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Question #3

QUESTION #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?

To encourage better planning and greater fiscal self-reliance in the territories, Federal assistance needs to be provided in a way which is predictable and which provides incentives to sound budgeting and the growth of the private sector. These changes are needed in order to reverse the trend of increasing dependence of the territories on Federal assistance, although it is recognized that as developing areas, the territories will require high levels of assistance in the short run in order for them to establish economies in the long-term that enable them to be more self-reliant. It is recognized further that the costs of operating territorial governments necessarily exceeds that of providing public services in the states: the territories are distant from the mainland; despite their small size, their populations are often dispersed through islands distant from one another; and they must afford minimum services that cannot take advantage of the economies of scale.

Today, direct Federal assistance to the territories provides between 40 and 80 percent of each government's revenues, or a total of \$330 million. This support is provided without any effective restrictions on the territories' overall fiscal management.

Present System of Federal Assistance

Federal assistance is provided through continuing authorizations, ad hoc appropriations, payments to individuals, grants-in-aid, and the transfer of certain Federal taxes to the territories. Allowing U.S. citizens living in the territories to pay territorial income taxes in lieu of Federal income taxes has also been characterized as a form of assistance to the territories, but was not analyzed as such by the Interagency Task Force.

Continuing authorizations are provided to American Samoa and the Northern Mariana Islands for basic operational funding of their governments. Ad hoc appropriations are authorized for specific, usually one-time purposes (such as capital improvement projects and loan guarantees) when needs seem to warrant such assistance. Ad hoc appropriations for the territories were negligible in the 1950's and 1960's, but today are an important channel of Federal aid to Guam and the Virgin Islands. A third source of direct Federal support are grant-in-aid programs (such as Community Action Programs and CETA) and direct transfers to individuals (such as Food Stamps and housing subsidies). The territories participate in about one fourth of all grant-in-aid programs.

The last source of direct support is Federal taxes paid over to the treasuries of Guam and the Virgin Islands. The United States returns to Guam all Federal income taxes withheld from military personnel stationed there, and pays to the Virgin Islands all Federal excise taxes on V.I. rum sold in the United States.

The present system of Federal assistance is inefficient. It provides incentives for the expansion of the public sector at the expense of the private sector, and thereby decreases the territories' ability to support government expenses from local resources. The public sector in each territory accounts for between 30 and 45 percent of total employment. Average public sector wages in several of the territories are two to three times higher than private sector wages. Much of the work in the territories' construction, tourist, and fish-canning industries is done by immigrants.

A second problem with the present system of Federal assistance is that an increasing amount is being channelled through ad hoc authorizations. Ad hoc authorizations -- for capital improvement projects, financing of territorial deficits, tax loss offsets, and other purposes -- create disincentives to the territories to maintain their tax effort, balance their budgets, and maintain capital infrastructure. Despite increasing levels of aid, the territories have in many cases not adequately maintained their roads, sewers, and water delivery systems. In Guam and the Virgin Islands, the governments have accumulated inordinately large deficits.

Alternatives to the Present System of Direct Federal Assistance

We recommend the following options to replace ad hoc appropriations. As indicated below, it may be desirable to fund part or all of the additional cost of these options by cutting back on existing grant-in-aid funds or by offsetting Federal taxes presently paid over to the territories against these new transfers. All of these options could be adopted -- no one precludes the other.

OPTION I

Match the amount of taxes collected under tax laws imposed by each of the territories. Such a matching fund would provide an incentive to the territories to increase local tax effort. It would match all locally collected taxes except those due under the "mirrored" Internal Revenue Code, whose problems are to be addressed in the options described.

The amount of money actually granted to the territory would be the excess of the amount determined by the matching formula over and above the Federal taxes which are paid over to each territory under existing law. The table on the following page shows the amount of the matching fund under the following alternative assumptions:

Cost Estimates for a Fund to Match Territorial Tax
Collections: FY 1980 - FY 1984

(Dollars in Millions)

	: 1981	: 1982	: 1983	: 1984
<u>100% match</u>				
Guam	28.8	33.3	38.4	43.9
Virgin Islands	23.9	29.3	35.2	41.7
American Samoa	2.2	2.4	2.7	2.9
Northern Mariana Islands	3.9	4.2	4.7	5.1
TOTAL	<u>58.8</u>	<u>69.2</u>	<u>81.0</u>	<u>93.6</u>

	1981	1982	1983	1984
<u>100% match on incremental basis</u>				
Guam	6.0	10.5	15.6	21.1
Virgin Islands	4.1	9.5	15.4	21.9
American Samoa	0.7	0.9	1.2	1.4
Northern Mariana Islands *	1.8	2.1	2.6	3.0
TOTAL	<u>12.6</u>	<u>23.0</u>	<u>34.8</u>	<u>47.4</u>

* Base period is FY 1977 - FY 1978.

Source: Department of the Treasury

- 100 percent of local tax collections would be matched by Federal funds.
- 100 percent of local tax collections in excess of 75 percent of local tax receipts in the period FY 1976 through 1978 would be matched by Federal funds.

Under both alternatives it is assumed that, as a result of the incentive provided by the matching funds, tax receipts would rise 10 percent per year. The table shows that under the first alternative, this option would provide all territories combined with \$60 million in 1981. Under the second alternative, this option would provide \$10 million to all territories combined.

Pros. The matching fund would provide the territories a predictable level of funds and give an incentive for increased local tax efforts. The territories would be able to allocate the matching fund according to local priorities, rather than according to standards set down for the use of Federal grants-in-aid. The Virgin Islands would be protected against a loss of revenues as a result of the recent agreement in the Multilateral Trade Negotiations to lower U.S. barriers to imports of alcoholic beverages. Guam would be protected against a loss in revenues as a result of any reduction in the U.S. military presence there.

Cons. The matching fund would provide an incentive to each territory to increase the size of its already swollen public sector. This is because a fraction of every dollar spent by the public sector would be matched by the Federal government, providing the remainder was financed by local taxes. Matching fund moneys would be provided to each territory in proportion to its tax base, rather than in proportion to its needs.

OPTION II

Establish a territorial development bank. A territorial development bank mentioned in the response to Question Two would extend loans to the governments of each territory and to individual investors in the territories. It would also perform feasibility studies for development projects and provide technical assistance to government and private borrowers. The United States would provide the bank with the majority of its equity (\$50 million in paid-in capital) and also with an annual \$50 million contribution to cover the grant element in loans to the territorial governments.

Pros. The bank would encourage private sector development. It would tailor its financing and technical assistance packages to the particular development needs and opportunities in each of the territories. It would relieve the shortage of venture capital in some of the territories. It could make loans to the public sector contingent on the territories' adherence to sound financial procedures and to the maintenance of infrastructure.

Cons. The slow rate of growth of private sector employment relative to public sector employment in the territories may be due more to the inherent and government-imposed economic conditions than to the shortage of venture capital. The costs of creating a territorial development bank could outweigh the real economic benefits to the territories.

OPTION III

Increase Federal oversight over territorial finances. The territories would be required by law to balance their budgets and implement 5-year development plans. The development plans and annual updates would be developed jointly by the territory and the executive branch. The Federal Comptrollers would report annually on compliance with the balanced budget requirement and the 5-year plans. They would also periodically audit grant-in-aid and any block grant programs in the territories.

Pros. This option would ensure that the territories allocated sufficient resources for capital construction and maintenance.

Cons. Territorial autonomy is reduced as the power of the Federal government to monitor budgets and planning expands.

OPTION IV

Apply cost-sharing to capital improvements (a 90/10 Federal territorial ratio) and set specific limits on maximum operational support (the 1980 base plus 3 percent for an inflation adjustment). This option affirms that with greater local self-government on the part of the territories comes the corresponding greater territorial responsibility to fund more government services and capital projects from local resources.

Pros. This option is a means to help the territories prioritize their construction requests, keep project costs down, provide an incentive for greater local tax efforts, and remove disincentives to prudent planning and spending.

Cons. With the deficit problems of some territories, the option could result in the deferral of needed projects and services due to a lack of territorial matching funds or new dollars for operations.

OPTION V

Waive categorical grant matching requirements only for specific activities, such as comprehensive planning, that the Federal government wants to promote in the territories.

P.L. 95-348 (August 1978) gave Federal agencies discretionary authority to waive matching fund requirements for all their categorical grants to the territories. This option would implement the provision in those cases where there is agreement that additional incentives are necessary to implement particular projects or programs in the territories.

Pros. This option would establish a rational, uniform policy government-wide on waiving territorial matching requirements and provide incentives only where such incentives are needed.

Cons. This option would prevent the territories from receiving the full financial benefit implicit in P.L. 95-348.

Present Income Tax Systems in the Territories

A U.S. citizen resident in the Virgin Islands, Guam or the Northern Mariana Islands files his income tax return in the territory and pays taxes to that territory in lieu of paying taxes to the United States. Each of the territories applies the U.S. Internal Revenue Code as a local territorial tax code, so that the taxes paid should be the same whether a U.S. citizen lives in a territory or in the United States.

Although in principle the U.S. Internal Revenue Code provides a sound and equitable system for raising tax revenue in the territories, in actual practice the territorial income tax systems have raised an unending series of problems:

1. Poor administration and declining revenue yield. In the Virgin Islands and Guam, income tax revenues as a percentage of gross territorial product fell by more than one third in the period 1973 through 1978. The reports of the GAO and of the Federal comptrollers for the territories suggest substantial deficiencies in the territories' procedures for collecting taxes due. While the territories allege that these deficiencies are due to the shortage of skilled personnel and to the complexity of the Internal Revenue Code, they appear to be due, as well, to a lack of political will to collect taxes due.
2. Inequities. Although the "mirror" systems might be expected to treat all U.S. citizens in the same way, the results have been disappointing. The Virgin Islands system discriminates against U.S. citizens resident in the States, but earning income (e.g., from temporary work) in the Virgin Islands. Guam may rebate taxes to U.S. citizens who are based in Guam, but who earn substantial income outside of Guam (e.g., Southeast Asia).

3. Invitation to avoidance and evasion. Because of the territorial tax rebates and the lax administration of the territorial income tax, U.S. citizens assert dubious claims to being residents of a territory in order to avoid filing a Federal income tax return. The IRS has several cases in which U.S. companies have allegedly shifted profits to territorial subsidiaries.
4. Inefficiency of the territorial tax-incentive programs. To promote industrial development, the territories are allowed to rebate taxes on income derived from the territories, and such income is, in general, effectively exempt from Federal taxation. These tax rebate programs have not been cost-effective in attracting industry to the territories. They have encouraged U.S. corporations to shift profits to their territorial affiliates and thereby avoid U.S. tax without providing any substantial benefit to the territories.

Alternatives to the Present Tax Systems in the Territories

To remedy the severe problems of administration and substance in the present territorial income tax systems, one of three fundamentally different reforms could be adopted. Under any of these three proposals, the cost of the territorial tax-incentive programs to the Federal treasury would be restricted. Although the precise form of this restriction varies from option to option, the effect would be to relate Federal taxes foregone to the investment and employment created in the territories. By requiring an explicit linkage between tax costs and economic benefits, the tax rebate programs would become more cost-effective.

OPTION I

Apply the Federal Internal Revenue Code directly to the territories and have the IRS administer the law. The territories would no longer be separate income tax jurisdictions. Rather, all individuals and corporations resident in or deriving income from the territories would be treated identically to stateside corporations and citizens. Income taxes collected by the IRS from the territories would be paid over from the Federal to the territorial treasuries. The territories would continue to have the authority to "piggyback" a surcharge on the income tax which would be paid into the territorial treasury.

Pros. Extension of the Federal income tax to the territories would be a radical simplification of the present systems and would resolve all of the inequities in those systems. Administration by the IRS should increase territorial tax revenues through improved collection and compliance. The potential for evasion of Federal income taxes would be reduced by bringing U.S. citizens and corporations under the common tax administration of the IRS.

Cons. Paying territorial income tax collections into the Federal treasury would eventually jeopardize their return to the territories. The existing territorial tax rebate programs for industrial incentives would be eliminated.

OPTION II

Fix up the Technical Flaws in the "Mirror" Systems and provide Federal assistance in tax administration. Under this option, the territorial income tax systems would continue to be based on the "mirror" principle and would continue to be administered by the territorial finance departments. The territorial systems would, however, be harmonized under a common system presently applicable -- in principle, if not always in practice -- to Guam and the Northern Mariana Islands. Technical deficiencies, such as the rules for transferring taxes between the Federal and the territorial treasuries, would be remedied. Federal concerns for avoidance and evasion of Federal taxes would be addressed by improving the exchange of information and by limiting the scope for rebating territorial taxes, as described above. The Federal government would also provide technical assistance in helping the territories to administer the Internal Revenue Code.

Pros. "Cleaning-up" the mirror systems would allow the territories to retain a legally distinct, locally administered income tax. By solving the technical problems with the present systems, the inequities and opportunities for tax avoidance and evasion would be reduced. The principle of U.S. Citizens paying the same tax whether they were territorial or state-side residents would be reaffirmed.

Cons. Even with the technical assistance by the IRS, the U.S. Internal Revenue Code may be too complex for the territorial finance departments to administer effectively. Most countries with financial and technical resources equal to those of the territories have adopted far simpler tax codes than that of the United States. Separate statutes enforced by separate tax authorities create unavoidable barriers to full and effective communication, and thus would not fully allay Federal concerns for avoidance and evasion of Federal taxes.

OPTION III

Grant the territories complete autonomy over their income tax systems. The territories would continue to administer their own income tax systems. The territories would be authorized to reform and simplify their income tax systems and thus attune them better to territorial needs and capabilities. The Federal government would provide technical assistance for a fixed period of time in designing and administering the territorial income taxes. Evasion and avoidance of Federal taxes would be reduced by requiring all U.S. citizens resident in the territories, except those born

or naturalized in the territories or continually resident in the territories for more than ten years, to file a Federal tax return. The United States would prevent double taxation by allowing taxes paid to the territories to count as if they had been paid to the U.S. Treasury. (This treatment would put the territories on an equal footing with foreign countries).

Pros. The territories' autonomy would be enhanced. They would be in a position to design an income tax which was more suited to their needs than the U.S. Internal Revenue Code. The potential for tax haven abuse of territorial tax systems would be reduced.

Cons. Although, in theory, the territories could raise the same or greater tax revenues under this option as under I&S administration of the Federal code, in practice, they probably would not.

QUESTION #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?

Territories of the United States are eligible to participate in roughly one-half of the Federal programs authorized by the Congress. They in turn, actually participate in thirty to forty-four percent of those programs 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 their participation differs from the State allocation. Problems such as coordination, duplication, and competition that are present in the fifty States are also present in the territories.

Critics of the current application of Federal programs in the territories hold that they are costly, that some are disruptive of the society or culture in which they are operating, that they are ill-suited to the needs of the territories, and that they foster dependence. Supporters of the programs hold that they do serve useful purposes and, indeed, many essential social and economic programs in the territories would be eliminated or severely damaged if Federal grant support were eliminated or reduced. They assert that the national concerns that Federal grant programs are intended to address are also present in the territories and deserve Federal assistance, just as they do in the several States.

The Task Force report cited the following objective with respect to Federal programs in the territories:

To establish an effective planning and implementation process for grant programs applicable to the territories that would:

- (1) coordinate Federal programs at the Federal and territorial level;
- (2) collect and maintain current information on available Federal programs, their levels of funding, and the status of their obligations;
- (3) improve territorial management of grant programs;
- (4) encourage prudent decision making with respect to applications for Federal programs;
- (5) match available Federal resources with long-range territorial needs; and
- (6) insure, to the extent possible, the appropriate application of Federal programs to the territories.

The territorial agencies that commented on the Task Force report supported continued participation in Federal programs. Most recognized the need for improved coordination and planning in the use of Federal programs and several commented favorably on multi-year planning. Most also favored the increased use of block grants with flexibility on the part of the territorial government in the use of the funds.

Territorial agencies, however, equally resisted the concept that the Federal government be allowed to substitute its judgment with respect to any Federal grant program. The Guam Legislature's subcommittee on task force #4 commented:

"As a general premise, the establishment of a Federal coordinating unit is acceptable locally if it remains solely and totally just a coordination office to facilitate and expedite the flow of information to the territorial government. Under no circumstances would the territorial government allow and tolerate the Federal coordinating unit to have and exercise final approval action on any of their grant applications."

Conversely, the subcommittee also stated:

"There is, however, a unanimous agreement to the proposal that the federal coordinating unit come in to encourage and assist the territorial Chief Executive to strengthen the territorial coordinating agency, i.e., A-95 Clearing House Office of the Governor's Office."

The proposal of the Task Force to rationalize the grant process for the territories is summarized below. The Trust Territory of the Pacific Islands and its constituent governments could participate until the termination of the trusteeship agreement is achieved but under a new political relationship to the United States, it may not be applicable.

1. At the territorial level, each Chief Executive would create a "territorial coordinating agency," to collect information concerning Federal grants to that territory and to be certain that the grant, to the extent permitted by law, is approved by the Governor.

(a) Information collected would relate to (i) applications, (ii) Federal grants actually made, and (iii) status of obligations of each grant. No application could be filed until the territorial coordinating agency has information about it and does not object. The point is to be certain, to the maximum extent allowed by law, that no application for a Federal grant is filed without the Governor's actual or constructive assent. Evidence of such assent would be required by the Federal agency to which application is made, as a prerequisite to granting the application.

(b) Information collected by the territorial coordinating agency with respect to Federal grant applications would include (i) the general purpose of the grant and the need of the territory for it, (ii) the amount sought, (iii) the time period covered, and (iv) the objectives for which the grant will be expended.

(c) Any Federal agency making a grant (or denying it) would advise not only the applicant or grantee (as at present), but also the territorial coordinating agency, of its actions.

(d) The territorial coordinating agency would be supplied with data on obligations and expenditures under the grant.

2. At the Federal level, a "Federal coordinating unit" in the agency responsible for territories would be created which would receive on a current basis (no less than monthly), information from the five or more territorial coordinating agencies as to new applications filed and grants received (i.e., 1(b), (c), and (d) above). Federal agencies making grants would be asked to inform the Federal coordinating unit.

At a minimum, under this arrangement, a Washington-level organization would be currently informed about (i) applications pending for each territory and (ii) grants actually made by every Federal agency to each territory.

The foregoing improvements could be achieved through administrative processes.

To fully achieve, however, the twin goals of coordination and appropriateness for each territory, a planning and implementation process is required to establish projections of need, priorities, and the means of meeting needs. Territories are subject to the current requirements of many individual Federal programs for the development of "comprehensive" plans for funding purposes, but such plans are typically single-purpose and fall short of attempting to project overall needs, goals and objectives, of the political unit as a whole.

In the near term, building on the grant packaging process would be a move toward the longer-range development of multi-year program plans that can be adopted jointly by the territory and the Federal Government. Utilization of the "Federal coordinating unit" as the lead agency in an integrated grant review and approval process would provide a continuing link between the territory and the Federal Government, coordination at the Federal level among like or related Federal programs, and also a consistent lead agency for handling multi-agency grants for territories. Coupled with grant consolidation authorized by Title V of Public Law 95-134, a process could be developed that, without the need for additional legislation, would encourage coordination and joint planning between the territorial and Federal levels for Federally-assisted grant programs.

QUESTION #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.

With the maturation of political systems in the territories, the failure to achieve all policy objectives to an acceptable degree, the negotiations now underway with the Micronesians, and the present level of Federal funding, there is a need to consider strengthening the Federal organization and administrative mechanisms to carry out U.S. objectives as they relate to U.S. territories and the post trusteeship relationships with the contemplated Freely Associated States (FAS).

Background

For the past century, the Department of the Interior has been charged with varying degrees of responsibility for U.S. territories. While the territories have progressed in terms of political development, there has been less success in the areas of social and economic development. Interior has experienced considerable difficulty in carrying out its Federal coordination responsibilities.

With the installation of the first popularly elected chief executives in Guam (1971), the Virgin Islands (1971), American Samoa (1978), and the Northern Mariana Islands (1978), and with popularly elected legislatures in all territories, each now enjoys substantial local self-government and conducts much of its own local governmental administration. The Virgin Islands and Guam have non-voting representation in Congress. The Northern Marianas and American Samoa have full-time representatives in Washington who are not members of Congress. American Samoa will elect a non-voting delegate to the Congress in 1980.

The Interior Department no longer is directly involved in the internal affairs of each of these territories. The role of the Office of Territorial Affairs has changed from one of administration to one of liaison, assistance, and advocacy, although the decentralized decision making affecting territorial issues through the Executive has made it difficult for the office to accomplish these purposes.

With the growth of internal self-government, the territorial governments have increasingly made use of Federal programs, thereby increasing the demands of a rather weak Federal coordination mechanism. As in the States, there is some evidence that the magnitude of Federal aid is beyond the capacity of the local governments to handle effectively. In general, the resulting problems have been identified by the General Accounting Office reports on Guam and American Samoa:

- Lack of well conceived goals and objectives.
- Inadequate financial management systems.
- The level of Federal funds provided exceeding the territory's ability to manage its programs.
- Lack of local funds and improper use of grant monies disrupting grant services.
- Inadequate budgeting processes.
- An over expansion of government operations.
- Shortages of middle managers.

These are typical of problems affecting all of the territories. It is a situation that can, in part, be explained by the lack of a traditional responsibility for governmental administration caused by U.S. Government domination of that responsibility prior to the recent assumption of self-government powers.

The only remaining Federally appointed official with direct administrative responsibilities is the High Commissioner of the Trust Territory of the Pacific Islands. Most of the functions of the High Commissioner are currently being transferred to locally elected governments.

Proposed Federal funding for territorial government operations, capital improvement projects, and economic development amounts to about \$370 million in Fiscal Year 1980. This funding will account for between 40 and 95 percent of total public sector expenditures in the various territories and the Trust Territory, excluding the substantial indirect support provided by retention of Federal taxes by the territories, and between \$575 and \$1,975 on a per capita basis. In comparison, proposed 1980 Federal assistance will average \$375 on a per capita basis in the 50 States and the District of Columbia which, of course, pay Federal taxes into the Federal treasury. The level of funding for the territories, although understandable, coupled with problems in delivery of services to territorial citizens, raises questions about the impact of Federal benefits on communities and economies as small, isolated, and fragile as those of the territories, and indicates a need for improved coordination of Federal activities and planning in conjunction with the territories and oversight of Federally supported territorial finances.

Excluding the Defense Department, sixteen separate departments and agencies have personnel in one or more of the territories. The Secretary of the Interior appoints resident government comptrollers who have responsibility in each territory. The comptrollers' responsibilities include audit activities to improve the efficiency and economy of programs and to insure that Federal funds are spent properly.

The Secretary of the Interior created a Committee of Inter-agency Territorial Assistance in 1976. The Committee is composed of representatives from 19 separate departments or agencies and is designed to provide a means for coordinating Federal agency programs and services to the 400,000 people in the territories and the Trust Territory. There is no evidence that the Committee has achieved its objective, nor that it is equipped to do so.

The territories would quite naturally like to have Executive Branch responsibility for territorial affairs as close to the President as possible. Congressional committees and the territories are sharply critical of the present office within the Department of the Interior for its perceived "lack of clout." Much of this criticism results from disagreement over funding levels, decisions which are a shared Federal responsibility involving not only the Office of Territorial Affairs, but the Office of Management and Budget and other agencies as well. Under the present organizational arrangement, the Office of Territorial Affairs has often been frustrated in its well-conceived and well-intentioned efforts to advance policy goals, especially with respect to economic and social development, for reasons related to the process of shared decision making. Both the territories and Members of Congress, however, have become puzzled by the apparent disparity this had led to between objectives and performance.

Special Cases

Puerto Rico: Since 1952, Puerto Rico has been a Commonwealth associated with the United States. Its relationship to the Federal government is similar to that of the States with no government agency responsible for coordination of the relationship. There is sentiment in the Commonwealth for various political statuses, including modification of the current Commonwealth status, statehood, or total independence. The President has stated that he will support, and urge the Congress to support whatever decision the people of Puerto Rico reach with respect to status. Congress has adopted a resolution committing itself to do so as well. We have concluded that our existing policy regarding organization of the Federal executive toward Puerto Rico should continue pending an expression from the people of that island, despite the burdens placed on the Federal Government--both executive and legislative--by reason of the island's having no liaison, advocacy, coordination and assistance within the Executive Branch.

Northern Mariana Islands: A formal arrangement has not yet been made concerning administrative responsibility within the Executive Branch for the Government of the Northern Mariana Islands. The Office of Territorial Affairs (DOI), has undertaken to discharge this responsibility and to serve as a focal point for these concerns at the Federal level, inasmuch as the Northern Marianas are within Interior's jurisdiction so long as the Trusteeship continues.

Micronesia: Your personal representative for Micronesian Status Negotiation, (Ambassador Peter Rosenblatt) is negotiating with three commissions representing the inhabitants of the Trust Territory (other than the Northern Mariana Islands). The status under negotiation would involve a relationship of "free association" between the U.S. and three Micronesian governments, those of Palau, the Federated States of Micronesia and the Marshall Islands, to replace the current trusteeship relationship.

In the event the current Micronesian status negotiations do not result in a free association agreement with the Micronesian states, it is reasonable to assume that U.S. relations with these states can be handled by the same organization that has responsibility for the U.S. territories.

A discernible trend in the political status negotiations with the Micronesians (except with the Northern Marianas which has chosen the status of U.S. Commonwealth) has been towards a looser relationship with the United States. Under the draft Compact of Free Association, the FAS will have control of their internal and external affairs except in defense and external security matters. They are likely in a number of areas, notably regulation of fisheries, to adopt policies contrary to our own. Although they would receive large-scale Federal financial assistance, they will, for the most part, not come under U.S. laws and regulations as do the territories.

While it is envisioned that the United States Government would work closely with the FAS in development planning, the FAS will have almost all the attributes of sovereign states (e.g., treaty-making powers, membership in their own right in certain international organizations, etc.). The direct responsibility of the United States Government for the FAS will be limited to financial assistance, including joint economic planning and defense-external security affairs. It is expected, however, that the FAS will seek assistance and cooperation on a wide range of foreign affairs matters (e.g., support for membership in international organizations, consular representation and representation by the United States Government at some international meetings, etc.).

The FAS will approach their new status determined to assert their authority to the maximum. They will want to be seen, especially by their South Pacific neighbors, as independent and they will resist any implication that the U.S. defense role and continued Federal financial assistance establishes any kind of equivalence between themselves and U.S. territories in the Pacific.

In the international community and especially at the United Nations, and in the South Pacific, the instrumentalities through which we conduct our relations with the FAS will be subject to close scrutiny. To demonstrate that the United States is genuinely committed to self-determination will require not only that the FAS are satisfied with these instrumentalities, but also that post-trusteeship arrangements are seen by the FAS

and the international community as clearly different from arrangements under trusteeship. Unfavorable reactions in the South Pacific could have adverse effects on other foreign policy interests, (e.g., access to marine resources in the Pacific, relations between the U.S. Pacific territories and their independent neighbors).

White House Policy Attention Needed

Under any organizational formula, however, there is a definite need for policy coordination and sensitivity by the White House, in terms of both domestic and foreign policy considerations, to issues affecting the territories and the Trust Territory. It is to be hoped that the involvement of the White House staff in coordinating policy development and liaison with these areas can be institutionalized through an office for the purpose on the President's staff. Such staff assistance would work with the broad range of agencies whose programs impact the territories and on the wide spectrum of issues and activities coordinated out of the Executive Office of the President, almost all of which affect territorial Americans in ways different than they affect other Americans.

OPTION I

An Interagency Office for both the Territories and the FAS. An interagency office, headed by a presidential appointee, would be staffed by a small core of professionals with territorial and foreign relations experience and a larger number of issue specialists from other concerned agencies rotated to the office on an as needed basis. Policy direction would come from an interagency committee chaired jointly by Interior and State.

Pros. A range of expertise could be pulled together, improving policy development and implementation. The territories and the freely associated states would perceive the office as having greater stature than if placed within a single department. Retaining ties to Interior assures continuity in dealings with the Congress and in the functioning of the office itself, while establishing a link to State makes sense given the international character of the FAS. Calls for territorial concerns to be handled by the White House would be obviated by relationship of such an office to the White House Policy Staff.

Cons. An interagency office might have difficulty recruiting the best staff available and lack authority in dealings with more established agencies. Whatever internal structure was established to handle the differing needs of the territories and the FAS, the distinction might not be sufficiently obvious to the FAS and the international community.

OPTION II

Upgrade Interior for the Territories, Interagency Office or State for the FAS. This is based on the premise that Interior's problems in serving as an effective liaison with, advocate for and provider and coordinator of assistance to the territories could be overcome by elevating the stature of the territories office to a sub-Cabinet responsibility and, through an explicit Executive Order, clearly establishing Interior's lead responsibility for the territories within the Executive Branch. Sub-option A: Since the multiplicity of needs of the FAS will be best served by the creation of an interagency office, administratively housed within State, create an office to handle our post-trusteeship responsibilities with those entities. Sub-option B: Determine that State will be competent to act for the United States Government in all relations with the FAS through the creation of a suitable office.

Pros. Interior has a longstanding relationship with the territories. Its budget and managerial systems are in place and it has well-established relations with key Congressional committees. Elevating the status of the territories office to one headed by a presidentially appointed, Senate confirmed sub-Cabinet officer, backed up by a clear charter, would make the office more effective and mute criticism of Interior and calls for the White House to assume Federal-territorial relations responsibilities. The multiplicity of needs of our anticipated relations with the FAS go beyond the normal responsibilities of the State Department.

Cons. The division of the FAS and the territories could create some work duplication especially if some Federal programs continue in the FAS. Interior, over the years, may have developed an inflexible institutional approach that may not be able to adapt to the necessary dynamic relationship between the territories and the United States Government. The experience of special interagency offices is a mixed success story. Some have been effective because they have focused on a particular problem and benefited from strong leadership. Others have lacked bureaucratic clout.

OPTION III

No Office for the Territories, Interagency Office or State For the FAS. For the territories this would follow the Puerto Rican model. Many in these insular areas, aspiring to the optimum level of self-determination argue that a special territories office in the Executive can only be regarded as a layer of red-tape and a vestige of their colonial past. Sub-options A and B would apply as in Option II above.

Pros. This would be perceived by some in the territories as enhancing the status of the territories within the American political family. Individual agencies of the United States Government ought to be expected to be as sensitive to the needs of and conditions in the territories as they are to the States even though the insular areas lack the political clout of the States.

Cons. This option would mean even less coordination and consistency in terms of policy that is now provided the territories. It could stimulate territorial competition in dealings with the United States Government. It is impractical to assume that agencies will be as sensitive to small, disparate and distant territories as they are to the States. The unique nature of almost all territorial problems and the unique applications of policy that are required for the territories argues for special consideration. That can only be effectively achieved within the Executive Branch by an office charged specifically with the responsibility and given the muscle to accomplish its purpose. Congressional attention to the territories might be diminished by the lack of a coordinating point in the Executive as well. Further, a special territories office is warranted given the fact that the United States Government must provide the bulk of funding supporting territorial governments and territorial economies are viable only through special Federal props. The lack of an effective territories office would probably result in even less coordination than now exists and would hamper the creation and execution of a consistent Federal policy towards the territories.

OPTION IV

Interagency Office for the Territories, State for FAS. The interagency office contemplated here would be similar to that proposed in Option I. It would report, however, to an interagency committee chaired by the Under Secretary of Interior. As in sub-options B of Options II and III, State would establish a suitable office for the handling of relations with the FAS.

Pros. This option combines the advantages of an interagency, high-level approach to the complete needs of the territories with the foreign relations expertise of State for dealings with the FAS. Dividing responsibility for the territories and the FAS would signify the difference in status between foreign and domestic entities.

Cons. The division of the FAS and the territories could create some work duplication especially should some Federal programs continue post-trusteeship. Such a division would reduce the purview of an interagency office, perhaps making it even less effective in dealings with established Cabinet departments.

QUESTION #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 recent years, the governments of the four areas that are the subject of this study were headed by chief executives who were Washington appointees. The Governors of Guam and the Virgin Islands were appointed by the President, by and with the advice and consent of the Senate. The Governor of American Samoa was an appointee of the Secretary of the Interior. The Northern Mariana Islands were within the responsibility of the High Commissioner of the Trust Territory, an appointee of the President, with Senate confirmation, and later of the Resident Commissioner, who was appointed by the Secretary of the Interior.

The Governors and the Resident Commissioner each served as the head of a territorial government. But each was also indisputably a Federal officer, with responsibilities to the Department of the Interior and Federal Government in Washington.

With the popular election of the chief executives of these four areas, it is entirely clear -- to the chief executives, to the electorates, and to the pertinent personnel of the Federal Government in Washington -- that the Governors are no longer representatives in their areas of the Federal Establishment. Like their appointed predecessors, they are the heads of the territorial governments; but unlike them, they are not responsible to, and need not be responsive to, the Executive Branch in Washington.

The Federal Government has thus lost its major "presence" in the territories. It retains a "presence," for purposes of this discussion, in the form of the Federal Comptrollers only.

(For purposes of this discussion, the term Federal "presence" does not relate to or include the personnel of those Federal agencies, including the military (which has a very significant presence on Guam, for example, and is a major component of the local economy), who are in the territory to carry out the particular purpose of that agency. The term refers, instead, to officers and employees of the United States charged with administrative or oversight functions relating to the overall functioning in general of the Federal or territorial governments in the territory).

As so defined, the question is whether there is a need for a Federal presence beyond that provided by the Comptrollers.

In our view, the question correctly assumes the continuation of the Comptrollers. They are of great importance to the United States Government. While they increasingly appear to be recognized in the territories as important to them, there is much territorial support for the position that the Comptrollers are undesirable Federal overseers whose function should be assumed by local auditors. Only because that position is not shared by any of the agencies participating in the task force, an option on the continued presence of the Comptrollers was not included.

It should be noted, however, that continuing the function of Federal auditing in no way precludes territorial governments from establishing their own local auditors to serve purposes that are exclusively their own.

The Federal Comptroller for the Virgin Islands holds a post that was created by the Congress in 1954. His staff currently numbers about 30. The Federal Comptroller for Guam, a position created by Federal statute in 1968, has a staff of about 32 — through which he serves not only Guam, but also the Northern Marianas and the Trust Territory generally, these latter areas having been added to his responsibility by statute in 1973. The position of Comptroller for Samoa was created by the Secretary of the Interior by Secretarial Order in 1977, when provision was made for the popular election of the Governor. His staff numbers under 10 at the present time.

The considerations that prompted the Congress in 1954 to create the first of the comptrollers for the territories continue to apply today: so long as the territories are required to rely heavily upon Federal funds, directly or indirectly, to finance the capital expenditures, and in most cases part of the operations, of their governments, the Federal Government must have a means of ensuring that those Federal funds are properly spent. Because of the complexities and magnitude of the operations and the programs of each of the territorial governments, that task needs to be performed both on-the-spot and continuously. For those reasons the Federal comptrollers are a continuing necessity.

They must continue to perform their traditional audit role which, when extracted from their organic documents, includes:

- the audit and review of all accounts of the territorial governments;
- the bringing to the attention of appropriate officials of failures to collect monies due to the territorial governments, and irregular expenditures of funds and uses of property; and
- the submitting of an annual report on the fiscal condition of each territory.

Further, if the option for increased oversight of territorial finances is selected in the response to Question #3, comptrollers' role would be enhanced. In addition, the comptrollers have lately embarked upon an active, and generally well-received, program of providing technical assistance to the territorial governments in the financial management field. They have assisted in the development of new systems and in the training of personnel to operate them, all in furtherance of their statutory responsibility to improve the efficiency and economy of programs of the territorial governments.

Is a further presence needed? The alternatives include the following options, some of which could be combined.

1. Restrict the Federal Comptroller to a strict audit function

Under this option, the offices of the Federal Comptrollers would continue their traditional audit function, but would eliminate technical assistance to territorial governments in the area of financial management. Because of the dual responsibilities of performing financial audits and providing technical assistance to improve financial management, questions have been raised as to whether the federal comptrollers could in time compromise their audit integrity.

If this option were adopted, those members of the comptrollers' staffs who currently provide technical assistance in financial management would be transferred to a separate and new organization in each territory, with responsibility for provision of all technical assistance in financial management, if it is decided to continue such assistance.

- This option would permit federal comptrollers to return to the strict audit function for which they were originally established, and the objectivity and integrity of the audit function would be insured. BUT, this option would require the establishment of an additional mechanism for providing technical assistance in financial management, with its attendant expense.

2. Create offices of Federal coordination in the territories

Offices of Federal coordination would be established at the territorial level to provide a range of services to the territorial governments. Of course, these offices would not set territorial priorities, but would serve as Federal field offices and an arm of the department or office with lead responsibility for the territories. They would have major responsibilities for coordination of technical assistance across a range of program areas, and for communications between the Federal government and the territorial governments. They would function as the lead office in the field for coordinating purposes among all Federal agencies with territorial programs. They would establish an information base for the Federal and the territorial governments, to include common definitions, format, and coordinating mechanisms regarding territorial funding requests. The heads of these offices could have major responsibility for communication between the Federal and territorial governments from the Federal perspective, enhancing Federal activities that are consistent with Washington's policy objectives.

- This option would help ensure the provision of a range of technical assistance that is currently requested but not always provided; it would establish an orderly process for Federal review of territorial funding at the territorial level; and, by establishing an information base that both the territories and the Federal government understand and agree upon, it would give the territories greater credibility in the funding process and facilitate sound Federal responses. BUT, this kind of office could be seen by territorial governments as creating undue Federal interference in their affairs. Further, there would be a need to delineate responsibilities so as to avoid duplication or conflict with other Federal agencies and their field staffs.

3. Create two policy representatives in the field

The Secretary (or office head) with major responsibility for the territories would assign a personal representative to the territories in the Pacific, and given the distances involved, a second personal representative to the U.S. Virgin Islands. These individuals would have major responsibility for communication between the territorial governments and the Federal government. The Secretary's representatives would be supported by a small staff as appropriate, would advise the Secretary regarding Federal coordination needs and territorial priorities, and would make recommendations regarding appropriate Federal action.

- This option would ensure greater visibility and cognizance of territorial problems at the Federal level, it should improve communications with the territories, and it would help ensure high level policy attention to territorial matters. BUT, this option makes no provision for the technical assistance needs of the territories, and although high level attention would be given to territorial matters, the necessary mechanism for coordination among federal agencies would be lacking.

4. Preserve the status quo and cause the U.S. Government Comptrollers to continue to provide technical assistance

- This option has the advantage of avoiding criticism that would probably arise in the territories if more Federal machinery and personnel were assigned to the field. Further, at least some territorial officials appear content with the status quo. They do not object to the presence of the comptrollers and they welcome such technical assistance as the comptrollers have been able to provide. BUT, the status quo is unlikely to improve communications between the Federal and territorial governments, and it will not alone result in needed additional technical assistance in areas of territorial need, other than financial management. It would not address the need for enhanced coordination among Federal agencies present in the territories. The cost of an additional presence relative to the functions it would perform and the magnitude of Federal spending in the territories and apparent lack of accomplishment is miniscule.

DOMESTIC POLICY REVIEW
U.S. TERRITORIES AND THE TRUST TERRITORY
Territorial and Agency Comments

Comments on Task Force Reports

American Samoa

Governor Coleman, letter of November 16, 1979

President of the Senate and Speaker of the House, Legislature of
American Samoa, letter of November 15, 1979

Delegate from American Samoa, letter of November 14, 1979

Guam

Governor Calvo and Speaker Tanaka, letter of November 9, 1979

Speaker of the Legislature Tanaka, letter of November 9, 1979

Northern Mariana Islands

Governor Canacho, letter of November 15, 1979

President of the Senate and Speaker of the House, Legislature
of the Northern Marianas, letter of November 15, 1979, and
telegram of November 23, 1979

Virgin Islands

Governor Luis, letter of November 16, 1979

Delegate from the Virgin Islands, letter of November 16, 1979

Trust Territory of the Pacific Islands

High Commissioner Winkel, letter of November 14, 1979

Federal Agencies

Department of State, letter of November 23, 1979

Department of Transportation, memorandum of November 20, 1979

Office of Micronesian Status Negotiations, memorandum of
November 19, 1979

Office of Micronesian Status Negotiations, memorandum of
December 5, 1979

Department of the Treasury, memo of November 27, 1979

Department of the Treasury, memo of December 7, 1979

Department of the Treasury, memo of December 10, 1979

Office of Management and Budget, memo of November 15, 1979

Office of Management and Budget, memo of November 30, 1979

Department of Health, Education and Welfare, letter of
December 10, 1979

Department of Health, Education and Welfare, letter of
December 10, 1979

Department of Commerce, memo of December 11, 1979

Department of Interior, memo of December 5, 1979

AMERICAN SAMOA



OFFICE OF THE GOVERNOR
PAGO PAGO, AMERICAN SAMOA 96799

PETER TALI COLEMAN
Governor

TUFELE LI'A
Lt. Governor

November 16, 1979

Serial: 1572

The Honorable James A. Joseph
Under Secretary
Department of the Interior
Washington, D.C.

Dear Secretary Joseph:

I enclose our final comments to the interagency policy review on territories. We appreciate the opportunity to comment further.

If you have any questions relating to our comments, please let me know.

Sincerely,

A handwritten signature in cursive script, reading "Peter Tali Coleman".

PETER TALI COLEMAN
Governor

Encl.

FINAL COMMENTS

INTERAGENCY POLICY REVIEW

COMMENTS BY THE AMERICAN SAMOA

GOVERNMENT

NOVEMBER 16, 1979

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1. INTRODUCTION

American Samoa, like many developing areas, is striving for balanced development in all facets of life -- political, social, educational, economic, cultural, technological and environmental. As it has been stressed on numerous occasions, developmental change requires thoughtful formulae to achieve growth with a minimum of dislocation. A list of territorial aspirations would include (1) self-sufficiency (meaning that the territory produces as much as it consumes), (2) greater autonomy in domestic matters with increased involvement of the community through the village councils for planning and implementation, (3) improved quality of life, (4) increased flexibility in international decision making processes with respect to matters affecting the territory's growth, (5) economic diversification and (6) reduction of government dominance of the economy.

Presently, American Samoa is greatly dependent upon the United States for assistance in reaching these goals. The territory recognizes the willing assistance given in the past and appreciates all efforts which have been made by the United States to develop the territory. It is felt, however, that assistance can be improved and that adequate time must be allowed for positive territorial action. The territory welcomes the current review of Federal policies relating to the territories and their development. We have felt that past Federal consideration of our problems has not focused enough time and attention on the complexities of our territory's society, culture and economy. For example, our social development has far surpassed our economy and political growth. The existing economy is built upon government, unskilled industries and retail operations which offers limited employment opportunities.

Regarding the legal responsibilities of the United States to the Territory of American Samoa which are contained primarily to the cession agreement ratified by the U.S. Congress, we feel that the United States has maintained its obligations. We are particularly pleased that the United States has steadfastly adhered to the preservation of the traditional land tenure system of American Samoa and that accommodations have been made in institutions to assimilate the cultural systems and values of Samoan tradition. These things have allowed American Samoa to avoid many potential dislocations and imbalances which might have occurred.

These cultural preservations are among the reasons why American Samoa can be viewed as a valuable, unique asset to the United States as a Nation. American Samoa is a demonstration to the developing world that the United States can assist in development with the understanding necessary to prevent destruction of important cultural values. As a developing area, we share many experiences with other developing nations, and during our dialogues we have noted that the United States is generally thought to be less than responsive

to the special problems of developing countries. The general feeling is that the United States seeks U.S. style solutions to problems which require a different perspective. It is very significant, therefore, that the United States can point to American Samoa as a demonstration of its adaptability in dealing with developmental issues. It is also potentially of great benefit to the United States to use American Samoa as a witness to and interpreter of the benefits of United States assistance and intentions.

American Samoa's value to the United States is not limited to this role. As the only U.S. soil in the entire Southern Hemisphere, it is a potentially strategic base for the future. It is simplistic to view the territory's location as "in the middle of nowhere". Vast amounts of the world's known and unknown resources lie in the Pacific Ocean-Antarctic Region. Numerous countries, including the USSR, Japan, Czechoslovakia and Poland are actively exploring and assessing the resource potential of the region. The last two decades have demonstrated the increasing role of resource economics and management in world affairs. American Samoa is an important claim staked for tomorrow's protein and mineral requirements.

American Samoa's special rapport with the independent countries of the Pacific further accentuates the territory's value to the U.S. Through American Samoa, new island markets are available. Additionally, existing markets may be expanded, thereby enhancing the value of the dollar by increased U.S. exports which earn foreign exchange. American Samoa may also be a conduit to larger markets such as those of Australia and Japan by using American Samoa's eligibility for the Generalized System of Preferences of those countries. In this way, U.S. industry may be able to bypass some of the trade restrictions in these foreign countries.

It has been sufficiently demonstrated throughout the world that virtually any place on earth has the potential for economic development. Any location and population has both advantages and constraints. American Samoa is no exception.

We have recently completed our first five year development plan which identifies constraints, advantages, economic potential and paths for development. Our single most significant problem is the need to attract industry which will offer skilled jobs at salaries which will prevent the emigration of skilled people. Presently, many of our best students and skilled individuals leave American Samoa and enter the United States where they are able to earn salaries far greater than those which can be offered in American Samoa. Our young people graduate from high school and college with the ability and find that the economy in American Samoa offers only unskilled jobs or low-paying skilled and semi-skilled jobs.

In some cases, Samoans in search of economic opportunities in Hawaii, California, Washington and Oregon have been a source of

social problems in those states. Finding a solution to our employment problems will also assist in reducing related problems in the United States. Ironically then, we have both a shortage and surplus of skilled labor.

The issues addressed below reflect the thinking of the Executive Branch of the American Samoa Government. However, it should be stressed that these options have not been presented to the people of American Samoa.

Comments to Question 1

The second temporary future political status study commission, formed pursuant to Public Law 15-89, recommended that American Samoa maintain its status as an unincorporated and unorganized territory of the United States. It stated in part: "Only with time can people move from one social order to another. American Samoa has taken long strides along the road to full democracy in the recent past and an orderly and painless transition is far more desirable than the arbitrary imposition of a new political and social order".

The Executive Branch of the American Samoa Government concurs with the position taken by the commission. The commission held public hearings and made efforts to canvass the feelings of the people of American Samoa. We do not feel, however, that decisions relating to changes in political status can be made in American Samoa unless and until a sufficient period of time and energy are devoted to research of impact of potential changes is done, discussion among the people is fostered and issues adequately debated to enable the people to make informed decisions. A period of several years should be allowed for this process.

Although members of the legislature have been elected for many years, the first election of the governor and lieutenant governor took place only two years ago.

In 1980, a change will be made in the position of Delegate-at-large in Washington which will allow non-voting status in the House of Representatives. These are new experiences in U.S. forms of democratic government for the people of American Samoa. As such, no other changes should be pursued for a period of time, perhaps five years, during which the territory can adapt to and evaluate these changes, assess future steps and appraise any impact on cultural values.

It should be noted that throughout history the least disruptive political changes have been made when changes have been gradual, with new steps being taken when popular opinion positively accepted them. The entire political history of the United States is one of mostly gradual changes. As one chapter in U.S. history, American Samoa should not do less.

Among the major factors to be considered in the process of political change, is the need to reconcile differences between American Samoa law and U.S. law. During the assessment of the impact of various political changes, we want to minimize the number of new elements and outside pressures introduced in American Samoa relating to these issues. This would provide the people of the territory the best atmosphere in which to consider a wide range of options free of outside influences. With these thoughts in mind, we have commented on the policy questions which follow.

1. We do not feel that American Samoa should pursue voting status in Congress at this time, as this might have legal implications which would limit options available to the people of American Samoa at a later date. Such status could jeopardize the land protection elements in the cession agreement which have been carefully guarded with U.S. support. This should not be viewed as an indication of "second class citizenship." Rather, it insures "first class citizenship" for American Samoans with respect to protection of communal land system and cultural heritage.

With respect to voting in national elections by U.S. citizen residents of American Samoa, we maintain the same reservation. Another possible effect could be the creation of political parties within the territory. Because this would be a new element which would be generated by external situations, we feel it could be detrimental to traditional Samoan decision-making patterns.

2. While we recognize that it is difficult for our territorial delegate to function because of the lack of Senate representation, we would not recommend Senate representation for American Samoa at this time. We suggest that some other mechanism can be found to deal with the problem without taking additional political development steps. Again, to do so might prejudice future decision-making relating to our relationship to the Federal Government.

3. We prefer Option A as the most flexible alternative and lacking the "formal" atmosphere usually associated with dealing with "foreign" or "semi-foreign" entities. American Samoa has been a member of the U.S. family for many years and should pursue a less rigid structure in discussion of our relationship to the Federal Government. ✓

4. As previously stated, the Executive Branch does not wish to take any position which might limit future options. For this reason, we support Option C.

5. Not applicable to American Samoa.

6. Not applicable to American Samoa.

7. Not strictly applicable to American Samoa. It should be noted, however, that the political status commission has indicated its desire for locally nominated and confirmed justices to the High Court of American Samoa. We also fully expect other future development and improvement of the judicial system.

8. We do not favor the concept of identical treatment in Federal grant-in-aid programs to territorial residents. Although this is reinforced further in our comments to Question #4, we have consistently maintained that because of important cultural, political, social and economic conditions, identical treatment is not desirable in American Samoa. The American Samoa Government has taken steps for

evaluating program elements in Federal grants-in-aid programs to determine their applicability to this territory and prefers to continue to exercise discretion in program definition as it relates to our situation.

9. We prefer the recommendation made in Question #2 that a review be undertaken by the department or agency tasked with territorial responsibility in cooperation with the territorial government.

Comments to Question 2

We concur with the concluding statement in the revised November draft of this question: "Effective solution to the problems of economic development will require continuing attention over a period of time." The recommendations for an analysis of the constraints on economic development imposed by Federal law and regulations and active promotion of private sector growth would receive our support, provided that the efforts are closely coordinated with each territory individually.

Comments to Question 3

All drafts received to date have differed significantly. This has resulted in confusion as to the proposed options and how they would relate to other questions within the policy review. For example, while we view the proposal for a Territorial Development Bank to be one which has some merit when considered in the context of Question #2 on Economic Development, it was not clear in the November draft how this would be considered in the context of "ad hoc" appropriations. In another case, we had originally considered that block grants were meant as an alternative to categorical grants, not "ad hoc" appropriations.

We observe that most of the discussions relating to problems in financial assistance are considered in the context of problems which have arisen in other territories. This is also true of tax collection history. It is a mistake to try to apply solutions to the problems of other territories to American Samoa for two reasons. First, our status and development needs are different from other territories. Second, our performance record is different.

Only once during the last ten years has the American Samoa Government requested what we believe you mean by "ad hoc" appropriations other than capital improvement requests. This seems to be the type of "ad hoc" appropriation that presents the most problems. The occasion for this request by the American Samoa Government came as a result of a severe drought and fire at the canneries in 1974. At this time, 1,500 cannery employees were laid off sending unemployment figures up to 25 to 30 percent of total work force. Multiplier effects within the private sector resulting from interrupted cannery operations caused loss of jobs and revenue by local businesses. Consequently, American Samoa Government lost anticipated revenues from income tax, excise tax and harbor fees resulting in government lay-offs in the following year. Such problems are extraordinary and likelihood for reoccurrence is minimal. Water sources have greatly expanded since that time and efforts are being directed toward greater economic diversification to minimize the dependence on the canneries.

We would point out that our continuing assistance grant from Interior appropriations has been declining and is expected to continue to decline. The American Samoa Government has stated that if current trends continue, American Samoa may not require such appropriations for government operations after 1990.

While we remain open to suggestions for alternative forms of assistance than those presently available, we do not feel that we can accept any of the options as presented in the November draft of Question #3 at this time. We prefer to be given support for our development efforts based on our planning, projections and performance record in the use of Federal funds. Among the types of support we would expect to receive is continued CIP funding (we were not granted CIP funding in FY 1980 for any purposes) for projects which may include, but not be limited to, the following

during the coming ten years:

- Port expansion
- Marine Railway improvements and expansion
- Harbor and commercial dock improvement
- Relocation of government offices to permanent facilities
- Sewer expansion and improvement
- Power plant improvements and expansion
- Water system improvements
- Erosion control
- Road improvement and expansion

Portions of these projects may be fundable under categorical grants or from other sources, however, these are among the projects identified by our long-range planning efforts.

Because we feel our record in tax collections has been better than other territories, we prefer to continue to administer our own tax collections with the option to request and terminate assistance or administration by the IRS at the initiative of the American Samoa Government.

Comments to Question 4

We reject both options presented in this question. We feel that the problems which these options are intended to correct could be exacerbated by these options and are better dealt with in other ways.

As we pointed out in our comments to the October draft, the creation of a Federal coordinating unit would create another layer of bureaucracy with which we would have to deal. This is undesirable as experience shows us that communications problems are minimized when we can deal directly with grantor agencies in all facets of grants management--application, program development, program implementation and audit.

It is not clear what the relationship between the coordinating unit and the Federal office tasked with territorial affairs would be. In the event that an interagency office is chosen for oversight of territorial matters, the Interagency Committee chaired by the Undersecretary of the Interior would be the ideal forum for discussion of Federal agency coordination.

Our experience also demonstrates that Federal agencies are becoming increasingly aware of the need to coordinate programs. For example, positive steps have been taken within the Department of Commerce within the last year to coordinate programs of the Office of Coastal Zone Management, the National Marine Fisheries Service, the Economic Development Administration and the Maritime Administration.

At the territorial level, we have been successful in coordinating programs by establishing a clearinghouse within the Office of the Governor under the provisions of OMB Circular A-95. We are currently in the process of establishing indirect cost rates on a selective basis to recoup administrative costs associated with such grants management efforts.

Grant consolidation is an increasingly viable device for improving aid to the territory. Only the Environmental Protection Agency has consolidated its territorial assistance, although interest has been expressed in other areas, especially with regard to waiver of matching requirements. Presently matching requirements preclude the possibility of American Samoa Government participating in several important federal/state programs.

Because the application of Federal programs within American Samoa requires consideration to unique circumstances, we believe that the primary initiative for Federal program coordination should be taken by the territory, in cooperation with the grantor agencies. Assistance at the Federal level is best achieved through the office charged with territorial matters at the request of the territory.

We are currently doing multi-year planning with several Federal agencies and departments. These planning efforts have been consolidated and have resulted in a group of five-year planning elements which together constitute a Comprehensive Development Plan

for American Samoa. This has been done with planning grants from EDA, HUD, EPA and CZM with planning assistance from NMFS, the Army Corps of Engineers and the Department of Labor. Our planning efforts could best be assisted by waiver of matching requirements for planning and technical assistance grants.

Modification of Executive Order No. 12149 to assign to Federal agencies in Washington the territorial functions now in the regional offices and Regional Councils would be disadvantageous for several reasons. First, it would increase travel expense for ASG and the Federal Government. Most regional offices are located in Hawaii or on the West Coast. The additional distance to Washington would increase air fares and time required for travel. Personnel turnover in regional offices is not as great as in Washington which provides better continuity.

Our recommendation in place of the options presented in the November draft would be to strengthen the enforcement of OMB Circular A-102. Although A-102 provides for uniform administrative principles, in fact, many agencies have additional reporting requirements not specifically approved by OMB. This places an administrative hardship on a small government like ASG. If A-102 provisions are enforced, it will simplify our grant management, accounting and auditing, and will free staff to spend more time on managing the quality of their programs and less on administrative paperwork.

Comments to Question 5

In our comments to the October draft of this question, we stated that we favored assigning the responsibility for territories and the FAS to an Assistant Secretary for International and Territorial Affairs within the Department of Interior. Significant changes in your November draft have prompted some change in our position on this question.

We feel that the new draft offers two options which would be acceptable to American Samoa. Both of those chosen would separate administration of the FAS (Trust Territory of the Pacific Islands) from the other territories. It has been our observation over the last several years, that the complexities of the international aspects of the administration of the FAS have made increasing demands on the time and energy of those tasked with dealing with all the territories. This has infringed on the attention which might have been given to the other territories. While we do not want to diminish the importance of matters relating to the FAS, we feel that those territories which might be described as full members of the U.S. family would benefit from a separation of functions.

Among the reasons contributing to our position of separation are the following:

- The FAS has not implemented full self-government which is present in American Samoa, Guam, the Commonwealth of the Northern Marianas and the Virgin Islands;
- Because of the oversight of the mandate by the United Nations, the international implications necessitate active participation by the Department of State.
- Important dissimilarities now exist between the FAS and other territories with respect to application of Federal policy, e.g., matters relating to sovereignty over migratory species of fish within the 200 mile economic zone.

With these observations in mind, we would favor either Option Three (Interior for the territories, State for the FAS) or Option Four (Interagency for the Territories, State for the FAS).

Either Option Three or Four would provide the necessary historic, archival and budget continuity offered by Interior. On Option Four, we assume that the core staff discussed would provide a budget officer with adequate support staff to assist the territories in budget submittals. We would also expect permanent desk officers for each of the territories to provide the territories and the staff rotated from other agencies with a liaison to insure continuity of policy direction.

Comments to Question 6

We are pleased with our present partnership arrangement with the U.S. Comptroller which combines an audit function of Interior funding and technical assistance as requested by the territory. For this reason, we support Option Four.

In addition to the Federal presence represented by the Comptroller, we would point out that numerous other Federal representatives are present on the island, e.g., the FAA, NOAA and the U.S. Coast Guard. Each provides essential services or uses American Samoa as a base for providing essential services.

Because American Samoa, unlike other territories of the United States, is significantly isolated from other U.S. soil and is surrounded by foreign nations and dependencies, it has been suggested that a State Department presence would be beneficial to both the U.S. and American Samoa. We strongly support this suggestion.



President of the Senate and Speaker of the House,
Legislature of American Samoa



GOVERNMENT OF AMERICAN SAMOA
PAGO PAGO, AMERICAN SAMOA 96799
LEGISLATURE OF AMERICAN SAMOA

In reply refer to:

November 15, 1979

Honorable James A. Joseph
Under Secretary of the Interior
Department of the Interior
Washington, D. C. 20240

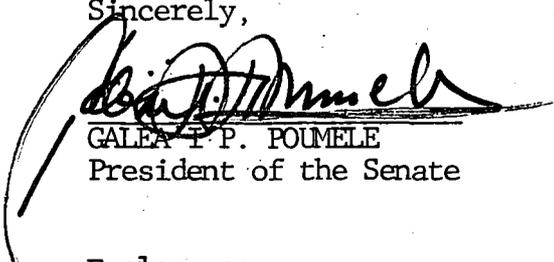
Dear Mr. Joseph:

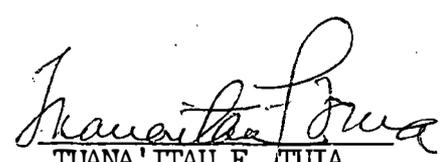
Enclosed are our responses to the policy questions and recommendations that resulted from the Interagency Policy Review on the territories and the Trust Territory. In cases in which the pros and cons mentioned were consistent with our thinking on the option, we merely choose the preferred option for the sake of brevity. Otherwise, we added our additional pros and cons.

However, in instances in which revision was not made in the options in light of certain of our previous comments, particularly comments which we felt strongly about, we have restated pertinent portions of them.

Thank you for this additional opportunity to have our input to this policy review. We look forward to the final papers.

Sincerely,


GALEA P. P. POUMELE
President of the Senate


TUANA' ITAU F. ITUA
Speaker of the House

Enclosures

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY



Division Office - [Illegible]

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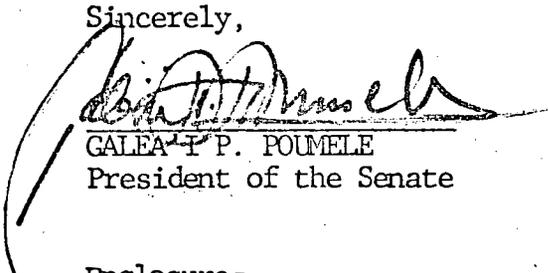
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GALEA P. P. POUMELE
President of the Senate


TUANA'ITAU F. TUIA
Speaker of the House

Enclosures

TASK FORCE #1
POLITICAL STATUS

To clearly establish as a statement of policy that by virtue of the treaties of cession the U.S. is obligated to afford protections to the people of American Samoa concerning their property and native customs is paramount. It can then cease to dominate discussion of political and economic development questions.

Policy Question 1. As Option A includes the qualification that a territory cannot be accorded the same quantity of voting representation and as we feel that equal treatment for all citizens should be recognized, we endorse Option A.

Policy Question 2. In the limited manner proposed, we feel it is timely to begin to lay the seed for an expanded role for territorial Delegates to Senate as well as House of Representatives.

Policy Question 3. Option A. There is little need for formal "status talks" between the territories and the U.S. Government. It seems to ignore the closeness of the relationship.

Policy Question 4. Option B. It is not a present concern to American Samoa but if economic self sufficiency is implicit in statehood it should be so stated.

Policy Question 5-7. Not addressed to American Samoa. We previously endorsed the option that would have the Executive Branch

TASK FORCE #1, POLITICAL STATUS

Page 2

take the position that, when the people of American Samoa evidence a desire to seek support for their constitution and to seek U.S. citizenship, the Executive Branch will support the legislation. The Fono would appreciate being told why those options have been deleted.

Policy Question 8. We strongly support this option. While as a territory equal treatment to a state may be inequitable to the states and may not satisfy our development needs, our residents have the same basic needs that Federal social programs address for stateside residents. Consistent treatment for individuals is a basic principle in the U.S.. Care should be taken in drafting the proposal to ensure safeguards against encouraging a large influx of immigrants as a result.

Policy Question 9. We strongly support this option. We suggest that it be undertaken in concert with the analysis recommended by Task Force #2.

TASK FORCE #2
ECONOMIC DEVELOPMENT

The more positive tone of the lead paragraphs of Task Force #2 is notable. By limiting expectations, by recognizing that total self-sufficiency is not probable, the potential for success is enhanced, the measure of success more realistic. The list of sectors for potential private investment and development is balanced and complete. As to the recommendations, the new recommendations of Task Force #3 as well of those of Task Force #4 provide a basis for participatory development of an economic growth policy and for its implementation. For example Cost sharing for capital improvements (Task Force #3, Option 5) would increase the sense of responsibility for hence, the maintenance of the physical infrastructure plants, a prerequisite to continued economic development. Waiving grant matching requirements for projects developing economic development plans, Task Force #3, Option 6, is an incentive to do such planning. As a part of an analysis of the constraints to economic development and development of strategies to remove those constraints and to promote private sector growth, the multi-year plan of Task Force #3, Option 4 and Task Force #4 should be considered. There is no "actual" constraint if the territory is not planning to head in the direction of the constraint, hence, resources are wasted on analysis of constraints (which are not likely to be encountered) unless analysis is done in the context of the multi-year plan.

TASK FORCE #3
FINANCIAL ASSISTANCE FOR THE TERRITORIES

A. Alternate mechanisms of providing direct Federal assistance.

Option 1. Ad hoc financing is not significant for American Samoa; continuing financing is. Utilizing Option 1 to partially displace both would create an incentive to increase local tax effort. Particularly for the reason that the matching moneys would be available for allocation by the legislature; an activity (allocation) that is diminished by use of Federal grants-in-aid over which the legislature has minimal control either prior to or after application.

Option 2. We favor a regional Territorial Development Bank as an additional means of capital infusion in the territory. However, we favor a structure that would allow the bank to pass thru capital to our existing American Samoa Development Bank. It has served this community effectively for some years.

Option 3. We endorse block grants. In our original response we suggested the following: (1) The United States should assist in locating and bringing together persons knowledgeable in social and economic development plan for American Samoa for the purpose of ensuring that realistic goals have been clearly established and that obstacles to the attainment of those goals are identified (see your Task Force #2, page 8, 10/31/79). (2) The notion of the islands being fiscally self-reliant should be quantified in terms of percentage increase (of self-reliance) over time so that it (self-reliance) is given serious treatment and progress

can be measured. (3) Provide a block grant for each year of the five-year plan, a necessity of American Samoa is to have a socio-economic development plan that is tooled for Samoa.

(4) Measure increase in self-reliance and spot-check progress with performance audits performed by Federal Comptroller's Office.

In an environment in which Federal moneys are finite, this Territory has to prioritize its programs in order that programs most essential to attainment of Samoa's goals are financed first using the limited resources. Financing with grants-in-aid encourages application for grant monies irrespective of planning. It encourages a shotgun approach. The more that is applied for, the more that is likely to be received. The Legislature is left with a sizeable budget but little room to make necessary shifts in funding to move more rapidly towards the goals established in the socio-economic plan. By using block grant funding of the prioritized programs, any Federal Grant Program that does not clearly assist in attaining goals established in multi-year, socio-economic plan would be deemed without substantial value and would be eliminated or curtailed.

It seems that a "block" grant system could be designed that was tied to a realistic, goal oriented, socio-economic development plan which included a schedule for decreasing the block grant and for increasing tax collections. The incentive to balance the budget and achieve the goals and collect the taxes delineated in the plan could be the use of any surplus in a FY as matching funds for future applications for Federal grants-in-aid.

Option 4. In American Samoa adoption of a multi-year plan is mandated by statute. As stated above, we welcome a review of that plan and performance audits. We suggest that it be reviewed by the same team suggested for creation in your Task Force #2, page 8, 10/31/79. Therefore, analysis of constraints on economic development would be relative to a Territory's planned activity and the strategy for removing constraints could be integrated into the plan. If additional areas of development are found in this review they can be added.

Option 5. Embodied in this option is the unstated assumption that if you pay for something you will take care of it. We feel that is true and endorse this option as to cost sharing. In addition, by requiring local-share revenues it engages the legislature more fully in the allocation process, something that is accomplished to a lesser degree with grants-in-aid.

Option 6. We endorse Option 6 for the same reason we endorse Option 5. It is a limit on the instances in which grants-in-aid can be provided directly to the Government without an appropriation by the legislature.

As to the mixture of the six options, we would stress our comments on Option 3. By providing a base amount, whether by Option 1 or 3, or both, and tying the continued receipt of that amount to preestablished goals i.e. local tax collection socio-economic development, etc., the local government's responsibility increases. Excess funds generated by prudent spending can, as an incentive, be used in combination with Option 5 or 6. If a territory short

changes socio-economic development as measured by audits of the multi-year plan, some negative feedback loop is placed in motion.

B. Alternatives to the territorial income tax systems and to the system of Federal tax subsidies.

Option 3 is preferred. A Representative has requested that a simplified tax system be drafted for introduction into the 3d Regular Session. We have begun in earnest to move in the direction of Option 3 - simplifying our tax system so that it is more relevant to the incomes of individuals and businesses in Samoa. Our gut reaction is that everyone should pay something, which, given the level for the earned income credit in I.R.C. does not occur under the mirrored or partially mirrored U.S. - American Samoa I.R.C.. Under Option 2, there would seem to be a need to harmonize the revenue codes of the territories and income disparity between individuals in territories would not be accounted for. It is not clear in the discussion of the Option 2 but it seems that either the U.S. I.R.C., would be imposed on the territories or there would be a strong suggestion that the territories differ little as to income tax provisions. So while there is not strong objection to having the I.R.C. collect or assist in collecting taxes, there exists already a movement to simplify the local system, a movement that might be stymied by Option 1 or 2.

TASK FORCE #4
FEDERAL GRANT PROGRAMS

As stated in our comments to Task Force #3, we agree to some extent with the critics of Federal grant programs. And, we feel the concerns of the supporters of the programs can be met with a much more limited application of Federal programs in concert with some form of "block" grant, either Option 1 or 3, or both, of Task Force #3. True, some national concerns are territorial concerns. Certainly the health of individuals and quite possibly their educational opportunity are of such importance as to require the combined efforts of funds allocated by the Territory and those available from Federal grants-in-aid. But certain other national concerns while of high priority in the highly developed states are of lower priority in the territories; hence, our preference for a move towards block grants which are allocated by the Territories to high priority territory concerns expressed in a multi-year plan.

As to those major, national concerns for which grants might be used or as to those grants that are used as incentives in the block grant system (described in T.F. #3), we endorse Option 1, with modifications. Too much territorial autonomy is lost in Option 2. It should be resorted to only after failure of the Territory to move towards its goals. Loss of autonomy could be used as an incentive to attainment of goals.

Noticeably absent from the discussion of the Federal grant programs is use of the territorial legislatures as final determiners of the appropriateness of grants-in-aid for a particular territory. The Legislature is the traditional body tasked with allotting scarce resources. A balanced Federal budget would seem to portend a tightening of the territories budget, a limit on the total grant funds available to a territory. Appropriateness then becomes more critical. We feel the Legislature should be considered as the right body to make that determination. Specifically request that Option 1D be amended to require that, with certain limited exceptions, a prerequisite to processing a grant application is that it be contained in a legislatively approved, preliminary budget or multi-year plan of the territory. That requires planning for grants, not a shot gun approach. True, it would slow

TASK FORCE #4, FEDERAL GRANT PROGRAMS

Page 2

and possible preclude receipt of certain grants, particularly though those that are newly created to address new national concerns. But those ongoing grant programs in high priority areas such as health and education should, and we assume can, be planned and applied for without by-passing the legislature.

If you chose not to adopt the suggestion offered here, we request that you don't advocate a position that would preclude the territory from giving the legislature a lead position in encouraging prudent decision making with respect to applications for Federal programs. Over the years too much emphasis on the Executive's role in Federal grant matters, bypassing the legislature either by active design or lack of design, has created a dual system of financing territory (and state) program's. It results in duplicate or excess financing of some non-essential services and under funding of other, more essential services and obliteration of distinctions between the separate functions and powers of two co-equal branches of government.

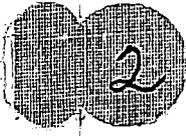
TASK FORCE #5,
FEDERAL ORGANIZATION

American Samoa has a well-established, good relationship with the Department of the Interior; Option #1 is therefore preferred. In that the bulk of the issue is directed at post-trusteeship Micronesia and other territories we will defer further comment to them.

TASK FORCE #6,
FEDERAL PRESENCE

We believe the Federal presence should be kept to a minimum. However, we do accept the necessity and believe in the importance of the Federal Comptrollers in their audit functions. Whether their technical assistance functions are performed by them or transferred to an Office of Federal Coordination does not elicit a strong reaction from us. We would like to see a pilot office created to see how it operates and if it could be useful.

On the other hand we do not approve of the idea expressed in #3 of creating another level between the Territories and the Secretary. We like the system as now organized with the Director of Territorial Affairs directly under the Secretary. This system has been very responsive to our needs in the past and foresee that to continue into the future.



Delegate from American Samoa



AMERICAN SAMOA GOVERNMENT
OFFICE OF THE DELEGATE-AT-LARGE

FOFO I. F. SUNIA
DELEGATE-AT-LARGE

November 14, 1979

425 - 13TH STREET, N.W., SUITE 926
WASHINGTON, D. C. 20004
TELEPHONE (202) 638-2933
Serial 79:495

FIFS:chc

Honorable James A. Joseph
Under Secretary
United States Department of Interior
Washington, D.C. 20240

Dear Secretary Joseph:

Thank you for sending me the revised papers on the Inter-agency Policy Review on the territories. My comments are attached.

As I am heading back home tonight for a series of meetings, I wanted to get these comments back to you in time for your November 19th deadline. It is my hope, however, that they will be useful in developing the final recommendations to the President.

Let me make one point clear. Some of the comments will appear as if this one territorial leader is advocating a break from Interior. That is true, but not right now. I do want you to know that the comments are made for the purposes of aiding the development of a policy, and not as a reflection of my personal attitude towards Interior. The Interior has been helpful to American Samoa and much of the status we enjoy today is a credit to the foresight of yourself and your predecessors and of the Office of Territories.

Sincerely,

FOFO I. F. SUNIA
Delegate-at-Large

OFF OF THE SECRETARY
EXECUTIVE SECRETARIAT

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DEPT OF INTERIOR

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Question No. 1
POLICY QUESTIONS

What should the United States Government be seeking to achieve?

(1) For American Samoa, it is best to seek that which is both achievable and useful. While it is always best to receive everything one wants, it is totally unrealistic to think that it is even remotely possible for such a situation to exist.

Of the possibilities presented, it is my opinion that the President should seek a step by step development for American Samoa. Firstly, a vote in Congress. This is more important to the Territory at this time than anything else. Secondly, vote for the President.

(2) Representation - The President should seek things which are of immediate need, and implements them in a fashion which demonstrates an orderly approach.

(a) Senate Office for Territories

Simplest to achieve, in my view, would be a Senate office for Territories. This can be granted within the present Senate rules and require only an addition to Senate internal budgetting and designation of office space. Such an office can be of any shape or form which the Senate decides. It should operate under a Senate committee and staffed by representatives from the Territories. It can serve as our doorway into the Senate until something else develops.

(b) Extend Role of Non-Voting Delegate

Our non-voting Delegate in the House can be given, by Senate approval, privileges of the Senate floor and committees.

(c) Non-voting Senators

Short of having full fledged senators, the best situation for us would be to have non-voting senators, as is the present situation in the House.

(d) Senators

This is the ultimate, when some permanent status has been worked out for the Territories.

(3) No comments as question relates only to Guam and the Virgin Islands.

(4) Statehood and Independence - American Samoa has not considered and is not interested in either status.

(5) No comments as the question does not affect American Samoa.

BUT

American Samoa's locally drafted constitution should be sanctioned by Congress. This would ease the greatest concern of local leaders about the still unresolved question of whether or not the Secretary of the Interior, who approved the constitution, has the legal authority to dissolve the same document.

To local eyes, congressional sanction would elevate the level of the dignity of both the constitution and the territorial government founded upon said constitution.

(6) No comments as the question does not relate to American Samoa.

(7) Judiciary Reform - American Samoa needs two judiciary reforms immediately.

(a) The justices should be appointed by the locally elected Governor. For Interior to continue to appoint the justices is to suggest a sense of colonialism - a word which is no way describes the association of American Samoa and the U.S. Government. The fear that the locally elected governor will not have an adequately qualified local pool of lawyers to pick from, is just a fear. If no local lawyer is qualified for the job, the governor can always go off-island for recruitment.

(b) The constant surfacing of bills in Congress relating to a federal appeals tie-in with the local system indicate that something needs to be done.

(8) Federal Grants in Aid Programs - Equal treatment should be extended to the territories. Availability of the individual projects must always depend on the acceptability of application to the agencies.

(9) Commissions on the Application of Federal Laws - Commissions are most urgently needed.

Question No. 2

ECONOMIC DEVELOPMENT

American Samoa's economic development problems and prospects have often been well studied and documented. No further studies are necessary. But action is very much needed. I disagree with the notion that there be another lengthy and costly study. A five-year plan has just been presented to the Fono. Why not work from that?

I see the need now as two-fold:

- (1) Creation of a realistic economic development fund sufficient to promote growth of local industry and permitting the replacement of outside firms. Administration of such fund should be free from local politics, and directed towards those projects identified and recommended in the economic development report already submitted to Governor and the Fono. Care should be exercised so the fund is not broken into too small pieces, losing its ability to attack some of the real prospects.
- (2) The search for balanced and mature individuals with expertise in fields of economic development. My preference is for men who are in their early years of retirement, or soon to be.

Let's not make any more studies.

Question No. 3

FINANCIAL AID

(1) The present system of ranking needs of American Samoa against those of other territories is unhealthy to normal development. It places emphasis on ability to justify and not on actual need.

(2) A five-year plan would be most helpful, provided there was room for change when required by actual events. Such plan would also need to be understood completely and accepted by the local government sections - Fono and executive.

(3) Some schedule should be set up to spin off American Samoa's funding from that of Interior. A presidential order establishing our direct access to OMB would be best for us. Such departure from the present administrative procedure will have to be part of an overall change in the basic relation of Territory and the Federal government.

(4) American Samoa has demonstrated a need for and acceptance of the federal comptroller system. Realistically, the need should diminish as the problems are resolved and a normal procedure established. The continued acceptance and effectiveness of the comptroller system will depend on:

- (a) concentrating its activities to monitoring function;
- (b) not appearing to be dictating to locals;
- (c) providing information equally to legislature and governor;
- (d) maintaining strict neutrality from local politics.

Question No. 3

TAX SYSTEM

American Samoa's present tax system was instituted almost as if it was an emergency. No thorough detailed study preceeded it. So understandbly, many parts of it are either inapplicable or unrealistic in relation to local conditions. There have been piecemeal efforts to improve it.

To resolve American Samoa's problem in this respect, it is necessary to review thoroughly the entire structure of taxes, economics, businesses and also the involvement of social changes. Following that, a new, briefer, simpler tax law should be written.

In the meantime, more American Samoas should be given extensive and intensive training in the tax field.

Question No. 4
FEDERAL GRANT PROGRAMS

I am in total agreement with Opinions I and II. Two minor comments:

- (1) Part G of Opinion I should be implemented immediately. It would simplify matters right away and help make further coordinating moves simpler. It would ease the burden now faced by the territories - each of which presently have offices in Washington only.
- (2) The multi-year plans should be made part of multi-year overall plans for the Territories. For American Samoa, the absence of a long range plan can mean that grants - whether or not they are in multi-year purposes - will always be subject to the changes in office holders and the shifts in local political considerations. American Samoa should be urged very strongly to immediately begin work on a long range territorial plan.

Question No. 5

SHOULD MANAGEMENT BY INTERIOR CONTINUE

After five years, American Samoa should be spinned off from Interior's management. Before that day, Interior should help us put our house in order. What will we have in place of Interior? For American Samoa, we should by then have the following:

- (1) A direct budget routing to OMB created by some presidential order.
- (2) A Federal Grants Coordinating Agency created by a presidential order as envisioned in Options I and II of the Task Force No. 4 recommendations.
- (3) A territorial coordinating presence in the capital, either on its own - as is the present Delegate-at-Large or through its non-voting Delegate in Congress.
- (4) Continuation in the Territory of the operation of the U.S. comptroller.
- (5) Establishment within the White House staff of a permanent post of Presidential Advisor on Territorial Affairs.
- (6) A representative in the U.S. Congress.

My own experiences in the Capital tells me that officials and bureaucrats in Washington are real people who can be made sensitive to territorial needs. I believe it is far more effective for the territories to take their own cases directly to individual agencies. Perhaps my experience is unique, but I have yet to come across an official in Washington who refuses to help, or go out of his/her way to be rough. I have been received courteously, offered and extended assistance, and I believe that when our territory works out its problems with regards to the relationship of the executive back home and the delegate in Washington, the delegate can and will become far more effective. At the risk of appearing unappreciative of the help of Interior and of seeming too confident of our own abilities, let me say that the time has

come for American Samoa to try to stand on its own feet - in everyway. Stand perhaps is the wrong word, as we will continue the need to lean on the support of the federal government.

But I believe now that in five years time, after having done the things listed above, we can be far more effective as our own advocates.

American Samoa's most serious problem in this area is not its relation with Interior or other federal agencies, but the finding of a happy working medium for the various internal political factors. The present status of minor internal political turmoils is the normal ail of growth. In five years, I am sure we will be more settled and secure.

When we reach that stage, is it necessary to continue to work through and with Interior? I think not.

Admittedly, part of these comments step from the usual feeling of desiring to be independent of whoever it is who is your guardian. But I believe, realistically, that the growth in the Territory today will result in maturity.

Question No. 6

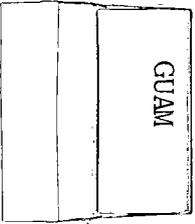
FEDERAL PRESENCE IN THE TERRITORIES

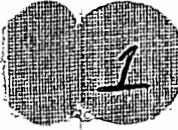
Is there a need, besides that of the comptroller?

My response is YES. Not as administrators, but as technical assistants, primarily in the area of economic development.

The non-voting Delegate will be a federal person, and that is sufficient federal presence in the Territory.

I would continue both functions of the comptroller: audit and technical assistant.





Speaker of the Legislature Tanaka



PAUL M. CALVO
GOVERNOR

Territory of Guam

OFFICE OF THE GOVERNOR
AGANA, GUAM 96910
U.S.A.

NOV - 9 1979

Honorable James A. Joseph
Under Secretary
Department of the Interior
Office of the Under Secretary
Washington, D.C. 20240

Dear Mr. Joseph:

We are submitting herewith for your review our reaction to the revised papers prepared by the Interagency Territorial Policy Task Force and delivered personally to us by Mr. Jeffrey Farrow of the White House staff. To begin, we would like to take this opportunity to thank the President for initiating this long-overdue evaluation of the relationship existing between the territories and the federal government, while concurrently examining the social and economic health of these island communities. Additionally, we commend the individuals whose time and energy went into the preparation of these studies. However, on behalf of the people of Guam, we believe it is critically important to our future that we be permitted to present, in our own fashion and in our own words, our response to the six questions presented by the President to the Interagency Task Force. Indeed, from the moment we became aware that several federal departments and agencies were being organized to serve on the Task Force, we have sought a role in the preparation of the report.

As you know, in May we met with members of the Task Force. At that time, we provided the delegation with our initial response to the six questions. We assumed, in good faith, that our comments would be included in the report. We were surprised when we finally received a copy of the draft report late in September. For the most part, the report being prepared for the President's review did not accurately present our stance on the issues being addressed.

We need not elaborate for you in detail the significant interest of our community in the work of the Task Force. Suffice it to say that our island's political leadership joined together in coordinating a unified community reaction to the draft report. As we did then, we are once again forwarding the results of that effort to your office. We are doing so because our responses to the six questions are the same today as they were in October when we reviewed the earlier draft of the Task Force report. We do not believe that you personally will have the time to review the enclosed studies. However, we would like to highlight for you and the President our position on the most important issues raised in the policy review.

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DEPT OF INTERIOR

NOV 19 1979

Two resolutions prepared jointly by the Legislature and the Executive Branch list the following essential elements of the community's response to the work of the Task Force addressing the question of what the U.S. Government should be seeking to achieve in or for the territories.

1. A reaffirmation of the people of Guam's right to self-determination of their form of government;
2. The necessity for the creation of a joint Guam-U.S. Commission to review the impact of all federal laws and international treaties or agreements on the island and to prevent further application of federal laws and international treaties or agreements to Guam without her consent;
3. The removal of federal constraints on the economic, political and social development of the island; and
4. Most importantly, the need for immediate action toward commencing political status talks between representatives of the people of Guam and the United States of America.

We are optimistic that policy decisions the President will be making will reflect his support for our stance on these issues.

Regarding the work of the Task Force addressing the question of how the U.S. Government could encourage economic development in the territories, we have noted that the paper has been revised dramatically and that, in substance, it has incorporated an outline of the approach we recommended in October. Specifically restating our position, we recommend the following actions:

1. Federal restrictions and controls over Guam's most valuable economic assets should be removed by:
 - a. Annuling or exempting Guam from federal laws which constrain her economic development;
 - b. Returning natural resources to the people of Guam; and
 - c. Providing capital (grants or loans) needed to construct an infrastructure which facilitates trade and commerce.
2. The federal government should assist Guam in implementing a ten-year economic development plan which will result in a healthy utilization of the island's natural resources and the generation of sufficient local revenues to continue development of the island's infrastructure.

Honorable James A. Joseph

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3. The federal government should act immediately to permit the full development of the island's commercial port and adjacent properties into an international shipping center, to assist in the development of the region's fisheries resources, and to create joint Guam-U.S. subcommittees to review areas of mutual concern. The enclosed report details our recommendations as to the most effective manner in which the federal government can assist us towards eventual economic self-sufficiency.

Concerning the Task Force's study as to the most desirable system of providing federal financial aid, we support the creation of a development bank as long as the bank provides additional capital and is not in lieu of current federal financial assistance. We continue to favor a block grant system in lieu of federal categorical grants-in-aid if the allocation is based on our eligibility to participate in programs and if ad-hoc grants are continued. As must be perfectly clear by now, we oppose any federal encroachment into the administration or enforcement of our tax laws, and we are seeking the authority to modify the Internal Revenue Code as it applies to Guam.

As we did in October, we still oppose the recommendations of your Task Force regarding the creation of a federal "Coordinating Office" to oversee the granting of federal grant programs to Guam. We believe we are in a much better position than any federal bureaucrats to determine the value of such programs to Guam. Furthermore, we have the ability to improve and make more effective programs now being implemented. A "Coordinating Office" is not necessary.

Concerning any organizational adjustment of the federal administration of the territories, we continue to support the creation of an Interagency Office within the White House. At a minimum, if the Department of Interior is to retain a role in administering Guam's relationship to the federal bureaucracy, we demand that the stature of the territories be elevated to at least the sub-cabinet level directed by an Under Secretary.

Regarding the need for continuing federal presence on Guam, we recommend that the Office of the Federal Comptroller be removed from Guam. If it is determined that the office is to be retained, then we strongly recommend that the comptrollers be limited to a strict audit function. Recent "management audit" activities of the Federal Comptroller's office approach federal interference in local affairs. This sort of activity must cease.

On behalf of the people of Guam, we seek your assistance in presenting our position on the issues to the President. We in fact welcome the study you have undertaken. Too many times we have traveled the long distance to Washington only to find the doors leading to the potential economic development of our territory either closed or requiring, literally, an act of Congress to open them. There have been successes but, as we must reluctantly admit, they have been overshadowed by too many efforts

Honorable James A. Joseph
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which have fallen short in meeting both our needs and the federal government's expectations.

We differ with some analyses and conclusions prepared by the Interagency Task Force regarding our island and its development potential. We are sure you will find this to be true of virtually all the respondents to this study, including the respective legislative and executive leaders of the other territories and commonwealth.

We do not believe, and trust you agree, that a full dialogue concerning any of the six questions addressed here can occur simply in response to your request for reaction to this study. Obviously, the issues addressed here are of such a critical and complex nature that we can view this study only as one of a number of avenues available for discussion of these matters. We view other forums, which should be pursued following completion of this study, as more appropriate for full pursuit of final solutions to the political status and economic development questions. Indeed, given the limited time available to us to respond to this particular report, we must assume that is intended.

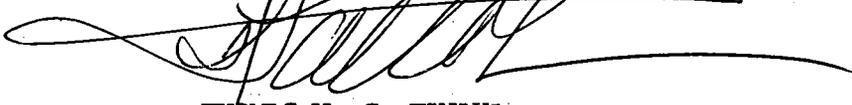
We thank you for your time in reviewing our final response to the work of your Task Force and we assume this letter will be presented, along with the Interagency Policy Review, to the President.

With warmest regards.

Sincerely yours,



PAUL M. CALVO
Governor of Guam



THOMAS V. C. TANAKA
Speaker
Fifteenth Guam Legislature

Enclosure



OFFICE OF THE SPEAKER

Fifteenth Guam Legislature

POST OFFICE BOX 373

TERRITORY OF GUAM

U. S. A. 96910

THOMAS V. C. TANAKA

Speaker

November 9, 1979

Honorable James A. Joseph
Undersecretary
U.S. Department of the Interior
Washington, D.C. 20240

Dear Mr. Joseph:

This letter is in addition to a communication, dated November 8, 1979, addressed to you from both the Governor and myself.

We, in the Fifteenth Guam Legislature, recognize the efforts of the Interagency Policy Review group to evaluate the role of the Federal government in the territories. We applaud the Task Force's on-the-spot visits to Guam.

The opportunity of the leaders and people of Guam to respond to the initial draft of the Task Force Report is commendable. In that response, I shared the enthusiasm, the excitement, the serious and countless hours of volunteer work exerted by the leadership and rank-and-file of Guam's citizenry.

As you know, Resolution No. 395 and 396, jointly approved by the Governor and the Legislature of Guam contained the highlights of our response which was supported with studies, positive statements, and high expectations for Guam's future relations with the United States.

Last week, the leaders of Guam received the revised draft of the Interagency Policy Review which contained your transmittal letter. After a careful consideration and review of the revised document, we cannot help but express our total dismay of a report which in essence was the same document as the initial draft. Granted, the revised draft is more concise, clearer, and more readable. But it failed to take into account the conscientious efforts of our people to participate in an exciting venture -- that of reshaping their own future destiny.

Unless the final report that goes to the President contains some of the expressed wishes of our people, the total effort would be a tragic attempt at "participatory democracy" in the territories. Unless Joint Resolution 395 and 396 receive their duly deserved attention from the President, in particular, the need to commence immediately political status talks, the

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"human rights" aspirations of the President would be just plain rhetoric.

The entire process deserves your serious second look. You wanted to inspire confidence in the continuing U.S.-Guam relations. Instead, more doubt and uncertainty exist. You wanted to reform, to change for the better America's posture here in the Western Pacific. Instead, a climate of frustration and hopelessness prevails.

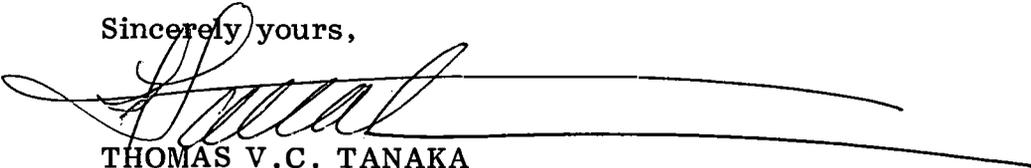
We, therefore, resubmit for your consideration Joint Resolutions 395 and 396 which contain our responses to the varied options outlined in the revised draft. Our views and positions have not changed, just as your revised draft remains basically and essentially the same as the initial draft report.

In response to your specific request, that is, for us to choose among the options provided in the revised draft, you will find enclosed our comments and views.

We, in the Fifteenth Guam Legislature, look forward to a copy of the Inter-agency's final report to the President. Again, we express our appreciation for the opportunity to be heard and look toward your able leadership to assist Guam grow and develop as a responsible part of the American community here in the Western Pacific.

With highest personal regards and best wishes, I am,

Sincerely yours,



THOMAS V.C. TANAKA
Speaker

**SUMMARY OF GUAM'S CHOICE OF OPTIONS
INTERAGENCY TASK FORCE ON TERRITORIES**

Political Status (Question 1)

Guam's Legislature believes that the U.S. must address the matter of status in an expeditious manner. Specific options the Legislature favors include the following:

Option 1: Express a willingness to discuss with Guam, the Virgin Islands, and American Samoa, political status matters and their relationships with the Federal government, in "status talks", including federal ownership of lands and the application of federal laws which may have an adverse impact on the territories.

Guam's response: This is a very basic and important goal of the people of Guam. Our leaders understand and emphasize the feelings of Guamanians in this regard. Political status talks should begin and the proper mechanism created.

Option 2: Consistent with the United States' 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 whatever political status they desire, including statehood and independence, as choices that are open to them.

Guam's response: This is so fundamental a right of the territories, that to limit Guam's options will certainly evoke a serious outcry. This very issue is perceived as the reason for the failure of Guam's constitution to pass in the recent referendum vote. The right of the people of Guam to self-determination must be reaffirmed.

Economic Development (Question 2)

Guam concurs with the task force's recommendation that the federal government work closely with the territorial government in analyzing the constraints on economic development that have existed and currently limit Guam reaching its potential. We further agree that economic development will not be a short term project, but that persistent efforts will be required by both the federal and territorial governments.

Federal Assistance (Question 3)

Alternatives to the present system of direct federal assistance.

Option 1: Match the amount of taxes collected under tax laws imposed by each of the territories.

Guam's response: This option is heartily endorsed and acceptable as one avenue to provide and secure additional revenues to Guam.

Option 2: Establish a territorial development bank

Guam's response: The Federal Government should be encouraged to initiate efforts to create a Territorial Development Bank as an additional source of funding available to the territories as long as it is not in lieu of current federal financial assistance.

Option 3: Provide a single block grant to each territory, based on a territory's funding level in 1979 from Federal Grants-in-Aid.

Guam's response: Guam accepts the block proposal in lieu of Federal Grants-in-Aid if the allocation is based on eligibility of the territory to participate in programs. In the absence of this, the potential loss to the territory over the long-term is too great to accept any alternative to formula grants.

Option 4: Increase federal oversight over territorial finances.

Guam's response: Guam does not support this option. It is opposed to further encroachment of its local autonomy.

Alternatives to the present tax systems in the territories

Option 1: Apply the Federal Internal Revenues Code directly to the territories and have the IRS administer the law.

Guam's response: Guam opposes federal tax collection of local taxes and seeks authority to modify the Internal Revenue Code as it applies to Guam.

Option 2: Fix up the technical flaws in the "Mirror" systems and provide federal assistance in tax administration.

Guam's response: Guam supports this option but sees no major change in it. Guam recognizes the federal initiative in improving the financial management system of the territory.

Option 3: Give the territories complete autonomy over their income tax systems.

Guam's response: Same as Option 1 above.

Federal Grant Programs (Question 4)

Option 1: Issue a presidential memorandum or an Executive Order to accomplish seven (7) items listed.

Guam's response: We welcome assistance in efforts to thread through the various ways that lead to federal grants. Guam rejects the creation of a Federal "Coordinating Office" to oversee the granting of federal funds to Guam. Guam also favors adoption of block-grants of federal funds.

Option 2: Formalize joint federal-territorial planning over a multi-year period and incentives to encourage it.

Guam's response: This is most welcomed. The creation of Joint Guam-US working committees are recommended to implement this option.

Federal Organization (Question 5)

Option 1: Interior retain responsibility

Guam's response: We object to this because the Interior Department has inconsistently treated Guam in the past, sometimes even ignoring her needs.

Option 2: Interagency Office for the territories.

Guam's response: This is acceptable provided the Interagency Office be placed under the Executive Office of the President. The reason for this is that it would minimize bureaucratic snags and Guam should be as close to the President as possible to insure that her hopes and aspirations, needs and problems are given direct and immediate attention by the President's Office.

Option 3: Designate no lead agency.

Guam's response: We reject this because it is inconsistent with Option No. 2. The other options do not concern Guam. They pertain to the Freely Associated States.

Federal Presence (Question 6)

Option 1: Continuation of the existence of Federal Comptroller's Office

Guam's response: Abolish the Office of the Federal Comptroller and the functions of said office are to be merged with the Office of the Guam Territorial Auditor. If retained, the Federal Comptroller should be restricted to audit functions.