor of Samoa believes this development unnecessary at this time. The Interior Department believes that, given the uneven support from the territories on this point, the matter can reasonably be set aside at this time. OMB and the Department of Transportation also recommend no action.

(3) Should status talks be held on the subject of the territory's future political status and its relationship to the United States?

Formal "status talks," similar to those conducted for many years with Trust Territory spokesmen, are strongly endorsed by the Governor and Legislature of Guam, as well as by the Governor of the Northern Marianas and the Delegate from the Virgin Islands. The Governors of Samoa and the Virgin Islands prefer that political status concerns be brought to the attention of the responsible Federal agency. OMB and the Department of Transportation agree. The Department of State endorses status talks in principle. The Department of the Interior recommends that the head of the agency charged with territorial responsibilities be invited to confer with the Governor and the legislative leaders of such territories as have political development concerns, and to invite such other Federal representatives as he finds pertinent to join him, and thereafter to present to the Congress a full report, in concert with the territory's leaders. The head of the agency should also submit to the Congress any proposals that are needed to effect the changes that he recommends.

(4) Should Statehood and independence be articulated as status options available to the people of the territories?

Guam's spokesmen ask that self-determination be affirmed as a right available to the people of Guam, and the Governor of the Virgin Islands agrees. Both the Governors of American Samoa and the Northern Marianas find such a declaration unnecessary for their areas. The Delegate from the Virgin Islands asks that self-determination be endorsed, but with the qualification that these choices are open only when economic realities make Statehood feasible, or when economic and strategic realities make independence feasible. OMB also takes that position. The Department of State supports a declaration without the qualification, as does the Department of the Interior. The Department of Defense recommends a further assessment of the national security implications of independence for any territory, before it is offered. The Department of Transportation recommends that the matter be deferred until the territories display greater interest.

(5) Should the Virgin Islands and Guam, notwithstanding their recent rejections of locally-drafted constitutions, be encouraged to try again to draft constitutions to replace their Organic Acts?

Guam's leaders are silent as to this question. The Virgin Islands' Governor and Delegate both endorse Presidential encouragement for further constitution-drafting. OMB and the State and Interior Departments agree. The Department of Transportation recommends no action.

(6) Should the Northern Marianas' Resident Representatives be accorded a seat and a voice in the U. S. Congress, comparable to that of the territories?

Northern Marianas spokesmen, both the Governor and the Legislature, seek the same representation for their area as is now accorded territorial delegates. The Department of State agrees. OMB and the Department of Transportation recommend no action until the termination of the Trusteeship. The Department of the Interior endorses the same representation for the Northern Marianas as is accorded to the other territories, but recommends that action be deferred until the end of the Trusteeship.

(7) Should the Federal District Courts in Guam and the Virgin Islands be made comparable to Federal District Courts in the States, with authority being conferred upon territorial legislatures to create territorial Supreme courts?

The Governors of Guam and the Virgin Islands answer affirmatively, as does the Guam Legislature. The Transportation Department agrees. The Department of the Interior also agrees, and recommends that as territorial courts are created, or their jurisdiction expanded, the jurisdiction of the Federal District Courts be reduced so that they eventually become comparable to Federal District Courts in the States. OMB recommends no action, but defers to Justice.

(8) Should the people of the territories be accorded identical treatment, compared to the people of the States, under Federal social programs?

Guam and the Virgin Islands believe that they should. The Governor of the Northern Marianas agrees so long as the Northern Marianas can participate in the United States' decision. The Governor of American Samoa does not favor identical treatment. The Treasury Department opposes identical treatment. The Department of the Interior suggests that this question be deferred, pending the receipt of recommendations from the Federal Laws inquiry contemplated in question (9). OMB recommends no action, pending analysis of the implications of an affirmative response.

(9) Should Commissions on the Application of Federal Laws be created, one for each territory, to examine the full range of Federal laws and make recommendations to the Congress as to those the application of which to the territory in question should be changed?

The Governors of the territories are unanimous in endorsing this proposal. The Department of the Interior joins in support, but questions the wisdom of a separate commission for each territory. OMB would support a single commission.

Question No. 2. How can the United States Government best encourage development in the territories, given scarce resources, small populations, untrained labor forces, distances from supplies and markets, etc?

The U. S. territories are widely dispersed geographically and have very different histories and cultures. They share economic limitations but they also have potential economic advantages in areas such as fisheries, trade, communications, and defense. The dominance of the public sector and the lagging of the private sector have resulted in substantial dependence on the Federal treasury. The objective should be to increase the private sector contribution to the total territorial economy.

Economic potential in fisheries, tourism, manufacturing, transshipment and communications is found in varying degrees in most territories. Some of the problems restraining this potential are economic and social infrastructures which are below mainland standards (although above levels in less developed countries); energy shortages; a small pool of skilled workers (and accompanying immigration issues); and the adverse economic effect of certain Federal laws.

The task force and territorial commentators originally developed a series of specific recommendations, many of which dealt with specific problems affecting specific territories, rather than an overall framework for Federal encouragement of territorial economic development. The Department of Commerce strongly supported the coordination proposals of Task Force No. 4 and recommended that Commerce be designated the lead agency of studies in telecommunications and port development.

The Task Force Report on Question 2 concludes that there is a need to undertake the development of broad economic policies within which more specific projects or programs tailored to specific needs of individual territories may be developed and that there is an equal need for close and continuing participation by each territory in formulating and implementing Federal economic development policies to apply to the insular areas. It further concludes that the recommendations of Task Force No. 4 provide a basis for such participatory development and implementation.

The Report recommends:

- o The Federal agency designated as the lead agency for territorial affairs should be directed to undertake, in cooperation with the territorial governments, an analysis of the Federal legal and regulatory constraints on economic development.

- o The lead agency should be directed to develop strategies designed to remove those constraints and to promote private sector growth.
- o Other Federal agencies with economic development programs or with programs supporting or impinging on economic development should be directed to make available their resources to assist in the endeavor.
- o Financial resources should be made available to the lead agency to contract for any needed special studies and to employ and support additional personnel to implement agreed upon growth strategies.

Territorial commentators who reviewed the earlier Task Force No. 2 report supported the lists of specific projects in that draft and emphasized other concerns peculiar to their own territories and not dealt with in the report. There was strong support from the territories for action on specific needs, in preference to further studies or analyses. Concern was also expressed regarding how the proposed analysis of constraints imposed by Federal law would relate to the Commission on Federal laws proposed in Task Force Report No. 1.

The Department of Commerce has again recommended that it, specifically through the Economic Development Administration, be charged with the lead responsibility for economic development in the territories. The Department of the Interior opposes divided Federal responsibility for the territories. OMB, Transportation, and Interior support a study by the lead agency of Federal constraints to territorial economic development.

Question No. 3. How can the system of providing Federal financial aid to the territories be improved so as to eliminate the need for ad hoc subsidies and so as to encourage wiser planning and greater fiscal self-reliance in each territory?

The Federal Government supports the four U. S. territories through direct appropriations from Interior, return of specified Federal taxes, and categorical grants from all agencies. 1979 funding (excluding Defense expenditures and direct Federal payments to individuals) totaled about \$240 million, or \$950 for each citizen in the territories, and represented over 50 percent of territorial revenues. In contrast, the State and local governments in the average State received about 25 percent of their revenue from Federal Government grants in 1979 or about \$370 on a per-capita basis.

Data on territorial per-capita incomes is sketchy. The most recent data available is for 1977 and indicates that annual per-capita incomes for Guam and the Virgin Islands were in the range of \$3,500 to \$4,700, and around \$1,000 to \$1,500 annually for American Samoa and the Northern Marianas. Comparable U. S. figures were about \$7,000 for the average State and between \$5,000 and \$5,700 for the five States with the lowest per-capita incomes in 1977.

Despite (or because of) the level of Federal funding they receive, the territorial governments are beset with budget deficits primarily stemming from increased demands and costs for public services coupled with an inability or unwillingness to raise local taxes. Territorial tax collections as a percentage of gross territorial product have dropped significantly. Because of a persistent gap between revenues and expenditures over the last several years, Interior predicts "payless paydays" for both the Guam and Virgin Islands governments in CY 1980.

Due to their relatively more developed economies, Guam and the Virgin Islands have normally not relied on Federal direct appropriations through Interior to support basic governmental operations. Instead the support usually took the form of 100-percent Federally financed capital improvements or Federally guaranteed borrowing for construction projects.

American Samoa receives substantial operational and capital improvement support through Federal direct appropriations. The Northern Marianas benefits from guaranteed Federal operational and capital improvement funding up through 1984 as authorized by the 1976 Covenant establishing the Commonwealth of the Northern Marianas. Capital improvements for both territories are generally 100-percent Federally financed.

#### Federal Assistance Options

To reverse this ominous funding trend, the Interagency Task Force has developed five proposals relating to Federal assistance to the territories:

- Matching territorial tax collections with Federal assistance;
- Creating a territorial development bank;
- Increasing Federal oversight of territorial finances;
- Applying cost sharing to capital improvements (a 90/10 Federal/territorial ratio); and
- Waiving categorical grant matching requirements for such activities as the Federal Government wants to promote in the territories.

OMB and the Interior Department favor the principle of matching Federal assistance to territorial tax effort. OMB prefers that the match be based on 50 percent of taxes collected in excess of a base amount; the Interior Department believes that separate formulas should be developed for each territory. The Treasury is opposed to matching Federal assistance to local tax effort because of its stimulus to the public sector at the expense of the private sector.

OMB, Transportation, and the Treasury support the notion of a development bank, but believe that the Federal Government should first seek to expand the role of the Economic Development Administration, rather than create a new program. The Interior Department believes that the concept of a development bank has merit, but it also believes that the proposal requires further study to establish its mission and funding level.

OMB, Interior, and Treasury support increased Federal monitoring of territorial finances.

The territories would favor a matching fund or a territorial development bank (the Virgin Islands prefers support for its own development bank) only if such assistance was in addition to, rather than a substitute for, existing programs, including ad hoc assistance. All except American Samoa considered increased Federal oversight as a "throwback to colonialism."

The last two proposals, i.e., the cost sharing principle and the limited waiver of matching requirements, were presented to the territories late in the review process and have not been the subject of responses from them, except for the Legislature of the Northern Marianas, which opposes both without qualification. It is probable that other territorial leaders would also oppose both. OMB endorses both. The Interior Department endorses the selective waiver of matching requirements. As to cost sharing, Interior believes it may be possible to devise an approach to matching territorial tax revenues that will enable the territories to bear the full cost of their capital improvement projects, in which case additional Federal grants for capital improvement projects would be unnecessary and cost sharing would be irrelevant.

The Interior Department does believe, however, that until such a matching policy is adopted and implemented, the 90/10 cost-sharing policy ought to be adopted beginning in FY 1982. It should not be adopted for the fiscal 1981 budget, inasmuch as that budget is well advanced and the territories have not had an opportunity to plan for their contributions under the 90/10 formula.

OMB believes that sufficient territorial and Congressional consultation on the funding options has taken place and that FY 1981 is an

appropriate time to implement some of these options, in view of this study's culmination and the fact that territorial budgets for FY 1981 will probably not be finalized until much later in 1980 or 1981.

Therefore, OMB concludes that the President, in order to encourage the territories to prioritize their capital improvement requests, keep project and program costs down, provide a needed incentive for greater local tax efforts, and remove disincentives to prudent planning and spending, should approve (1) applying a 90/10 Federal/territorial cost-sharing ratio to capital improvements funded by Interior in FY 1981, and (2) setting specific limits on the maximum operational support (the previous year's base plus a 3-percent inflation adjustment factor) provided the territories by Interior.

OMB and Treasury also conclude that the President should recommend greater Federal oversight of territorial finances until such time as the recurring deficit problems are resolved. Such oversight would include (1) a statutory requirement that, to be eligible for Federal funding, a territory must annually submit to Interior a balanced general fund budget together with specific measures to reduce accumulated deficits, and (2) periodic Federal review and comment on territorial capital improvement planning, implementation, and maintenance; compliance with the balanced budget requirement; and progress in liquidating accumulated deficits. While Interior agrees that special vigilance is required by both the territories and the Federal Government until the current deficit situations can be overcome, it does not believe that the "balanced budget" requirement above is desirable.

Finally, P.L. 95-348 gave the agencies discretionary authority to waive matching fund requirements for all categorical grants to the territories. For the reasons given above for project cost-sharing, the President should recommend that waivers of categorical grant matching fund requirements be granted only for specific activities, such as comprehensive planning, which the Federal Government wants especially to promote in the territories.

With the exception of Treasury, the Task Force also concludes that in order to provide appropriate short-term financial assistance to help territories overcome current deficits, the President should direct the immediate development of a legislative proposal to be included in the FY 1981 Budget authorizing the Federal matching of territorial tax collections, or some other form of additional short-term Federal financial assistance that would alleviate territorial financial problems while promoting improved planning and greater fiscal self-reliance.

#### Income Tax Options

In addition, three alternative proposals for reforming the territorial income tax systems have been formulated. Under each alternative,

the ability of the territories to give tax rebates would be curtailed so as to make their industrial incentive programs less wasteful of territorial and Federal income tax revenues. The three alternatives differ in who would administer the income tax and in the substantive income tax code. The options are:

- Extending the Federal Internal Revenue Code with IRS administration to the territories;
- Fixing up the present systems (which "mirror" the Internal Revenue Code) and provide technical assistance in administration;
- Assisting the territorial governments in drastically simplifying and reforming their present systems.

The Treasury Department and OMB believe that the territories should come under IRS administration of the Federal Internal Revenue Code (Option 1). They are opposed to simply fixing up the "mirror" systems and providing IRS technical assistance to territorial tax departments because they believe the Internal Revenue Code is too complex to be administered locally. If IRS administration of the Federal income tax system in the territories is unacceptable, the Treasury believes the territories should drastically simplify and reform their present systems (i.e., Option 3).

The Interior Department believes that the "mirror" systems should be fixed up and the territorial finance departments given increased technical assistance in administering those systems (Option 2). Transportation endorses this position.

The territories are opposed to Federal restrictions on their ability to attract industry through tax rebates (as is provided under all options) and to Federal administration of the Internal Revenue Code in the territories. The Virgin Islands and Guam prefer to retain income tax systems which "mirror" the Federal system (Option 2); American Samoa would prefer to make substantive changes in its income tax system (Option 3). The Northern Marianas is opposed to all three options.

Question No. 4. Does any practical device exist to refine the application of Federal grant programs to the territories and the Trust Territory, so as to eliminate those without substantial value to the territory or the Trust Territory, and to make more effective those that do have value?

United States territories are eligible to participate in approximately one-half of the Federal grant programs authorized by the Congress and,

in turn, actually participate in 30 to 40 percent of those for which they are eligible. Federal programs are usually extended to the territories by defining them as States, although in some cases the financial formula for participation differs from the State allocation. In addition to the Stateside problems of coordination, duplication, and competition, critics of Federal programs for the territories hold that they are costly, disruptive of the society or culture, ill-suited to territorial needs, and foster dependence. Supporters of the programs hold that they are useful, make possible many essential social and economic programs, and that the problems addressed nationally by the programs are also present in the territories.

The Task Force attempted to outline a process that would (1) coordinate programs at the Federal and territorial levels; (2) collect and maintain current information on available Federal programs; (3) improve territorial management; (4) encourage prudent decision making for program applications; (5) match available Federal resources with long-range territorial needs; and (6) insure appropriate application of Federal programs to the territories.

To achieve this process, the Task Force proposes strengthening the territorial effort through establishing coordinating units by the Governors of each territory, unless one already exists, and provision for the approval of grant applications by the Governors. At the Federal level, a counterpart unit is proposed in the lead agency for territorial affairs. To improve coordination between both levels and to help insure that programs are suited to territorial needs, a joint multi-year planning process is suggested, modeled in part on the multi-year planning experience of the Title V Regional Commissions. The Pacific Governors have asked the Secretary of Commerce to designate a Title V Region for their territories. It is also suggested that, because of the varying degrees of decentralization to regional offices, the territories be constituted a "new region," headquartered in Washington.

In commenting on these recommendations, the territories strongly favor decision-making at the territorial level and restricting coordination to that level. The Samoan legislature stresses the need to involve legislative bodies in the process. The territories unanimously opposed the creation of the counterpart Federal coordinating unit. Many also pointed out that they have established relationships with the granting agencies and their regional offices and would oppose consolidation of those functions at the Washington level.

The territorial respondents favored block grants and the simplification of grant applications. Multi-year planning was seen by several as a

Federally-required activity that should be fully supported by the Federal Government, not on a declining basis. It was accepted by some only if it led to increased Federal assistance.

Federal agency respondents generally questioned granting approval authority to a Federal coordinating unit (over and above the grantor agency) and supported the thesis that the primary planning and coordinating responsibility should be at the territorial level. The Office of Management and Budget expressed no objection to (1) the Presidential Memorandum or Executive Order, or (2) legislation authorizing multi-year development planning, pending a specific proposal in each instance. The Department of Transportation favors multi-year planning legislation.

The final option in this paper concerns block grants, and suggests that each territory be given a single block grant, based on its funding level in 1979 from grants-in-aid.

OMB, Interior, and Treasury all support the block-grant principle; OMB suggests, however, that the proposal be tested by applying it first to a single agency (e.g., the Department of Health and Welfare). As noted above, territorial respondents favor block grants, but their support is conditioned on the amounts being related to their eligibility for, rather than their actual participation in, 1979 grants-in-aid.

Question No. 5. Should any change be made in the organizational arrangement that places the focus for Federal assistance and liaison for the territories in the Interior Department? Attention should be given to post-Trusteeship Micronesia, Puerto Rico, and the Northern Mariana Islands.

Currently, the Interior Department, through its Office of Territorial Affairs, serves as lead agency for issues involving the Trust Territory of the Pacific Islands, Guam, American Samoa, and the Virgin Islands. Interior formerly administered the latter three but local self-government is now close to complete in each. Interior's High Commissioner still has administrative responsibilities in the Trust Territory although most of those functions are being transferred to local elected governments.

Of the Trust Territory districts, the Northern Mariana Islands are establishing the U. S. commonwealth contemplated in our covenant with them, and the districts of Palau, the Federated States of Micronesia and the Marshall Islands are negotiating with us the creation of freely associated states.

With the increasing political maturation of the areas, the failure of the United States Government to achieve major social and economic

development objectives, the present level of Federal funding, the negotiations now underway with the Micronesians, and increasing territorial and Congressional criticism of the Executive's implementation of territorial policies, the Federal organizational mechanism charged with carrying out U. S. objectives and serving territorial Americans should be reorganized.

The Office of Micronesian Status Negotiations strongly believes that a decision on the organizational arrangements for the Trust Territory should be made at this time. State concurs. Micronesian leaders have indicated a strong preference for dealing with State rather than Interior in the post-Trusteeship period. The Interior Department believes that organizational arrangements for post-Trusteeship Micronesia should be deferred until the nature of the political entities with which we will be dealing is known.

Four major options suggested

1. Establish an interagency office to handle both the territories and the post-Trusteeship Micronesian entities. Headed by a presidential appointee, the office would report to an interagency committee chaired by Interior and State.

This is supported in concept by Defense, which notes that it may be too early to make an organizational decision for the as-yet uncreated freely associated states.

As a first preference, the Governor and Legislature of Guam support an interagency office for the U. S. territories but would have it report to the White House. The Governor of the Northern Mariana Islands also supports an interagency approach to U. S. territorial issues.

The State Department strongly opposes this arrangement because it believes it makes no bureaucratic sense. State believes there is no reason to lump together responsibility for the U. S. territories and for the freely associated states of Micronesia (once the trusteeship is terminated). State believes that the mood in the Trust Territory is strongly against this proposal.

2. Elevate the stature of the territories office within Interior to one headed by a presidentially-appointed, sub-Cabinet officer with lead responsibilities spelled out in an executive order. Sub-options would assign issues involving the post-Trusteeship Micronesian entities to either an interagency office or State.

OMB, State, Interior, the High Commissioner, and the Governor of American Samoa support the basic proposal, choosing the State sub-option.

The Office of Micronesian Status Negotiations also supports the basic proposal, but chooses the interagency sub-option.

Transportation supports the upgrading of Interior but believes it is premature to make an organizational decision with respect to the Micronesian entities, and Interior also believes that decision to be premature. The Legislature of American Samoa supports the upgrading of Interior. The Governor and Legislature of Guam support the upgrading of Interior as a second preference. State opposes the creation of an interagency office to serve as the lead agency for the freely associated states in the post-termination period.

3. Have no office for the territories and State or an interagency office for the Micronesian entities post-Trusteeship.

The Governor and Delegate of the Virgin Islands and the Delegate of American Samoa all prefer to deal directly with the White House with no agency charged with responsibility for U. S. territorial matters. They did not address the question of the Micronesian entities.

State opposes the creation of an interagency office to serve as the lead agency for the freely associated states in the post-termination period.

4. An interagency office for the territories and State for the Micronesian entities post-Trusteeship.

The Governor of American Samoa supports this choice. Again, the Governor and Legislature of Guam support an interagency office, if it reports to the White House. The Governor of the Northern Mariana Islands supports an interagency office for the U. S. territories.

State supports this option for the Micronesian entities.

White House involvement

The Governor, Delegate, and Legislature of Guam, the Governor and Delegate of the Virgin Islands and the Delegate of American Samoa all prefer that the White House deal with U. S. territorial issues directly. The Task Force did not share this view.

The Legislature of the Northern Mariana Islands supports the status quo although would prefer White House attention also.

Question No. 6. With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptroller?

Until 1970 in the case of Guam and the Virgin Islands, and later dates in the case of the Northern Marianas and American Samoa, the chief executives of these areas were appointed either by the President or the Secretary of the Interior. Governors of these four areas are now popularly elected. A Federal Comptroller, appointed by the Secretary of the Interior, has responsibility in each area. The question arises as to whether the Comptroller constitutes a sufficient Federal presence, or whether additional Federal machinery is desirable in each area. The alternatives outlined in the paper are four:

(1) Restrict the Federal Comptrollers to a strict audit function, and discontinue technical assistance by their offices.

Guam's Governor and Legislature support the proposal, although they prefer that the office be abolished. The Governor of the Northern Marianas, although he welcomes technical assistance, prefers that it come from an agency other than Interior and believes that the Federal Comptroller's audit responsibilities should be performed by an officer of the local government. Transportation supports this option. Interior supports the separation of the two functions, but believes the Comptrollers should continue to provide technical assistance until it can be provided through some other Federal mechanism.

Governors of the Virgin Islands and American Samoa oppose the proposal, as does OMB.

(2) Establish offices to coordinate Federal activities and provide technical assistance in the territories.

The Northern Marianas Legislature supports the proposal. Interior supports the need to provide broad technical assistance. The Samoan Delegate favors technical assistance in the field of economic development.

The Governors of the Virgin Islands and the Northern Marianas oppose the proposal, as do the High Commissioner and the Delegate from the Virgin Islands and OMB.

(3) Assign a staff member from the office of the head of the agency charged with territorial responsibilities to the Pacific territories and the Virgin Islands to act as policy liaisons.

The Governor of the Northern Marianas and the High Commissioner support the proposal, as does the Legislature of the Northern Marianas.

The Governor and Delegate from the Virgin Islands oppose it, as do the Samoan Legislature, Interior, and OMB.

(4) Perpetuate the status quo, with the Comptrollers performing both audit and technical assistance functions.

The Governor of the Virgin Islands supports the proposal.

The Governors of Guam and the Northern Marianas and the Legislature of Guam oppose it. Interior believes that the technical assistance function should be performed by the Comptrollers until new Federal machinery for that purpose is in place.





## QUESTION #1

What should the United States Government be seeking to achieve in or for each of the territories, giving due regard to our legal responsibilities, territorial aspirations, U.S. national security objectives, and our commitment to self-determination? What should the United States Government be seeking to achieve in the Trust Territory before the end of the Trusteeship?

### Introduction

The United States is committed to a policy of encouraging the self-determined political, economic, and social development of its territories and the Trust Territory of the Pacific Islands. It is obligated to do so under the United Nations Charter, but it would choose to do no less even if it had no such binding commitment. The history of Federal-territorial relationships for many decades illustrates that this has been the clear and long-standing Federal policy, and as a point of beginning, this commitment to self-determination ought to be reaffirmed as the United States' fundamental policy towards the territories and the Trust Territory today.

The "territories," for purposes of this answer, consist of American Samoa, Guam, and the U.S. Virgin Islands, and unless otherwise explicitly stated herein, the Northern Mariana Islands as well.

In terms of the United States' international commitments, the Northern Marianas will remain a part of the Trust Territory of the Pacific Islands until the United Nations Trusteeship Agreement is terminated; the Northern Marianas will not, until then become for all purposes the "Commonwealth of the Northern Mariana Islands" that is contemplated in their Covenant with the United States. But because the provisions of the Covenant that are not in conflict with the Trusteeship Agreement have already come into effect, it is not inappropriate to treat the Northern Mariana Islands for these purposes as a "territory" of the United States, although in light of the Covenant, its relationship to the United States is unique.

The Commonwealth relationship defined in the Covenant means a self-governing territory with its own constitution and popularly elected officials. The Covenant confers U.S. citizenship, makes applicable the U.S. income tax laws, and guarantees for a seven-year period a specified level of direct grant assistance from the Federal Government. The Covenant also contains a provision which guarantees that both the Northern Marianas and United States Governments will consult at least every ten years on matters of mutual interest, and provides further that certain sections of the Covenant cannot be altered without mutual consent.

The Commonwealth of Puerto Rico is excluded from coverage here. Unlike the other areas referred to above, there is in the case of Puerto Rico no statute or Executive Order that places general responsibility for relationships between Puerto Rico and the Federal Government in any agency of the Executive Branch.

Also excluded are those islands over which the United States exercises sovereignty, but which have no native populations, e.g., Palmyra, Wake, and Midway. They are "territories" as a matter of law, but they present no policy problems of the sort dealt with herein.

In answering the question as to what the United States should be seeking to achieve, we need to understand our legal responsibilities, territorial aspirations, national security objectives, and our commitment to self-determination.

### Legal Responsibilities

The determination of U.S. policy is fundamentally within the jurisdiction of the Congress for the Constitution of the United States provides in Article IV that the Congress shall "make all needful Rules and Regulations respecting the Territory ... belonging to the United States." The Congress thus holds plenary power with respect to the territories, power that it can delegate to the Executive Branch or to territorial governments.

The Executive Branch is required, in discharging its responsibilities respecting the territories, to comply with the provisions of Chapter XI of the United Nations Charter, which requires that we ensure the "political, economic, social, and educational advancement" of the inhabitants of the territories. Chapter XII of the Charter, pertaining to the International Trusteeship System, requires that, in the case of the Trust Territory of the Pacific Islands, we "promote the political, economic, social, and educational advancement of the inhabitants ... and their progressive development towards self-government or independence as may be appropriate..." Additionally, in the case of American Samoa, we are obliged by the treaties of cession to afford protection to the people concerning their property and native customs.

### Commitment to self-determination

The record of the United States in encouraging the political development of its offshore areas has been marked by a willingness to permit the people of the affected areas to determine their own preferred political status and to assist them in making that determination. There has been displayed -- usually not swiftly, but always eventually -- a Federal willingness to accommodate a variety of political arrangements, reflecting the aspirations of the people of the affected area as well as taking legitimate U.S. national security interests into account.

A brief recital of territorial history in recent decades proves the point: the Philippines, having long made clear its desire for sovereign independence, achieved it soon after the end of World War II; the people of Puerto Rico, having rejected either independence or Statehood as preferred political goals at that time, sought and obtained their current commonwealth status in 1952; the people of Alaska and Hawaii, having made clear their preference for admission to the Union, achieved Statehood in 1959. None of these results came quickly, in some measure because the Federal Government withheld action until the attitudes of the affected people were utterly manifest. The United States has sought neither to limit these people in their aspirations, nor to thrust them, unprepared or unwillingly, into independence. The point, however, is that the diverse results mentioned were a consequence of diverse aspirations, from territory to territory, and the American Government found it possible to accommodate each. This Federal flexibility must continue. The United States has also found it possible, simultaneously, to accommodate territorial aspirations and to meet its own defense requirements or obligations, as in the case of base rights agreements with the Government of the Philippines, which cover U.S. military forces there and, in effect, meet our principal military needs.

#### Territorial aspirations

Currently, in most of the territories discussed herein, there is no substantial sentiment for a fundamental change in status. Virgin Islanders evidence no strong desire to modify substantially the basic relationship between the Virgin Islands and the United States, although many seek a clearer and mutual definition of the obligations of the United States to the islands, and vice versa, established in a permanent format. American Samoans appear anxious to preserve, and indeed to strengthen, their ties to the United States. The people of the Northern Marianas, having achieved a formal relationship with the United States only recently, are striving now to make that relationship work, and they show no inclination currently to modify it substantially.

In Guam, on the other hand, within recent months there has been displayed for the first time noticeable sentiment in support of either Statehood or independence. The majority of Guamanians, however, seem to favor mutually agreed upon modifications of the current status, as do Virgin Islanders. Some of the people of Guam believe that the United States should afford Guam more substantial Federal financial support; some argue that Federal statutes and long-time domination by the military have created barriers to Guam's economic development. Many specifically express concern about what appears to them to be the arbitrary and insensitive application of certain Federal laws and regulations, a point echoed by residents of other territories as to their areas.

Some Guamanians have called for a status plebiscite which would incorporate various future political status options, and are seeking Congressional endorsement of the outcome. As a partial compromise which would strike a middle ground, the Administration could support and urge the Congress to support the principle of a status referendum, as consistent with the right of self-determination, to ascertain the wishes of territorial inhabitants, without a commitment to accept the outcome.

## National Security Objectives

### Pacific Area

The United States has strong national security interests in the Western Pacific and East Asia areas, forged by historic ties and burgeoning economic relations with most of the nations of this vast region of the world. It is in our interest that the islands astride the air and sea lanes to these nations remain in friendly hands. Our larger goal is to prevent the domination of the Pacific areas by hostile or adversary powers.

Guam is of particular importance to the U.S. strategic posture in the region, for Guam is the only island in the Western Pacific where the United States maintains a forward defense and early warning capability from U.S. soil. The Northern Mariana Islands (NMI) help support the security of Guam and provide basing alternatives. In this regard, the U.S. negotiated in 1975 a five-year option (which expires in 1983) to lease approximately 18,000 acres in the NMI, mainly on Tinian, for possible military training and future deployment of U.S. forces and logistic installations. Whether this option is exercised or not is an issue of great concern to the NMI Government.

Two other parts of the Trust Territory of the Pacific Islands are of strategic importance to the United States. The first is the major missile test facility on the Kwajalein atoll in the Marshall Islands. The second comprises certain lands and waters in Palau, where the United States has requested contingency military base rights for training and logistic support purposes.

The significance of the Pacific Islands to the security of the United States is accentuated by the increase of Soviet military activity and interest in the region and by the level of tension in Asia between the major world powers, including the USSR. Accordingly, a continuing close relationship with these Islands, with accompanying U.S. responsibility for their security, would materially assist in achieving the long-term interests of both the U.S. and the Islands themselves.

### Caribbean Area

The U.S. Virgin Islands are located in the Eastern Caribbean, on the doorstep of a number of English speaking micro-states which recently became independent. U.S. Virgin Islands' ties to the area may be important to the achievement of our overall policy objectives in the region.

There are no military bases in the U.S. Virgin Islands, although there is a small facility on St. Croix used in support of periodic Atlantic Fleet training, but it is difficult to separate interests in this territory from larger regional interests. U.S. security in the Virgin Islands stems mainly from two basic considerations: (1) the location of the Virgin Islands near the U.S. mainland and important lines of communication; and (2) their use in support of training exercises conducted elsewhere in the Caribbean and the Atlantic.

### Political Development - the Territories

#### Self-government

The United States has been effective in its encouragement of political development in American Samoa, Guam, the Northern Marianas, and the Virgin Islands. Local self-government is now close to complete:

- Each of the territories is governed by a chief executive who is popularly elected;
- Legislative power is, in each case, vested in a local legislature that is popularly elected (except in the case of the upper house in the Fono of American Samoa, where Senators are chosen in accordance with Samoan custom — a procedure that Samoans have themselves chosen to use and to preserve);
- Except for the Federal District Courts in Guam, the Northern Marianas, and the Virgin Islands, and except for the High Court in American Samoa, the courts in the territories are created locally and are presided over by judges who are locally selected;
- The governmental structure of American Samoa and the Northern Marianas has been defined by locally drafted and approved constitutions;
- The people of the Virgin Islands and Guam are now, and the people of the post-Trusteeship Northern Marianas (excluding those who may elect a different status) will be, citizens of the United States, with the people of Samoa for the most part remaining non-citizen nationals of the United States; and
- The people of the Virgin Islands and Guam have non-voting representation in the United States House of Representatives (although these representatives vote in committees and party caucuses of the House), and the people of Samoa will have such representation following the 1980 election.

It should be noted, though, that some of these political development advances are of recent occurrence. The recent inception of self-government responsibilities, of course, means that these areas do not benefit from traditions of and experiences in self-government and their political systems must understandably be considered developing. As such, they cannot always be judged by stateside standards.

In certain particulars, however, local self-government in the territories remains incomplete.

(1) With individual exceptions only, the people of American Samoa are nationals, but not citizens of the United States, and the Constitution of American Samoa, although drafted by representatives of the Samoans and approved by the Samoan electorate, has not been sanctioned by the United States Congress.

(2) The governments of Guam and the Virgin Islands are creations of the United States Government, which has provided the machinery of territorial governance through the enactment of organic acts. The voters of the Virgin Islands, in a referendum in March 1979, and the voters of Guam, in a referendum in August 1979, rejected the constitutions that had been drafted by their representatives pursuant to Federal enabling legislation.

(3) In two significant respects the judicial systems of the territories of Guam and the Virgin Islands do not reflect the development toward full local self-government that has characterized progress in the legislative and executive branches: their Federal District Courts are legislative rather than constitutional; their District Courts have both Federal and local jurisdiction; and the locally created territorial courts are not considered the highest courts of the territories.

In certain other respects, the people of the territories are disadvantaged in their participation in Government at the Federal level:

(1) The people of the Northern Marianas, although they have a "Resident Representative to the United States" who is stationed in Washington, have neither vote nor voice in the United States Congress.

(2) The people of the territories do not have voting representation in either house of the United States Congress, nor do they participate in elections for the President and Vice-President. The United States Constitution would require amendment before either result could occur.

(3) The people of the territories have no representation in the United States Senate.

(4) The High Court of Samoa is comprised of justices appointed by the Secretary of the Interior rather than by local decision, and there is no method to appeal decisions to the U.S. Supreme Court.

The United States has an historic commitment to self-determination and should continue its willingness to honor that commitment in the case of all of its former territories. While the Federal Government must continue to respect the wishes of the people of the territories as to their future status, it must, however, take fully into account the security implications of any choice before entering into new arrangements of this nature.

There is a range of choices that are at least theoretically open to the people of the U.S. territories, some more likely, if at all, for the long-term, such as Statehood or independence, some for the shorter term, such as their present unincorporated territorial status. U. S. security interests are susceptible of accommodation in connection with any of the choices, but they are, of course, more easily accommodated with some status choices than with others. Further, given the vulnerability of some of the territories, and the very high costs of creating and operating even marginally adequate defense forces, a continuation of a U.S. security role also provides significant benefits to these territories. The major choices can be described in the following terms, although as a practical matter there is a wide range within each of several of the alternatives:

1. Statehood

This option is, at the moment, theoretical, as it applies to the current territories (as herein defined), because Statehood entails acceptance by the people of the pertinent territory of all of the burdens of full participation in the U.S. body politic, including payment to the Federal Treasury of full Federal taxes, plus payment to the new State of such taxes as are necessary to support the State Government. We do not believe any of the territories is now capable of sustaining that burden.

In considering Statehood for any area, it could be expected that the Congress would apply the three historic tests for admission: (1) Are the people of the territory imbued with and sympathetic to the principles of democracy, as exemplified by the American form of government? (2) Do the people of the territory desire statehood? (3) Does the territory have sufficient population and sufficient resources to support a State Government, as well as its share of the costs of the Federal Government? As explained above, none of the territories could pass the third test today.

The statehood alternative can be realistically addressed, even as a long-term objective, only in conjunction with a plan for substantial economic development and possibly for amalgamation of existing territorial units with one another or with existing states.

2. Continued status as an unincorporated territory or status as a commonwealth

Neither implies any rigid formulation, since even the existing arrangements vary widely from one to another (compare the territories of the Virgin Islands and American Samoa to the Commonwealths of the Northern Marianas and Puerto Rico). Status as either an unincorporated territory or a commonwealth can involve a wide range of various and variable ingredients, both political and economic. The definition of the terms is provided only by the statutes or agreements establishing the status as it applies to a particular territory. A paramount question is, however, whether the definition of the status is determined by the Federal Government alone or in concert with the insular areas.

3. Status as an Incorporated Territory

Because the act of incorporation (i.e., the extension by the Congress of the United States Constitution to the territory), is understood to imply a commitment by the United States to ultimate Statehood, incorporation of any of the current territories may be almost as difficult to achieve as statehood itself.

4. Free Association Status

This status also covers a very broad range of actual political arrangements, extending from near territorial status to near independence. The particular free association status currently under negotiation with the Micronesians represents only one of an almost infinite variety of possible arrangements. Basically, free association involves internal autonomy coupled with limitations on the international personality of the territory, making the U.S. responsible for all defense matters plus such foreign affairs matters as impinge on that defense responsibility.

5. Independence

Even the international concept of independence is undergoing a gradual transformation. There are a number of current examples of ostensibly fully independent mini-states that are, in fact, almost fully dependent on larger nations.

The U.S. experience with its territories, has, until relatively recently, followed a rather predictable pattern: a region was established as a territory until it became relatively heavily populated and economically developed, whereupon it was admitted to the Union as a State.

The pattern may change, now that Alaska and Hawaii have been admitted, because the territories (as herein defined) that remain are very small in comparison to the States.

Accordingly, it is necessary for us to alter our perspective on the future evolution of these territories. They may evolve to some permanent status other than Statehood, or their future may involve merger or some other form of association with other territories or existing States.

#### Political development -- the Trust Territory (exclusive of the Northern Mariana Islands)

A recital of the degree of political development in the Trust Territory parallels to a marked extent the same recital for the territories. Each of the six remaining districts of the Trust Territory has or will soon have a chief executive of its own choosing; and each has a legislature, popularly elected and empowered to legislate on local matters.

The six districts have lately organized themselves into three separate political entities: the Marshall Islands, Palau, and the Federated States of Micronesia. The Marshall Islands and the Federated States have adopted constitutions that went into effect in May 1979. Each has its own legislature, chooses its own chief executive, and will establish its own judiciary. Palau is engaged in developing its own constitution, which is expected to contain similar provisions. In the time remaining before termination of the Trusteeship, the United States' objective must be to assist these political entities in achieving the maximum possible level of performance in all fields.

#### Economic development -- the territories

The United States' achievements in encouraging political development have not been matched in the area of economic development. Some of the reasons are obvious: scarce resources; untrained labor forces; geography. These constraints, and a process for developing a strategy to overcome some of them, are examined in response to Question No. 2.

The United States' objective, however, must continue to be the fullest measure of economic development in the territories, leading to as much economic self-sufficiency as possible, consistent with cultural values, the availability of resources and existence of infrastructure. In turn, this requires the United States Government, in cooperation with each territorial government, to identify Federal constraints to economic development in the territory, and to set about to remove them. It also requires the United States, in cooperation with each territorial government, to assist in the creation of inducements to territorial economic growth -- inducements that have, in the past worked somewhat successfully for a time in each of the territories, but which after a time may require refurbishing or replacement as well as programs that foster investment and assure the presence of the capital infrastructure necessary for private sector development.

### Economic development -- the Trust Territory

As in the territories of the United States, Trust Territory economic development has not kept pace with political, social, and educational development. The reasons are roughly similar, though exacerbated by geographical dispersion and limited land areas. The lack of success of U.S. programs for economic development in the Trust Territory is a major issue in the status negotiations. Our commitment to develop the Trust Territory economy in the remaining years of the trusteeship ought not to waiver, however.

In order that the United States may end its role as Administering Authority with at least the potential for some economic development in place, it is essential that the Federally-funded capital improvement program that has been underway since 1976 be completed before or soon after termination of the trusteeship. That program, designed as it is to produce docks, airports, roads, and water, power, and sewer systems, is basic to any further economic progress.

### Social development -- the territories

If social development is defined to include essentially health care and educational advancement, as is customary, it is clear that the Federal Government has contributed heavily in all of the territories. But in both health and education, achievements are lower than either the U.S. or the territories find acceptable. The territories are eligible to receive aid under most Federal aid programs, but they are excluded from some key ones. They have received in addition special Federal grants for health and education. But notwithstanding these special Federal contributions, health facilities and services in the territories do not meet the needs of the people. Health standards in the territories should be no lower than in the States of the Union. Educational programs should result in student achievement levels that are no less acceptable to territorial communities than are student achievement levels aspired to in the mainland communities. Assuring the development of adequate social services should continue to be a basic commitment of the United States Government to the Americans resident in the territories.

### Social development -- the Trust Territory

As in the case of the territories, there have been heavy Federal contributions to both education and health programs in the Trust Territory. The results have been substantial, yet inadequate if measured by what the United States has wanted to achieve. In the closing days of the Trusteeship, it is essential that the Trust Territory seek, and that Federal agencies grant, aid in those programs that will provide the greatest long-term benefits to Micronesia, but in amounts that will relate realistically to what Micronesia will be able to afford under the terms of its post-Trusteeship status.

The foregoing discussion gives rise to several policy questions, set forth below. It will be noted that none of the questions relates to the

Trust Territory. This is because most of the fundamental questions concerning the Trust Territory at this time concern its post-Trusteeship future, and they have thus been dealt with, or will be dealt with, in instructions to the President's Personal Representative for Micronesian Status Negotiations. This is appropriate in light of the objective of early trusteeship termination. Additionally, none of the questions relates to citizenship status for the people of American Samoa, or to a statutory foundation for the Constitution of American Samoa, because those issues relate to the Samoan Political Status Commission report, so recently issued as not yet to have been the subject of informed discussions in or reactions from Samoa.

#### POLICY QUESTIONS

1. Constitutional amendments to provide for voting in the Congress by representatives of the territories, and for voting in national elections by United States citizens resident in the territories

As in the case of the District of Columbia, the United States Constitution would require amendment if the people of the territories were to be given voting representation in the Congress, and/or the right to vote in national elections. The combined territorial populations now approximate 285,000. Citizen residents of the District of Columbia (with a population of about 700,000), vote in national elections under the Twenty-Third Amendment. An amendment to accord them voting representation in the Congress awaits ratification by the requisite number of States.

Option A: Endorse both amendments, as being correct in principle, but with qualifications that make clear that a territory cannot be accorded the same quantity of voting representation (2 Senators and one Congressman) that it would have if it were a State; nor could it be accorded the same number of electoral votes as it would have were it treated like a State (i.e., a minimum of three).

— Such a statement would give recognition to a valid principle (equal treatment for all citizens), but would also recognize that if the territories were given State-like treatment, residents of the States -- given relative population sizes -- would be inequitably treated; BUT, it is highly unlikely that ratification of the two amendments could be achieved, given relative populations, the non-payment of Federal income taxes by citizens of the territories. (this could be changed by the enactment of an option contained in response to Question III) and given the difficulties encountered by the D.C. Voting Rights Amendment.

Option B: Take no position, either way.

— Since adoption of either of the two amendments would be difficult, active involvement could result in needless expenditure of time and resources; BUT increasingly the people of the territories are asking for both of these constitutional rights afforded citizens resident in the states. They will expect to

have the point discussed, and they can be expected to be highly critical if it is ignored.

Option C: Raise the question of the two Constitutional amendments, but reject both as inequitable to the States, on the ground of population size.

— This would avoid serious criticism from the States, and would speak to an issue of concern in the territories; BUT the people of the territories would be greatly disappointed, and the principle of equal treatment would be violated.

Option D: Using the District of Columbia as a model, endorse the extension to citizen residents of the territories of the right to participate in national elections, under a formula that would recognize their small populations, but not the right to have voting representation in the Congress.

— Territorial residents would be accorded treatment at least at the level of District of Columbia residents, and their request would thus be met in part; BUT some in the territories would see this as "half a loaf." They would object, as they do now, to the fact that their programs, and a substantial part of their funding is accomplished through the U.S. Congress, even though, in the case of Guam and the Virgin Islands despite full citizenship, the people are accorded only a non-voting delegate to the House of Representatives.

## 2. Senate representation from territorial Delegates

The Virgin Islands and Guam are represented in Congress by Delegates to the House of Representatives who have been accorded all rights and privileges of Representatives in the House other than a vote on the floor. Their Delegates have full voting membership and seniority in committees, speaking privileges on the floor, and clerk-hire allowances, office space, and certain other expense allowances. (American Samoa will elect a Delegate in 1980. The Northern Mariana Islands seek similar representation).

The territories, however, do not have a voice in the Senate. As unincorporated territories not necessarily destined for statehood, there seems to be little prospect at present that their concerns will ever be represented by a person of their choosing in the upper house. Further, territorial Delegates have found that their staff allotment is insufficient to allow them to be adequately informed about all actions by the Senate and its committees affecting their constituents. The question is whether the Executive should sponsor legislation to expand the role of the Delegates to include some participation in the deliberations of the Senate.

Option A: Support legislation to expand the role of territorial Delegates to include both Senate and House representation. The actual

powers that the Delegates would exercise in the Senate would be determined by the rules of that body, as would questions relating to staffing and other expenses.

-- Such a measure would provide a voice for the territories in the Senate and the designation of an individual to monitor, if not to participate to some extent in, decision making in the Senate affecting the territories; BUT this might be viewed as Executive encroachment on the prerogatives of the Legislative Branch. While there is some evidence that it was initially anticipated that territorial Delegates would represent their jurisdictions in the Senate in the early days of the Congress, Delegates have always served in the House. Such an extension of assignment would raise the question of Senate representation for Puerto Rico and the District of Columbia. The question in the case of the District of Columbia might be resolved by the pending D.C. Voting Rights Amendment, but in the case of Puerto Rico the issue would be more complicated. That island is now represented in the House by a Resident Commissioner, elected to a four-year term to represent the Commonwealth before the entire Federal establishment.

Option B: Take no action.

-- This would avoid potential dispute with the Senate over what is essentially a Senate matter (since all of the powers and perquisites of Senate assignment of the Delegates would be determined solely by the rules of that body and not by the legislation extending the Delegates' scope of responsibility). It would also avert the necessity of dealing with the controversial issues of similar representation for the District of Columbia and Puerto Rico. Such a decision might also be supported on the grounds that the Senate is the deliberative body representing the States, and since the territories are not States, they are not entitled to representation. BUT declining to take action could be viewed as a failure to address the very real problems posed by the lack of representation of the territories in the Senate. It could signal an unwillingness to take cognizance of these offshore areas, which largely are populated by U.S. citizens who lack even a voice in the deliberations of the Senate.

3. Status talks on the subject of the territory's future political status and its relationship to the United States

There have been requests from political leaders in Guam for the last several years for "status talks" with the United States, similar to those that have been under way for many years in the case of the Trust Territory. The basis for Guam's interest is partly the success of the people of the Northern Marianas in achieving in their status negotiations a high level of guaranteed United States financial support, at least for seven years. Similarly, press reports about the levels of guaranteed U.S. financial

support that have been offered to Micronesian entities during the current status negotiations have unquestionably caused Guam to hope for the same generosity.

While the territories may be interested less in discussing political status than in their economic and financial ties to the United States, Guam and the Virgin Islands are essentially possessions acquired by virtue of international agreements over which they had no control. Charges that they are "colonies" will be abetted until the two areas themselves reach accord with the United States as to their mutual relationship. More radical approaches to questions about their status would be encouraged by a Federal unwillingness to discuss their status on a government to government basis.

It should be noted that the Northern Mariana Islands Covenant provides for the convening of status talks at the request of either the President or the Governor and that they be held at least every decade.

The question is what procedure for discussing political status and future relationships should be made available to Guam and the Virgin Islands.

Option A: State that any territory should bring its concerns about political status and relationships with the Federal Government to the attention of the Federal Department charged with territorial affairs, or if it chooses, directly to the attention of Congress.

— There is no basis for treating a U.S. territory as though it were an international entity. Complex, interagency status talks have seemed the only available procedure in the case of the Trust Territory, given our international responsibilities toward it and the President's particular responsibilities for foreign relations. The territories, on the other hand, are Constitutionally the Congress' business. BUT it is hard to deny U.S. citizens of Guam and the Virgin Islands the same amount of attention that has been accorded the non-U.S. citizens of the Trust Territory.

Option B: Express a willingness to discuss with Guam, the Virgin Islands, and American Samoa, political status matters and other subjects concerning their relationships with the Federal Government, in formal "status talks."

— By this means, U.S. nationals and citizens in the territories would have the opportunity to achieve the same high-level attention as have the people (who are aliens under U.S. laws) of the Trust Territory. Such an expression would be fair to territorial people who have never freely chosen the form of their present association with the United States. BUT this technique for learning about territorial concerns, and devising solutions for meeting them, could be costly, if full scale formal status talks resulted, both in terms of the procedure and in terms of the

ultimate results. It could offend the Congress, which carefully guards its Article IV authority. There is some notable Congressional opposition to the concept of formal status talks with these territories. Such a procedure would suggest that the U.S. territories are in a sense, semi-foreign, and could result in ill-will. Additionally, this kind of procedure tends to suggest a contest; adversarial positions, also damaging to good relations and subsequently to U.S. security interests, would almost certainly develop. The United States has largely avoided that kind of conflict with the territories in the past.

4. Statehood and independence as status options

There is no serious discussion of Statehood or independence as sought-after goals in the territories of American Samoa, the Virgin Islands, or the Northern Marianas. There is some such discussion, apparently serious, of recent origin in Guam. Whether it is a passing phenomenon or not, it should be taken seriously. Given recent political changes in neighboring Caribbean islands and new questioning of the existing Federally determined status of the territory, it is not inconceivable that there could develop discussion in the Virgin Islands that bears resemblance to that in Guam on this point. At this time, none of the four territories meets the previously applied tests for Statehood — a condition that is likely to persist for some time to come. Similarly, none could viably exist economically as an independent nation, except with massive U.S. Government (or other) support. The question is what should be said about these options, given the fact that former territories chose them and were accorded the preference that they evidenced, and given our commitment to self-determination and the raising of these options by at least some in the territories.

Option A: Consistent with the United States' historic position of according to people the status that they have aspired to, state that the people of the current territories should also be able to view whatever political status they desire, including Statehood and independence, as choices that are open to them.

-- Such a statement would be consistent with the U.S. long-standing position with respect to its territories -- one repeated by the President in 1978 and by the Congress this year in connection with Puerto Rico. Any commitment to Statehood would be understood to mean that Statehood could not be achieved until economic conditions in the territory permitted, and until the Congress was ready to permit it. As for independence, it seems clear that if the people of the territory were to ask for independence in a serious way, it would be difficult for the United States to avoid granting it. BUT Guam is the only area in the Western Pacific where U.S. military activities do not require the consent of another sovereign government, and granting independence to Guam would weaken the United States' strategic

position in the Pacific, raise serious national security considerations, and create extraordinary problems and associated expenses for the military. By stressing the options open to the current territories, rather than the advantages of a closer relationship, they might be encouraged to seek an independent status disadvantageous to themselves as well as to the United States.

Option B: Consistent with the U.S. historic position of according to its dependent people the status that they have aspired to, state that the people of the current territories should also be able to view Statehood and independence as choices that are open to them -- when economic realities make Statehood feasible, or when economic and strategic realities make independence feasible.

-- A statement so qualified gives recognition to the fact that Statehood is economically impossible now for any of the territories, and that independence, at least for Guam, would be potentially dangerous for the territory in question, as well as so disadvantageous to the United States, as to raise the possibility of U.S. resistance. BUT a statement so qualified would contradict both a basic principle to which the U.S. has said it adheres and U.S. long-term behavior. The qualification is implicit so far as Statehood is concerned; the qualification would probably prove unmanageable in the case of independence.

Option C: Make no decision until the territories indicate interest in one or the other of these options.

— Neither Statehood nor independence is an issue of moment in any of the territories at this time, except to some people in Guam, and it is probable that neither status is in fact seriously sought in Guam. It is thus not required that these issues be addressed now, and to raise them could have the opposite effect of that desired, by suggesting that the U.S. itself wished to "get rid" of them. BUT because the President has announced his willingness to defer to the aspirations of the Puerto Ricans, when expressed in a referendum, he should not avoid coming to terms with these status options for the territories. A Presidential statement indicating a willingness to defer to territorial aspirations for either Statehood or independence might cause those options to be considered with the seriousness they deserve.

Question #2

## QUESTION #2

How can the United States Government best encourage economic development in the territories, given scarce resources, small population, untrained labor forces, distances from supplies and markets, etc.?

### Background

The U.S. territories are widely dispersed geographically and have very different histories and cultures. Nevertheless, they share important economic traits stemming primarily from their small populations and distance from the United States mainland. Because they are natural resource poor, (with the notable exceptions of sea and climate) and have small domestic markets, their economies are not "viable" in the sense that that term implies the ability of the economy to support the local populations. Their economies are, instead, built largely on Federal props, i.e., special advantages which make economic activity in the islands viable and which pump dollars into the local economics. The territories are by no means without potential for economic development. Their locations provide potential benefits for trade, communications, strategic considerations, resource processing and transshipment, fishing and tourism.

Moreover, their status as United States territories offers the political stability and the human resource development potential to give them advantages over competing locations for private investment. It should as well result in Federal policy determinations that take cognizance of the need to protect the insular areas in the formulation of our economic relationships in the international sphere, especially in relation to areas in direct competition with the territories.

It must be recognized that the Federal influence has had detrimental as well as positive influences on territorial development. Specifically, the availability of Federal funding for Federal programs and local government has created competition with the private sector in the labor market. The Federal laws and regulations applied indiscriminately to States and territories have sometimes impeded territorial development. They often exacerbate the problems of developing the territorial private sector by subjecting territorial businesses to increased costs of operation that can be avoided by other regional business competitors. Territorial private sectors should be protected from such competition.

### The Private Sector

Economic development is assumed to mean development of a productive private sector. Such development would be expected to contribute to increased economic well being of the territorial populations both directly through employment and indirectly through taxes to support the public sector. Both the territorial and the Federal governments have recognized the potential benefits of private sector development and have formulated special incentives for private investment in the territories.

The results have been mixed. Significant investments have been made: in tourism and manufacturing in the Virgin Islands, in tourism and military related industry in Guam, in fish processing in American Samoa, and in tourism in the Northern Mariana Islands. The employment benefits of these investments have been significant. However, the tax revenues generated may not have offset the increased costs of government occasioned by services provided for the industries, particularly for the largely immigrant work force employed by them.

Both the costs and the benefits of private investment have been most evident in the Virgin Islands. Substantial investment in tourism has benefited from local tax incentives, including a subsidy equal to the major portion of the corporate income tax liability. Investment in manufacturing has occurred in two distinct areas: resource processing has benefited from local tax incentives and a Federal exemption from the requirement to utilize U.S. vessels in mainland trade; light manufacturing (primarily watch assembly) was established under regulations (headnote 3(a)) permitting duty free access to the mainland market and has been benefited by local tax rebates as well.

The major private industries in the Virgin Islands continue to operate with large tax rebates. Meanwhile, the cost of local government has risen more rapidly than revenues.

The other territories have had less experience with private investment. On Guam, the economy has long been dominated by military installations. Again, both the benefits and costs have been substantial. The benefits of employment and supplier contracts must be considered against the costs of land tied up by military ownership. Public facilities inherited from the military, particularly seaport, airport and public utilities have tended to change from assets to liabilities as they proved to be inadequate for the growth of civilian needs.

Both American Samoa and the Northern Marianas, with populations and economies still smaller than Guam and the Virgin Islands, face problems in diversifying away from a dominant public sector and one industry private sector (tuna canning in American Samoa and tourism in the Northern Marianas).

### Potential

The major sectors for potential private investment and development can be summarized as follows:

Agriculture: Agriculture production potential is concentrated in the substitution of imports of fresh produce. Export potential is limited to specialty items with high unit value and limited labor requirements (e.g melons and eels in Guam for the Japanese market).

Marine and Fisheries: Near shore fishing, like agriculture, has potential mainly for import substitution. The deep sea potential for skipjack tuna is known to be large and is the subject of much study. There is potential for the Pacific territories to develop both the harvest and processing of this resource. The territories have significant potential for other marine development (both recreational and industrial) as well.

Tourism: There is potential for expansion of the tourist industry in all the territories and for an increase in the degree of benefit to the local economies.

Manufacturing: The feasibility of both resource processing and light assembly industries has been demonstrated in the territories. The net benefit to their economies has yet to be demonstrated, although direct benefits in employment and stimulation of other economic sectors is apparent. Evidence strongly suggests that manufacturing can survive only with large tax subsidies or special terms of access to the U.S. market. There is a need to increase the benefits provided by existing industries and carefully to consider the establishment of new ones on an individual basis.

Transshipment and communications: There is good evidence that Guam and possibly other territories can use their locations to good advantage in the transshipment of merchandise and in serving as regional headquarters for companies doing business in the area. Development of this potential quite obviously depends on improving (in terms of structure and cost) port facilities, shipping services, communications and other infrastructure.

### Problems

In developing their private sectors, the territories face several categories of problems, summarized under the following headings:

Infrastructure: Both economic infrastructure -- electricity, water, sewerage, and ports -- and social infrastructure -- schools, hospitals and welfare services -- can be characterized as above the level of less developed countries but below mainland standards. Major improvements in infrastructure are needed to meet the aspirations of the population and to encourage private investment. The income levels in the territories, however, are not high enough to provide for either capital or maintenance expenditures at mainland levels. In the past, most of the capital expenditure has been from Federal sources but maintenance has been inadequately funded, whether from Federal, local government, or user sources. The need is, thus, not only to improve the physical infrastructure plans but to assure better maintenance through an improved financing structure.

Energy: The territories face an energy crisis that is an amplification of the national problem. They are entirely dependent on imported petroleum for all energy uses. This suggests a need to give special consideration to the needs of the territories in the allocation of imported petroleum under any form of rationing among competing national needs. More important for the longer run will be an emphasis on the territories in the development of alternative sources of energy such as solar, wind, and ocean thermal energy conversion.

Labor and Immigration: The labor pool in all the territories is small and the competing needs of government and private investment have often strained it. The solution frequently employed -- immigration of laborers -- has created problems in the longer run. Elements of a solution will involve better training of resident populations, including the development of both private and public sector management capabilities, stricter control over utilization of immigrant laborers, and a resolution of the overall problems posed by alien immigration, including any appropriate federal mitigation.

Federal Constraints: Laws that are aimed at dealing with mainland problems may have unintended detrimental effects on territorial economies. The identification and measurement of these effects is complex. There is a need to determine what laws and regulations should be changed in order to benefit the territories without contravening the original intent. In addition, the territories need to be free to develop their natural resources. Federally controlled lands not required for Federal government use should be returned to the territories.

#### Recommended Options

#### Specific Project and Policy Proposals for Further Review:

In its work, the task force identified several specific projects and policies that could have a beneficial influence on territorial development. In general, comments from the territories supported them. They should be explored under the policy options presented at the end of this paper: Guam Port Development, Alternative Energy Sources, Western Pacific Fishery Development, Mass Transit, Pacific and Caribbean Regional Economic Development Commissions, Development of Cultural Centers, Telecommunications, Territorial Home Mortgage Fund, Provision of Water and Power in the Virgin Islands, Encouraging Spending by the Military in the Guamanian Private Sector, Trade Policy Liberalization, Territorial Control of Submerged Lands, Amendment of Shipping and Fisheries Legislation.

The question posed is how the Federal Government can best encourage economic development in the territories. This should not imply that the Federal Government should take upon itself the making of decisions about what course of development the territories should follow or that it should necessarily participate as an active partner in development activities normally left to private investors or local governments. Also, it is recognized that there are external and internal limitations on economic self-sufficiency that are faced by these territories as disparate, island micro-economies.

The analysis of the task force and most of the territorial comments on the task force report tended to point out specific actions, frequently applicable only to a single territory, that were suggested as the means of overcoming a single impediment to economic development. These suggestions, however, did not represent a strategy to encourage economic development or to promote in a comprehensive or cohesive way the expansion of the private sector.

The pursuit of single remedies in isolation may encourage economic development, but there is no assurance that it will do so. In fact, the impact on other possible projects or programs could have unforeseen adverse effects that would more than offset any gains made.

There is a need to undertake the development of broad economic policies within which more specific projects or programs may be developed that are tailored to the specific needs of the individual insular area. Problems vary in extent and degree from territory to territory and solutions, therefore, are likely to vary commensurately. By the same token, differing geography, population, market proximity, and cultures among the territories argue for close and continuing participation by each territory in formulating and implementing Federal economic development policies to apply to the insular areas.

The recommendations of task force #4 relating to Federal and territorial coordination of grant programs provide a basis for participatory development of such an economic growth policy and its implementation. In addition, the Federal Laws inquiry (Option IX of task force #1) should work closely with the agencies designated in the following options.

#### OPTION I

The Federal agency designated as the lead agency for territorial affairs would be directed to undertake, in cooperation with the governments of the individual territories, an analysis of the constraints on economic development imposed by Federal law or regulation and development of strategies designed, on the one hand, to remove those constraints and, on the other, actively to promote private sector growth. In so doing, other Federal agencies with economic development programs or with programs that support or impinge on private sector growth would be directed to make available their resources to assist the lead agency in the analysis and strategy development.

Additionally, financial resources should be made available to the lead agency for contracting for any special studies needed and to employ and support any additional personnel to implement agreed upon growth strategies. Effective solution to the problems of economic development will require continuing attention over a period of time.

#### OPTION II

The Department of Commerce, through the Economic Development Administration (EDA), would be designated lead agency in development of territorial economies. EDA provides planning assistance to the territories for the formulation of economic development strategies, grants for economic infrastructure, and loans for private sector activities. It also maintains a relationship, within Commerce, to other agencies with responsibilities in areas of development significant to the territories such as fisheries, ports and telecommunications. It would, therefore, be the focal point for territorial economic development policy, program design and coordination.

#### OPTION III

The establishment of a Territorial Development Bank (Option II of Task Force #3) would permit that institution to perform the role of a lead agency for economic development of the territories. It could assume the lead function in promoting private sector growth and could coordinate planning assistance and grants and loans from other agencies, including EDA. During the necessary start up period for a development bank, responsibility for Federal Government coordination in territorial development would remain with the lead agency for territorial affairs, with a continuation of the present roles of other agencies involved in development.