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TT PACIFIC ISLANDS



TRUST TERRITORY OF THE PACIFIC ISLANDS
OFFICE OF THE HIGH COMMISSIONER
SAIPAN, MARIANA ISLANDS 96950

CABLE ADDRESS
HICOTT SAIPAN

November 14, 1979

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

Dear Mr. Joseph:

Attached are the comments of the Trust Territory Government on the Interagency Policy Review on the territories and the Trust Territory, as requested by you in your letter of October 31, 1979.

Our comments consist of excerpts taken from my comments as well as from the comments submitted to me by the Deputy High Commissioner, the Administrators of Community Services, Administrative Services and Developmental Services, and by the Director of Planning and Statistics. This was done to provide an overall view of the opinions and judgments of the staff, particularly in those cases concerning which there were differences of opinion. In all cases, the comments which are presented first are mine.

I did not attempt to secure the comments of the Presidents, Governors and legislative leaders of the Trust Territory Governments because the limits of time made it impossible to transmit the Review and secure responses on a timely basis. If it is desired, I will transmit copies to them, requesting their comments for possible subsequent inclusion as a supplement or appendix to the Review, or in any way you may suggest.

Sincerely yours,

Adrian P. Winkel
High Commissioner

Attachments

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 1

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

- In substantial measure the question stated in the second sentence of Question No. 1 above is answered by the statement on page 14 in which it is written that "too little time remains to permit any major modifications in the Federal Government's treatment of the Trust Territory as such." Within the limitations of time, the general objective of the U.S. Government in the pre-termination period should be to bring all of the various governmental entities up to the maximum possible level of performance in all fields. This objective is the principal responsibility of the Trust Territory Government during the remainder of the Trusteeship period. Assisting the governments to prepare for this assumption of responsibility, and then to transfer such responsibility to the governments as soon as they are prepared to accept the transfer, and then assisting the governments in the actual performance of their new responsibilities, is the most important administrative responsibility of the Trust Territory Government in the remaining time of the Trusteeship. If, in addition, time permitted the programming, funding and execution of additional activities, the highest priority should be given to providing CIP infrastructure projects for the outer islands, particularly in the Marshall Islands, Truk, and Yap, although this is not to exclude or ignore similar needs existing to a lesser extent in other states. The need in this respect is similar to the need which causes it to be stated in another portion of the report that the CIP infrastructure program for the district centers must be completed by the United States. In addition, adequate infrastructure requires operating and maintenance funds which must be given consideration in both pre-termination and post-termination decisions concerning the Trust Territory. This latter need exists not only with respect to infrastructure fixed in place but also with respect to the operation and maintenance of the transportation and communications systems.

- The second part of the Question applies to the Trust Territory and it involves, in the main, the question of basic infrastructure development

(CIP). My comments are:

- (a) The CIP plan of 1976, basic plus subsequent modifications, should be put in place prior to the termination of the Trusteeship.
- (b) In addition to the basic capital improvement program for the central islands, attention should be also focused on the need for similar development in the outlying population centers in each district, including the Marshalls and Palau.
- (c) To insure that the public facilities built under the CIP program are properly managed and operated after termination of the Trusteeship, Public Works operations and maintenance training efforts now underway be enhanced throughout the remainder of the Trusteeship period.

- The IPRTF gives emphasis to putting in place the potential for economic development prior to ending its administrative tutelage. However, to effectively enhance effort in this regard thoughts ~~(must be given to)~~ strategies appropriate to the areas in terms of their conditions, resources, and future capability. This may call for more than emphasizing the completion of CIP projects. Some re-examination should be given to the question of whether or not certain CIPs may become economic development burdens in the post-trusteeship era rather than strategies for development.
- As this relates to the Trust Territory, it has been the stated policy of the U.S. to encourage economic development. However, this is misleading. The Trust Territory budget has always been primarily for administrative expenses. Only recently a CIP program was funded. We cannot argue that this CIP program is not economic development oriented, but it includes a great number of socially oriented projects.

We further question the statement, since the Trust Territory has been excluded from Federal programs which are economic development oriented, such as roads and rural electrification, and has not received preferential tariff treatment for its products to allow it to be competitive with other developing areas.

The commitment to economic development of the Trust Territory in the remaining years of Trusteeship should be reaffirmed as a Federal policy and some positive action taken such as extension of programs mentioned above.

Question No. 1 - page three

Since the remaining period of Trusteeship is short, these programs may only have a short-term impact on economic development. Thus, there should be consideration for this extension of programs to go on after termination.

We concur with the statement that the ongoing CIP program must be completed as soon as possible. The CIP program, while it would help development of the area, must not be construed as the United States' economic development program for the Trust Territory.

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 2

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

- I emphasize that all of the "givens" named in the question apply particularly and with special emphasis to the Trust Territory.

- Recognizing the diverse characteristics, geographical location, and development potentialities of the territories, the Task Force's concluding recommendation (page 8) emphasized the need for the leading Federal agency (DOI) to undertake a comprehensive study for the development of the private sector of the economy in each territory.

Recalling our own (TTG) experience during the recent 15 to 20 years, studies not implemented have given rise to frustration and false hope among the populace, and often lead to mistrust between the territory and the sponsoring Federal agency. The Task Force apparently recognizes this potential adverse effect and recommended that the lead Federal agency has access to other Federal agencies' resources to implement over a period of time what development strategies were agreed upon for implementation.

- What is urgently needed to stimulate economic progress and promote private investment is a demonstrated commitment by the Federal Government to a systematic, organized program of development that is appropriate to local needs and resources and adequately funded.

The comment (page 7) that the U.S. should not ". . . necessarily participate as an active partner in development activities . . ." should be qualified. This implication that "private investors or local governments" are capable of and/or willing to supply the resources needed to promote economic development is misleading. Under-utilization of local resources is primarily a result of the absence of sufficient capital and know-how. The generation of capital is severely limited by the low income level of the population. Injections of outside capital are essential to initiate the process of development. Similarly, investments in human resources development require, in the long-run,

investments in educational systems for which local funding is not available.

In the short-range, "crash training" and expatriate employment are necessary to meet immediate needs. These investments in physical and human capital can be efficiently met by well designed and administered Federal assistance. To date, capital investment has been concentrated on infrastructure development in the district centers. The marshalling of funds for venture capital and investment in productive enterprises in rural areas is urgently needed.

A number of problems currently restricting economic growth in the Trust Territory, and presumably in other territories too, have not been touched upon, or have been indirectly mentioned only in the section labeled "problems". The following items are recommended for inclusion:

Skill Development

Management Capabilities Development

Financial Services Development

Communications Improvement

- The question of how the U.S. should encourage economic development in the areas should be looked at within the context of what the neighboring Pacific Islands' small states, whose conditions are similar to the TTPI groups, are doing to economically develop themselves. Economic development effort should take cognizance that the area's resources are limited and will be more so in the post-Trusteeship era. In other words, efforts in economic development, as well as in other aspects of development, must be realistic if one is to live and work within one's own means.

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 3

How can the system of providing Federal financial aid to the territories be improved so as to eliminate the need for ad hoc subsidies and so as to encourage wiser planning and greater fiscal self-reliance in each territory?

- The subject raised by the above question, in the manner in which it is asked, does not apply to the Trust Territory. If we assume that the Trust Territory will be terminated in 1981, financial assistance during that period of time is already quite firmly established in the remaining budgets for the fiscal years of 1980 and 1981. Obviously, of course, the manner and extent of the providing of federal assistance in the post-trusteeship period will be determined by the negotiations between the parties. All of the options to replace ad hoc appropriations, with the possible exception of option 4, could be applied to the Trust Territory with necessary modifications as determined by the negotiations.

The discussion of alternatives to the present tax systems in the territories is not applicable to the particular status of the Trust Territory in neither the pre- or post-termination periods.

- Each of the four options listed has substantial merit and should be implemented but in a closely coordinated manner, e.g.:

Option 1 - Federal match of local taxes. This method of funding could be applied to an area of government spending such as operations and/or maintenance. Perhaps the match should be on a declining scale in successive years to further encourage local tax efforts and collection of user taxes.

Option 2 - A territorial development bank should be integrated with a comprehensive development program. Loans should be made only for investments in real production. This could be the primary funding source for economic development projects.

Option 3 - Block grants might be made available for economic and social infrastructure development. This would allow the local government more flexibility in meeting their priorities.

Option 4 - The expenditure of federal funds should always be in accordance with sound financial and budgetary practices. The apparent disarray of territorial finances is sufficient indication that closer monitoring to assure compliance with this principal is urgently needed.

Question No. 3 - page two

- It will be in the interest of the various entities of the TTPI to give serious thoughts to limiting the inflow of Federal monies into their jurisdictions. If smooth transition is to be made from the present high budget government to one whose financial resources will be considerably less, efforts must be taken now to gradually decrease Federal assistance and maintain only those which will complement transition efforts.

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 4

Does any practical device exist to refine the application of Federal grant programs to the territories and the Trust Territory, so as to eliminate those without substantial value to the territory or the Trust Territory, and to make more effective those that do have value?

- We believe that the answer to the question stated above is yes, and that the objective of the Task Force with respect to Federal programs, as stated on pages 1 and 2 of this section of the Report, has been, at least in part, achieved at the Trust Territory level. We have a functioning A-95 Clearing House, approved by OMB. It requires constant oversight and attention to assure adherence to the process but it is proving to be a helpful mechanism. In connection with the establishment of the new constitutional governments, we are discussing increasing the degree of the new governments' role in the selection and approval process of Federal programs, as well as transferring greater administrative responsibility for such programs to the new governments.

It is difficult to comment on the administration of Federal programs in the post-termination period because of the uncertainty of the status of such programs, if any, following the termination of the Trusteeship.

Options 1 and 2 on pages 7-9 probably will not be applicable to the Trust Territory because of time constraints. However, if they were to be applicable, either option would be considered helpful and beneficial, with option 2 preferred as a matter of choice.

- TTG should support any decision which aims to eliminate "matching funds" requirement for Federal grants, as all such matching funds are ultimately derived from U.S. grant funds -- not local revenues as is the case in the several States.

Option 1 in the Task Force Report (page 7), with modification to include all matching fund requirements, seems best suited for TTPI.

- We have no objection to a Federal-level coordinating unit which could provide the territories with a range of useful data and services as long

as it did not define for the territories, which programs they may or may not apply for and receive. The territories could also provide "decision packages" for programs and priorities to the Federal unit who could coordinate at the Washington level for funding support under the joint simplification act or under PL 95-134, or other existing legislation.

We also do not believe that the territories will wish the Federal Coordinating Agency/unit to retain such powers as described in Option 1 in item C (" . . . establish (FCO) to the satisfaction of the Federal Coordinating level," or E, "Require approval of Feds before final action on a grant application". Option 2 has merit in that it proposes specific legislation to result in multi-year planning and funding.

- It will be in the interest of the various entities of the TTPI to give serious thoughts to limiting the inflow of Federal monies into their jurisdictions. If smooth transition is to be made from the present high budget government to one whose financial resources will be considerably less, efforts must be taken now to gradually decrease Federal assistance and maintain only those which will complement transition efforts.

- The Trust Territory has already established a Central Clearing House for the review of Federal programs.

As far as the Trust Territory is concerned, the experience in dealing directly with the regional offices has been effective and efficient. The placement of a person in Washington for a special task of coordinating Federal programs may be more applicable for United States territories rather than the Trust Territory of the Pacific Islands.

We reiterate the view that other Federal programs directly related to economic development listed in our comments to Question No. 1, should be extended to the Trust Territory.

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 5

Should any change be made in the organizational arrangement that places the focus for Federal assistance and liaison for the territories in the Interior Department? Attention should be given to post-Trusteeship Micronesia, Puerto Rico, and the Northern Mariana Islands.

- Relative to the above-named topic, I would favor option B as stated on page 6 of this section of the Report. I think the basic questions and problems concerning the administration of the territories transcend the question of the possible outcome of Micronesian negotiations, and that, therefore, organization arrangements for administering the territories at the Washington level should proceed.

However, if, as hypothetically stated on page 7, it is decided to defer the decision on Micronesia, I recommend option 1, as described on page 8. The elevation of the status of the territorial function within the Department of Interior would enhance and strengthen the performance of that function. As an adjunct of this problem, I might add that so also would increased funding and staffing strengthen the function. On the basis of my observations over a period of several years, it has seemed to me that the function has been underfunded and understaffed. I would strongly oppose option 2. At least for the duration of the Trusteeship the administration of the Trust Territory Government will continue to be a very significant part of the total set of responsibilities relative to the Trust Territory. An interagency office, essentially constituting a committee of agencies, is not designed for effective administration. Similarly, I would oppose option 3.

If the decision is to proceed with the development of an organizational arrangement that will accommodate the prospective freely associated states, I recommend option 1, with a modification. As I stated below, at least in the pre-termination period, governmental administration is a significant part of the U.S. responsibilities for the Trust Territory and, therefore, this function should be continued in the Department of Interior, upgraded as recommended. However, matters relative to the relationships between the FAS and other governments, to the extent they are permitted during the pre-termination period, and other related questions, could very well be administered by the State Department and/or OMSN. As a practical matter, such a division of functions presently exists and seems to work relatively well, on the basis of coordination between the Office of the High Commissioner and Status Liaison Officer domiciled in Saipan at the territorial level, and at the inter-Departmental level, including OMSN,

at the Washington level. Option 3 could also be applied to this arrangement, modified to provide that Interior would continue responsibility for administrative affairs of the Trust Territory, together with its responsibilities for the other territories. I do not believe placing entire responsibility for the FAS in the State Department is desirable for the reason that the many comprehensive and serious responsibilities concerning administrative affairs would inevitably and unavoidably be neglected, with the primary attention being given to those types of matters for which State is normally responsible. My reasons for opposing options 4 and 5 are as stated above relative to the other options.

- Among the Federal agencies with interests in Micronesia, the Department of Interior seems the best suited to oversee the affairs of Micronesia during the remainder of the Trusteeship period. It has the management resources and experience in the administration of the Trust Territory. What probably is lacking within the present organizational arrangement is its inability to demonstrate effective coordination and control over the activities of other Federal agencies that impact on the administration of the Trust Territory. For example, DOI lacks the clout to control the inflow of HEW, HUD, DOD, etc., program activities in the Trust Territory, all of which have certain effects in the administration of the Territory.

The cause or causes of this deficiency, or lack of effective coordination and control of Federal activities in TTPI, might be attributable to the status, or lack of it, of DOTA as the operating arm of Undersecretary Joseph. To strengthen, not replace, this organizational arrangement is probably to elevate the status of OTA and the Director to an equivalent of a Deputy Assistant Secretary (e.g., DAS for Territorial Affairs), or higher if that is possible.

- The legitimate question now asked is whether a decision on organizational placement of responsibility for Micronesia should be deferred pending the outcome of negotiations? A most reasonable answer to be expected is a conditional NO. The TT Government is already in transition. And the same process, or at least planning process, should be initiated at this time where U.S. FAS organizational placement of responsibility is concerned.

It is suggested that the Department that should have the end responsibility for the three entities is the State Department. However, the actual assumption of the responsibility should not take place until after the negotiations and plans for transition from Interior to State have been finalized. Between now and then Interior would continue as the administering authority in the TT and would coordinate, assist and advocate the interests of the TT.

One of the reasons for recommending the timing of actual transfer to be after negotiation is to avoid disruption of TT Government transition to the entities without compounding the process with transition of organizational placement of responsibility for Micronesia.

- Given the framework of political relationship contemplated in the proposed free association relationship between the United States Government and the various emerging entities in the TTPI, it will be logical that the Freely Associated States relate organizationally to the State Department rather than to the Department of Interior.

- Our option for Micronesia is that the State Department handle the FAS for reasons stated under "Organization Issues (Micronesia)" in the Report.

- During post-Trusteeship Micronesia and for as long as Federal assistance exists, there should be some form of Federal presence within the territories (of Micronesia, excluding the Northern Mariana Islands). The present setup should be reversed. The Office of Territorial Affairs (as it relates to the Trust Territories, excluding the Northern Mariana Islands) should be physically located within the Trust Territory with a branch office located within the Department of the Interior. This "Office of Territories" (or Office of Territorial Affairs) located within the Trust Territory should be in an excellent position to resolve any of the problems identified and defined under Question No. 4. I do not see this Micronesian office exercising any executive or administrative functions but serving only as a Federal presence or liaison with the Federal bureaucracy and the Constitutional Governments of Micronesia (excluding the Government of the Northern Mariana Islands).

Interagency Policy Review

U.S. Territories and the Trust Territory

- Individual Comments of Top Staff - Trust Territory Government

Question No. 6

With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptroller?

- While the heading for this section of the Report includes the Trust Territory, it seems that the question, as stated, and the discussion which follows, applies only to the U.S. territories. Because of the responsibilities of the United States Government to the U.N. during the period of the Trusteeship, there is no question about the need for a Federal presence prior to the termination of the Trusteeship. Whether or not there is a Federal presence in the Trust Territory following termination of the Trusteeship would appear to depend upon the outcome of the negotiations between the parties.

If it was decided that a Federal presence was desired, I would recommend that it consist of a combination of options 2 and 4. Without question, it would be desirable to continue the presence of the United States Comptroller with the joint functions of providing technical assistance and audits. If, in addition, an office of Federal coordination could be established in the area, a much needed service could be provided to the new governments. Because of the fact that the United States Government offices would be serving the Freely Associated States, and not United States territories, the question of Federal control and other elements of the relationship would be even more sensitive than in the case of the U.S. Territories. Elements of this type would have to have been resolved in the status negotiations to the satisfaction of both parties.

- Complete self-government will not be achieved until after the termination of the Trusteeship. From the perception of the local government entities, the U.S. Comptroller is not perceived as a functioning political and administrative link with Washington -- a link indispensable in the USG/local governments relationships during the transition to complete self-government after termination. The absence of Federal presence (at least for TTPI) can easily be mistaken for a "calculated abandonment" of the emerging Micronesian governments by the United States, which if viewed from the political standpoint might cause undesirable elements in the Status negotiations now in progress. Further, the United Nations Trusteeship Council might also frown upon such action as a symbol of insensitivity on the part of the Administering Authority over the people of the Trust Territory. There is more to lose than gain by subscribing to the suggestion embodied in the Question.

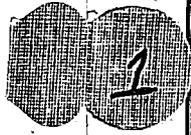
- It would be our recommendation that the Federal Comptroller Office, under Option 4, continue its dual role of auditing and of providing technical assistance in the areas of financial management, to the territories, since a perennial need has existed in this subject area.

At the same time, in order to improve communications and awareness of territorial needs and problems, we would also support Option 3, the creation of policy representatives in the field. Significantly, it would improve responsiveness of U.S. Administration to territories, the lack of which has long been a source of irritation to the territories.

We do not believe the creation of offices of Federal coordination in the territories would be particularly effective or even well-received.

- As long as the United States Government maintains a relationship with the post-Trusteeship political entities and as long as those post-Trusteeship political entities receive Federal assistance - either direct or through specific Federal grants, there should exist "a Federal presence" within the 'old' Trust Territory (excluding the Northern Mariana Islands). This Federal presence should be affiliated with the Department of the Interior and should exist for as long as these territories (DMI, FSM, and Palau) continue in free association with the United States.

FEDERAL AGENCIES



Department of State

UNDER SECRETARY OF STATE
FOR MANAGEMENT
WASHINGTON

November 23, 1979

OFFICE OF THE UNDER SECRETARY
FOR MANAGEMENT
EXECUTIVE SECRETARIAT
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DEPT. OF THE INTERIOR

102454

Dear Jim:

The Department of State has reviewed the six papers which constitute the Interagency Policy Review on the future of U. S. territories (American Samoa, Guam, U. S. Virgin Islands, and the Northern Mariana Islands) and the Trust Territory of the Pacific Islands (TTPI). Of the six papers, the State Department has a direct interest in Reports 1, 5, and 6. We have had a number of textual comments about one of the papers, Task Force Report 5, which were delivered separately to your staff and the White House, and we hope they will receive favorable consideration. I would like to address myself here to our main concerns about the reports.

Report 5 is concerned with the organization of the U. S. federal government to deal with the U. S. territories and the successor states to the Trust Territory. The State Department strongly feels that no domestic agency or interagency group should retain responsibility for the freely associated states in Micronesia once the Trusteeship Agreement is terminated.

Upon termination of the Trusteeship, the Micronesian entities, unlike the U. S. territories, will be virtually autonomous political units and will be totally responsible for their own foreign affairs activities except as these affect U. S. security or defense obligations. It is in the interests of neither the U. S. nor the Micronesians to create the notion in other Pacific states or at the UN that our new relationship with the Micronesians will be a continuation of the territorial one. Our success at the United Nations when we attempt to terminate the Trusteeship will depend on our ability to demonstrate that the new relationship is not a continuation of the Trusteeship in a new guise.

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

For the Micronesian states, UN acceptance of the new relationship is essential if they are to be accepted as members of the international community capable of establishing relations with countries such as Japan or participating in international organizations. We believe the Micronesians themselves no longer wish to be represented by Interior or any other domestic agency or combination thereof following termination.

There will be such a sharp distinction in the character of our relationships with the Micronesians as compared with the U.S. territories that, for organizational purposes, we believe the U.S. government will wish to deal with them separately. State has no particular preference as to the organizational arrangements struck for the U.S. territories, as long as these are consistent with the desires of the people living in the territories and enable the United States to continue to fulfill its international obligations regarding non-self-governing territories. However, State believes that the decision to alter the organizational structure should be made sooner rather than later, and with reference to the TTPI we believe any announcements on this subject should be issued well before we attempt to seek termination of the Trusteeship Agreement, and preferably before the final plebiscite on free association which may take place in 1981.

If the Administration chooses to take a decision at this time, State could support options three, four or five, all of which provide for separate handling of the freely associated states by non-domestic agencies or mechanisms. While it is misleading to refer to State as the "lead" agency, our mandate is to represent the United States in all non-U.S. political entities, and we plan to adjust our organizational structure to whatever extent may be necessary to meet the new burdens of dealing with the quasi-independent states of Micronesia. We further anticipate the establishment of a US diplomatic presence in Micronesia to deal with the three freely associated states on issues of mutual concern, and we feel that the role of Interior and other domestic agencies will be reduced accordingly with the dissolution of the existing Trust Territory Government in Saipan.

We have discussed our position with Ambassador Rosenblatt, the President's Personal Representative to the Micronesian Status Negotiations, who fully supports the foregoing, although we understand he will submit a separate statement of his own.

The report of task force 6 does not address the question of future U.S. presence in the freely associated states and Micronesian representation in the United States. As these

questions are part of the negotiations currently under way with the Micronesians, it is not possible to specify our exact needs in this regard. However, it should be recognized that decisions on the organization of the U.S. presence in Micronesia after the UN Trusteeship is terminated will be required in the near future.

On the other issue of major concern to State, task force report 1 discusses the question of U.S. goals in the territories and the Trust Territory. The State Department strongly supports a continuation of our long-standing policy of encouraging self-government and acknowledging the right of territorial inhabitants to self-determination. This policy is not only consistent with our historic ideals respecting basic human rights but also complies with our international responsibilities to the territories which we voluntarily underwent in the post-World War II period.

The world has changed radically in the last two decades, and whereas there were once many "colonies," the U.S. territories of American Samoa, Guam and the U.S. Virgin Islands are now on a shrinking list of approximately fifteen "non-self-governing" territories maintained by the United Nations. As other, smaller territories become independent, increasing international attention focuses on the U.S. territories. Although most of this attention is directed to our handling of Puerto Rico, it also is directed at the other territories. Since the vast majority of sovereign states today were once colonies who often fought for their independence, our ability to explain why a territory would wish to remain less than independent is being met with ever greater skepticism.

Of the nine policy questions discussed in this report, the one which in our view is of central importance to the future of U.S. territories is 4, which deals with the future political status of the territories. We strongly support option A of question 4 as consistent with the U.S. historic position, our ideals, and international concerns. An unequivocal statement of the right to self-determination for the inhabitants of the territories would be a useful tool in explaining our policies on the territories and garnering support for self-determination, such as references to the needs of national security, would be literally worse than nothing.

Consistent with the above and with reference to policy question 3, we believe the federal government should be responsive to any territorial request for "status" talks, if this is indeed the will of the people of the territories. Judging from the sharply critical comments made by the Governor and

Legislature of Guam to an earlier draft of the report, we believe that the points of concern to Guam involve a refinement of the territorial-federal relationship rather than a fundamental change in status. The issues raised by Guam are no less important for that matter, however, and we hope that they can be dealt with to Guam's satisfaction.

Other policy questions in report 1 pertain to the issue of self-government. The Department of State supports efforts to achieve greater self-government in the territories which would permit greater control over their lives. To this extent, we support steps to permit territorial voting in national elections, Senate representation for territorial delegates, locally-drafted and approved constitutions for Guam and the Virgin Islands, and Congressional representation for the Northern Mariana Islands.

We hope that this letter is made available to the President at the time of his consideration of these issues.

Sincerely,

A handwritten signature in black ink, appearing to be 'B. H. Read', written in a cursive style.

Ben H. Read



Department of Transportation



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

November 20, 1979

ASSISTANT SECRETARY

MEMORANDUM FOR: James A. Joseph, Under Secretary
Department of Interior

FROM: Susan Williams, Acting Assistant
Secretary for Governmental and
Public Affairs

SUBJECT: Recommendations Regarding Territorial
Policies

DEPT. OF INTERIOR
NOV 20 4 20 AM '79
OFFICE OF THE SECRETARY
EXECUTIVE SECRETARIAT

2108

The Department of Transportation has reviewed the option papers developed by the Interagency Policy Review task forces and recommends the following:

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

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

Recommendation: Option D

Senate representation for territorial Delegates

Recommendation: Option B

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

Recommendation: Option A

Statehood and independence as status options

Recommendation: Option C

Causing locally-drafted and approved constitutions to replace the Organic Acts for the Virgin Islands and Guam.

Recommendation: Option A



It's a law we can live with.

Congressional representative for the Northern Marianas

Recommendation: Option D

Judicial reform for Guam and the Virgin Islands

Recommendation: Option D

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

Recommendation: We support the recommendation that the Federal agency responsible for territorial affairs undertake economic development analysis and that financial resources be made available.

Issue: 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?

Alternatives to the Present System of Direct Federal Assistance

Recommendation: Option One

Alternatives to the Present Tax Systems in the Territories

Recommendation: Option Two

Issue: 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?

Recommendation: Option II

Issue: 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.

A. Pending Micronesia status determination.

Recommendation: Option A

B. Territories only (Micronesia deferred)

Recommendation: Option 1

C. Territories and Free Association

Recommendation: Option 3

Issue: With the elimination of appointed governors, is there a need for a Federal presence in the territories, beyond that provided by the Federal Comptroller?

Recommendation: Option 1

With respect to the issue concerning the refinement of Federal grant programs some reservation was expressed as to whether or not a territorial Governor should be in the position to approve all grants made to agencies and/or individuals in the territories.

Office of Micronesian Status Negotiations



THE PRESIDENT'S PERSONAL REPRESENTATIVE
FOR MICRONESIAN STATUS NEGOTIATIONS
WASHINGTON, D.C. 20240

December 5, 1979

MEMORANDUM FOR JAMES A. JOSEPH

SUBJECT: Interagency Review on Territories

Your memorandum of December 3 requesting my comments on the Executive Summary and your memorandum to Mr. Eizenstat by December 4 arrived here by mail this morning, December 5. Hence my response is both late and less well organized than I would prefer. I hope that it reaches you in time to receive consideration.

Most of my concern is focussed on Question No. 5, since that is the only one that involves the Trust Territory to any real extent.

Question No. 1.

The thrust of the response prepared by the task force and your memorandum relates to the first sentence of the question. That is entirely appropriate, but I do believe that the second sentence needs a response. I think the task force did it adequately.

The second and third sentences of item No. (1) under Question No. 1, at the foot of page 2 of your memorandum to Eizenstat seriously alarms me. The item is, of course, qualified by subsequent items, but those two sentences, standing alone, could be misinterpreted to suggest a number of things which, I trust, are not intended. Thus, the option of statehood is probably not available to the peoples of the various territories (setting aside Puerto Rico) and I doubt that the President should be committed to support a vote by the people of the Northern Marianas, for instance, in favor of statehood. Likewise with regard to a referendum decision by the people of Guam or the Virgin Islands in favor of immediate, unconditional independence.

If peoples of the territories demonstrate a strong desire for a particular status over a substantial period

of time, that would certainly be something we would want to try to find a way to accommodate. That is a far cry, however, from a statement of principle that all political status options are available and that the President would support whatever the respective peoples decide in a single referendum.

Question No. 5.

A. The Executive Summary.

Although I am not in possession of any of the agency or territorial submissions on this question other than State's, my own and (per my memorandum to you of November 30) those of the Marshall Islands Government (MIG) and the Government of the Federated States of Micronesia (GFSM), I am not in full agreement with the synopses contained in the Executive Summary.

Thus, the statement in the first full paragraph in page 13 that "Micronesian leaders have indicated a strong preference for dealing with State rather than Interior in the post-Trusteeship period" is not in accord with my November 30 memo's characterization of their positions. Unless these were modified in a subsequent communication directly to you, their position is that they would prefer that U.S. relations with the FAS be conducted by an interagency office also having cognizance of the territories, and located in the EOP. If that were to prove unattainable, they would prefer that an interagency office discharging this function be located anywhere but in Interior which, given our alternatives, would mean State.

The various options set forth in the final task force No. 5 paper are not, in my judgment, accurately or clearly summarized in the Executive Summary. For this reason, the positions of OMSN, the MIG and the GFSM (the only entities for which I can speak) are not accurately defined.

The OMSN view is placed under option No. 2, which is accurate, but the description of that option is substantially altered from the last Task Force No. 5 draft on which our choice was based. Given the significance of the changes in the descriptions of the options, I wonder how accurately other agencies' positions are described.

The preference of the Micronesian Governments is set forth above and mine is discussed under the next heading.

B. Your Memorandum.

I do not disagree with any aspect of your memorandum's treatment of the issue, save item (7). I should like to impose upon your patience for a few moments to express my reasons and to ask you to reconsider your recommendation.

My experience with the negotiations over the last two years indicates that the subjects which are likely to arise most frequently in the conduct of this unique relationship with the FAS are, in this approximate order of importance to the U.S., (a) defense and defense-related issues, (b) foreign affairs, (c) economic and aid issues, and (d) matters pertaining to audits and oversight. There is no way in which these 4 topics, each of which requires the attention of individuals and agencies with different expertise, can be disentangled. Thus:

-- Our day-to-day defense interests will be operational in character and can be handled only by experienced military personnel directly tied in to DOD.

-- Our foreign affairs interests will be focussed heavily on insuring that Micronesian foreign affairs activities do not run afoul of our plenary defense authority and responsibilities. Decisions in this area cannot be made without the active participation of DOD personnel. In other words, the large part of our foreign policy interests will not be classical State Department work at all, and will be closely tied in with the defense liaison work that is to be anticipated.

-- The State Department will have a significant role to play in integrating our relations with the FAS with our overall Pacific policy, in foreign policy consultations with the Micronesian Governments, in representing the FAS in most foreign capitols, in aiding their citizens abroad and in working with them on multilateral issues. State will probably therefore be the single most important agency in the conduct of the relationship.

-- Much of the economic content of the relationship will cross agency lines in a crazy-quilt pattern. There will certainly be a development economics component, but AID may be debarred from involving itself because of the unique character of the political relationship. There will almost certainly be a heavy congressional liaison component which could involve a half-dozen different congressional committees. We will be asked to help the Micronesians gain admittance to international organizations dealing with a broad variety of technical issues, and will be asked to help them in dealing with the substance on matters such as radio communications, postal matters, civil aviation, marine resources, coastal zone surveillance and enforcement, health, education, etc.

-- The question of who will have responsibility for audits of Micronesian government expenditures has not yet been determined, but it is not likely to be the State Department.

From the foregoing it will be seen that, whatever the relative stakes of the various agencies dealing with the FAS, the resources of quite a few will be needed to successfully maintain the relationship.

Finally, we should not lose sight of two salient facts:

1. Viewed in the perspective of the past 10 years, our relationship with the Micronesians has been on a straight downward course. The only thing, in my judgment, that has saved the relationship from the most serious strain is the Micronesian expectation of major change growing out of the status negotiations, and the interim steps already taken to transfer authority to local governments. Accordingly, free association has the potential of giving the U.S.-Micronesian relationship a new lease on life. If we manage the relationship with skill and sensitivity it is likely to be rescued and, indeed, very substantially improved. If we are serious in our commitment to achieve this purpose, we must be prepared to give the office in charge of the relationship the tools it will need to deal with all of these multifaceted subjects. No single agency has that capability. The bureaucratic confusion, disarray and uncertainty that can result from a

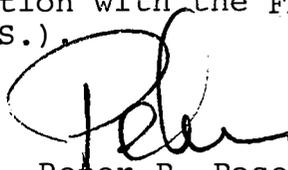
failure to set the new office up in a way that will permit it to deal adequately with the major topics in this unique relationship will produce serious strains in the relationships, particularly in their early days, and lose our chance to put it back on a firm footing.

2. Almost no one in the USG or in Micronesia views free association as necessarily spelling the end of Micronesian political evolution. It is a convenient holding-pattern for terminating the trusteeship, for giving the Micronesians an opportunity to take control of their own affairs and to decide what direction they want their future political, economic and social developments to take. The major options facing the Micronesians will continue to be full independence from the U.S., integration into the United States and a continuation of free association. Each of these alternatives will, I suspect, remain under serious consideration for some time. If we have any serious interest in having the Micronesians continue considering the second or third of these alternatives, management of the relationship exclusively by our foreign affairs agency would not promote that end. On the other hand, management of the relationship by an interagency office located in the EOP (as is OMSN) helps fudge the whole issue of whether the Micronesians are or are not somehow still in the American family. It also gives the Micronesians a sense of their particular importance and the special nature of the relationship and promotes the notion that they enjoy particular advantages in continued association with the United States.

In light of the foregoing I ask you to reconsider the option I have suggested; namely, an interagency office in the EOP or, as a second choice, an interagency office in State.

Question No. 6.

Neither the Executive Summary nor your memorandum mentions the FAS. While I have no problem with that, I think that we should say somewhere that the federal presence in the FAS will be provided for under the Compact of Free Association with the FAS (as will the FAS' presence in the U.S.).



Peter R. Rosenblatt



THE PRESIDENT'S PERSONAL REPRESENTATIVE
FOR MICRONESIAN STATUS NEGOTIATIONS
WASHINGTON, D.C. 20240

November 19, 1979

MEMORANDUM FOR JAMES A. JOSEPH

FROM: Peter R. Rosenblatt

SUBJECT: Comments on Draft Interagency Policy Review
on U. S. Territories and the Trust Territory

Since in their final form only the fifth of the six papers is of central significance in the future political status of the Trust Territory, my comments will be confined to that paper. As indicated in the State Department's paper, I concur with their position, so far as it goes. I do, however, have some additional thoughts which I should like to pass on to you.

1. I consider it essential that the decision on USG organization to deal with the FAS be made now, for the following reasons:

a. Unless Option 1 (Interior) is selected, significant organizational efforts will be required to effect a smooth transfer of functions from Interior/OTA and OMSN to the new office charged with managing the relationships. If we are to adhere to our objective of trusteeship termination in 1981, it will be necessary to transfer those functions well in advance of the termination date, and that requires a decision in the very near future.

b. Wide distribution of the draft papers has inevitably resulted in their coming to the attention of the two organized Micronesian governments. They have come to us in great alarm with one basic message; they do not want Option 1 and have threatened to refuse approval of any compact unless they can be reassured that Option 1 will not be adopted. Obviously, the only way in which we can begin to offer any such reassurance is by agreeing to decide the organizational question now.

c. You are, of course, aware, on the one hand, that few substantive obstacles remain in the path of agreement with the FSM and the Marshalls and, on the other, that high level decisions will be required to surmount the remaining obstacles to a compact initialling. These decisions must be made at approximately the same time as the presidential decision on this policy review. If the President decides the remaining questions on the negotiating situation in such a way as to permit completion of the compact negotiations, at least with the FSM and the Marshalls, then virtually the last reason not to decide the organizational question posed by Paper No. 5 will have disappeared.

2. In light of the Micronesian attitude as stated above and the State Department comments, I believe that the objections cited against Option 1 must be expanded and strengthened. The major emphasis at present is on organizational issues, whereas both State and I have cited major substantive objections.

3. I have serious reservations about the way in which the options have been reorganized in this latest draft of Paper No. 5. In my judgment the most important business to be conducted with the FAS under free association will have to do with foreign affairs and defense matters (the defense aspect is hardly mentioned in the organizational options). There will unquestionably be other kinds of business as well revolving around economic and audit questions. From this alone it seems to me that the variety of business to be conducted with the FAS is such that the interagency format must, at a minimum, receive priority attention among the various alternatives. Yet, of the five alternatives cited, only No. 2 provides an interagency solution to the problem-- and that only if it is adopted for the territories as well. Of the remaining four alternatives, one would give the job to Interior and no less than three would give it to State. On the other hand, the interagency alternative appears twice in connection with the territories. It seems to me that the interagency approach is much more suitable in dealing with the FAS than it would be with the territories.

4. It is obvious that I strongly advocate the interagency approach in dealing with the FAS. Of the two remaining alternatives cited, Interior and State, I believe State to be the more suitable, but should like to point out that even State is not appropriately geared to deal with the multiplicity of issues that will arise in the administration of the U. S. interests in this unique relationship.

An interagency office physically located in and administered by State (one of the possibilities cited under Option 2) would, in my judgment be satisfactory, though not as good as in EOP, but that is cited under "interagency" option. The three "State" options would involve State's attempting to cover all these diverse bases with its own organic personnel, and I doubt their ability to do it. On the other hand, even an interagency office located in Interior would run afoul of the objections to Option 1 cited here and in the State comments.



Peter R. Rosenblatt

cc: Mr. Eric Svendsen, State, IO

Department of Treasury





OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

DEC 10 1979

MEMORANDUM FOR: JEFFREY FARROW
DOMESTIC POLICY STAFF
THE WHITE HOUSE

Subject: Comments on the Memorandum for the President and
the Executive Summary (draft dated November 30)

I think that the latest revisions to the memorandum for the President are excellent. My only suggestion is that you consider deleting option IV-3, which would authorize joint Federal/territorial multi-year planning and the appropriation of implementing funds. This is an issue of financial assistance (question #3) rather than of grant coordination (question #4). It would be dealt with either through the Economic Development Agency or the territorial development bank.

I have a few comments on the Executive Summary, dated November 30:

- p. 5 -- The last paragraph recommends that the lead agency should undertake an analysis of Federal legal constraints on economic development. This issue should be integrated with the proposal on page 4 for a Commission on the Application of Federal Laws.
- p. 6 -- The third point made at the top of this page is inconsistent with the proposal for a development bank or expansion of EDA on page 8.
- We would like to add to the paragraph beginning "The Department of Commerce..." the following sentence:
"The Treasury Department favors assigning responsibility for economic development to the Economic Development Administration."
- The word "citizen" in the last paragraph should read "individual." I suggest inserting after that sentence the following: "Since the territories do

not pay Federal income taxes, Federal assistance represents grants with no offsetting revenues collected."

pp. 7, 8, 10

-- Please see comments on attached pages.

Thomas Horst *TH*
Deputy Director
Office of International Tax Affairs

Attachment

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

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

Due to their relatively more developed economies, Guam and the Virgin Islands have normally not relied on Federal direct appropriations through Interior to support basic governmental operations. ~~Instead the support usually took the form of 100 percent Federally financed capital improvements or Federally guaranteed borrowing for construction projects.~~ *Since 1975, however, Guam & the Virgin Islands have requested & received over \$120 million in ad hoc*

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

Federal Assistance Options

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

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

*Virgin Islands - since 1975 - in favor of revenues in the territories
Guam - as a percentage of gross territorial product - financed by the Federal, apparently because of poor tax base*

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

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

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

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

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

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

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

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

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

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

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

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

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

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



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

NOV 27 1979

MEMORANDUM TO: THE HONORABLE JAMES A. JOSEPH
UNDER SECRETARY
DEPARTMENT OF INTERIOR

OFFICE OF THE ASSISTANT SECRETARY
EXECUTIVE SECRETARIAT
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DEPARTMENT OF INTERIOR

3048

Subject: Territorial Task Force Proposals

Income Tax Options

The Treasury believes that the present tax systems are working poorly and that any one of the three options in Task Force Report #3 would be better than the status quo. Among those three proposals, the Treasury strongly prefers either Federal administration of the Internal Revenue Code (Option 1) or complete autonomy (Option 3) to fixing up the present systems (Option 2). The Federal Internal Revenue Code is too complex and the territorial tax administrations too unsophisticated and understaffed to administer the Internal Revenue Code properly. To encourage the territories to continue to administer fixed-up mirror systems, even with substantial I.R.S. assistance, would only prolong the current agony. As long as the real expertise rests with the Internal Revenue Service, but the operating responsibility remains with the territorial finance departments, the "mirror" system would continue to represent the worst, rather than the best, of two worlds.

We believe that the choice between Federal administration of the Internal Revenue Code (Option 1) and complete autonomy (Option 3) should be keyed to the future status of the territories. If the territories are to retain their close economic and political ties to the Federal government, then territorial residents should, we believe, be subject to Federal income taxes administered by the I.R.S. (Option 1), even if the tax revenues are "covered over" into the territorial treasuries. Allowing territorial residents to pay substantially lower taxes than stateside U.S. citizens with comparable incomes -- which is the de facto consequence of the present poor administration and the de jure possibility under complete autonomy (Option 3) -- seems inconsistent with increasing territorial tax revenues and with maintaining tax equity among all U.S. citizens.

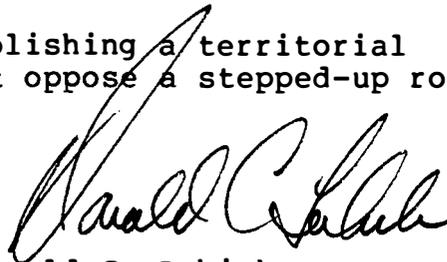
On the other hand, if the historical ties between the territorial and Federal governments were to be loosened, then the territories should be encouraged to develop and effectively administer their own territorial income taxes (Option 3). In this latter event, we believe that the territories should drastically simplify and restructure their income tax systems. Although such tax reform and simplification are not panaceas for the territories' current financial situation, they are necessary first steps in that direction.

Other Options

The Treasury is strongly opposed to granting territorial residents full participation in all Federal assistance programs, including SSI. Such a proposal is wholly inconsistent with covering income tax collections over into the territorial treasuries.

The Treasury is opposed to the matching fund. We believe that greater territorial tax effort should be encouraged by increasing Federal oversight of territorial finances. The matching fund would, we believe, encourage the growth of the territorial governments at the expense of private economic development.

The Treasury supports establishing a territorial development bank, but would not oppose a stepped-up role for EDA as an alternative.



Donald C. Lubick
Assistant Secretary
(Tax Policy)



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

DEC 07 1979

MEMORANDUM FOR: JEFFREY FARROW
DOMESTIC POLICY STAFF
THE WHITE HOUSE

Subject: Policy Review Decision Memorandum

The Treasury's position on the options set forth in the December 5 memorandum from Under Secretary Joseph are as follows:

Option I-1 (Statement of Principles)	No position
Option I-2 (Change of Status)	No position
Option I-3 (Constitutional Amendment)	No position
Option I-4 (Local Constitutions)	No position
Option I-5 (Application of Federal Laws)	Approve
Option I-6 (Related Measures)	No position
Option II-1 (Development Bank)	Approve
Option II-2 (Lead Agency Private Sector Development)	Approve (b) - EDA
Option II-3 (Federal Constraints)	Approve
Option III-1 (Federal Funding Policy)	Approve
Option III-2 (FY 1981 Implementation)	Approve (a), (b) and (c)
Option III-3 (Matching Fund)	Disapprove
Option III-4 (Further Study)	Disapprove

Option III-5 (Income Taxation)	
(a) (Federal IRC)	Approve
(b) (Fix-up "mirrors")	Disapprove
(c) (Drastic Simplification)	Second Choice to (a)
Option IV-1 (Strengthen A-95)	No position
Option IV-2 (Multi-year development plans)	Approve
Option IV-3 (Follow-up to (2))	Wait and see
Option IV-4 (Block grants)	Approve
Option IV-5 (Modify E #12149)	No position
Option V-1 (Lead agency - territorial development)	Disapprove, prefer EDA
Option V-2 (Restructure Interior)	No position
Option V-3 (White House Staff)	No position
Option V-4 (Puerto Rico Liaison)	No position
Option V-5 (Northern Marianas)	No position
Option V-6 (Micronesia)	No position
Option V-7 (State Department responsibility for Micronesia)	No position
Option VI-1 (Federal Comptrollers' Role)	Approve (a)
Option VI-2 (Technical Support for the Territories)	No position


Donald C. Lubick
Assistant Secretary
(Tax Policy)

Office of Management and Budget





EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF MANAGEMENT AND BUDGET
 WASHINGTON, D.C. 20503

November 30, 1979

MEMORANDUM TO: JIM JOSEPH
 UNDER SECRETARY
 DEPARTMENT OF THE INTERIOR

FROM: CURT HESSLER *Curt Hessler*
 ASSOCIATE DIRECTOR

SUBJECT: OMB Response to the Interagency Report on the Territories

TR
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 DEPT. OF INTERIOR
 EXECUTIVE SECRETARY
 DEC 5 12 05 PM '79

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This response supplements my November 15 memorandum on cost-sharing and other options. OMB (including its Defense, State, HEW, EDA, and Intergovernmental Affairs divisions) has now completed its review of the material in the draft final report. Overall, we conclude that several options concerning financing mechanisms (such as matching local tax increases, block grants in lieu of all or certain categorical programs, and IRS administration of territorial income tax systems) are meritorious concepts to which we have no objection in principle at this time, but which we cannot fully endorse until further, detailed staff work is done to arrive at more precise cost estimates, a better understanding of the administrative feasibility of the proposals (both from the Federal and territorial perspectives) and, finally, the development of specific administrative or legislative proposals that would be subject to the standard OMB interagency clearance process.

Specifically, OMB recommends that, due to strong interagency disagreement, the President be asked to make decisions regarding:

- ° the organizational alternatives for USG management of the territories;
- ° cost-sharing, a ceiling on operational funding, and waivers of matching fund requirements;
- ° application of the Internal Revenue Code directly to the territories and IRS administration of the code; and
- ° greater Federal oversight of territorial budgets and finances to help resolve the problem of recurring deficits.

For the local tax matching, block grants, and territorial bank options, we recommend that the President only be asked to endorse a course of action--that is, concurrence that these concepts are acceptable in principle and directives to the concerned agencies for the in-depth analysis required to develop and submit, by a given date, administrative and/or legislative proposals for final interagency clearance.

The only major option contained in the draft report which OMB strongly opposes and believes should not be put before the President at this time is the extension of certain Federal entitlement programs (such as SSI) to all the territories on the same basis as the States now participate in these programs. We oppose this option, not because of the increased costs to the Federal Government, but because of the lack of analysis, as far as we know, concerning the social and economic impacts on the territories of such an extension, as well as the administrative capability of the territories and/or the Federal Government to administer the programs. It is our current view that a wholesale extension may be fundamentally incompatible with greater economic development in the territories.

For the remaining options in the report, we believe no Presidential decision is necessary either because of an overwhelming interagency consensus that a specific option lacks merit or feasibility, or because an option is simply not important enough to bring to the President's attention other than in a summary of actions agreed to at the sub-presidential level.

Finally, OMB believes that the President should be asked to make a clear statement defining future Federal funding policies for the territories (for example, a focus on capital improvement and economic development, greater territorial contribution over time to local programs and projects and no Federal elimination of operational deficits). OMB also believes the President should be informed that, with the possible exception of greater Federal oversight of territorial finances and IRS administration of territorial income tax systems that would presumably increase local revenues, the study and report fail to formulate a short-run strategy to overcome the significant problem of recurring budgetary deficits in Guam and the Virgin Islands that, in the extreme, could lead to a termination of essential public services in those territories and a call for a costly Federal bail-out or takeover. OMB plans to pursue with Interior what specific steps the territories and the Department have taken, or plan to take, to eliminate deficits in the near term and place territorial financing back on a sound basis.

Attachment A summarizes, by task force report, OMB positions on each of the options. Attachment B contains very preliminary OMB estimates of the expected funding and personnel levels associated with the major options as currently described.

Attachments

cc: Jim Frey, LRD

Summary of OMB Positions on Territorial Options
Contained in the Draft Final Report

Task Force #1:

1. Constitutional amendments for full Congressional representation and voting in national elections.
Take no position due to the unlikelihood of either amendment passing. (Option B)
2. Senate representation for territorial delegates.
Take no action. (Option B)
3. Negotiations on a U.S. territory's future political status.
Express unwillingness to engage in such talks as if the territory were an international entity. (Option A)
4. Statehood and independence as status options.
Make explicit that these are viable options only when economic realities make statehood feasible, or when economic and strategic realities make independence feasible. (Option B)
5. Causing locally-drafted and approved constitutions to replace the Organic Acts for Guam and the Virgin Islands.
Make clear that the Executive Branch supports the local constitution drafting efforts, and that these efforts can continue without further Federal legislative authority. (Option B)
6. Congressional representative for the Northern Marianas.
Defer decision until the trusteeship ends. (Option D)
7. Judicial Reform for Guam and the Virgin Islands.
Take no action; OMB defers to Justice in this matter. (Option B)
8. Identical treatment in Federal grants-in-aid programs to territorial residents.
Strong opposition to presenting this option to the President at this time due to the lack of even rudimentary analysis or estimates on its impact on territorial society and work incentives, as well as its administrative feasibility. Also, the title of the option is somewhat a misnomer because what is partly called for are direct Federal payments (not grants-in-aid) to individuals (i.e., SSI).

9. Commissions on the Applications of Federal Laws to the Territories.

No objection if a single commission were formed--pending submission of a specific proposal.

Task Force #2:

1. Analysis by the lead Federal agency for the territories of the Constraints on Territorial Economic Development Imposed by Federal Law.

No objection pending a specific proposal, but believe the mandate of the original study included this issue.

Task Force #3:

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

Support, in concept, an initial 50-percent match of local tax increases over a specified base, with a sliding percentage match over time to achieve greater territorial independence from Federal funding.

2. Establish a territorial development bank.

Oppose at this time. Propose as an alternative and on a test basis creation of a special unit within EDA focusing exclusively on territorial capital improvement projects and economic development. The proposed bank would seem to duplicate unnecessarily EDA programs, staffing, and funding. Capital improvements funded by EDA should be on the same 90/10 cost-sharing basis as proposed for the Interior-funded projects. Ultimately, although this certainly will not occur in the immediate future, we can foresee the territories receiving Federal operational funding through one or more block grants and the covering-over of designated tax collections, and Federal CIP support through EDA (or possibly a territorial development bank if EDA proved ineffective).

3. Provide a single block grant to each territory, based on a territory's funding level in 1979 from Federal grants-in-aid.

Support, in principle, the block grant concept (with possible adjustments for inflation and other factors in the out-years). However, believe that a block grant should be authorized for only one department on a test basis to analyze its effects (for example, on delivery of services to territorial residents and on the territorial administrative capability to absorb and manage such relatively unstructured funding.

4. Increase Federal oversight over territorial finances.

Support, in concept, on a temporary basis until the deficit problems are resolved, with staffing as much as possible coming from the existing personnel base of the U.S. Comptrollers. OMB understands that, under this concept, 1) territorial eligibility for certain types of Federal funding (i.e., matching or block grants) would be conditioned on compliance with the balanced budget requirement; and 2) increased oversight would extend to the funding and programs for CIP O&M.

5. Income tax system alternatives.

Support, in concept, application of the U.S. Internal Revenue Code directly to the territories and have IRS administer it on a cost-reimbursable basis. (Option 1) However, modify the proposal to establish a five-year sunset provision for evaluating whether tax collections are sufficiently higher to compensate for loss of both territorial autonomy over their income tax systems and of territorially-imposed economic development incentives. As with the other financing concepts, OMB reserves the right to oppose or modify the legislative proposal developed from this option, and will require better estimates from Treasury on administrative costs and personnel requirements.

Task Force #4:

1. Issue a new Executive Order strengthening Federal and territorial coordination of categorical grant programs in the territories.
(Option 1)

No objection, pending a specific proposal.

2. Propose legislation to authorize multi-year economic development planning by the territories and Federal approval of such planning.
(Option 2)

No objection, pending a specific proposal.

Task Force #5:

1. Support Option B--proceed with organizational arrangements assuming completion of the status talks.
2. Support Option 3--Interior for the territories; State for the FAS.

Task Force #6:

1. Support Option 4 (take no action).

Preliminary Estimates of Expected Funding and
Personnel Levels Associated with the Major Options

<u>Options</u>	<u>FTP</u>	<u>BA</u> (\$ in millions)			
		<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
100% match of local tax <u>revenue</u>	---	59	69	81	94
50% match of local tax <u>increases</u>	---	6	12	17	24
Territorial Development Bank (full capitalization in the first year)	20-30	50	--	--	--
Territorial Development Bank (phased-in start)	20-30	5	10	10	10
EDA as lead agency for terri- torial economic development	6-8	50	50	50	50
Block grant (all agencies; 5% annual adjustment)*	---	112	118	124	130
Block grant (HEW only; 5% an- nual adjustment)*	---	45	47	50	52
IRS administration of income tax systems in the terri- tories**	200-300	8	9	10	11
Office of Federal Coordination	20	1.4	1.4	1.5	1.5
Secretary's Policy Representa- tives	6	.2	.2	.2	.2
Commission to Study Impact of Federal Laws on the Terri- ories	10-20	1.0	1.0	1.1	1.1

* Theoretically, a non-add to the Federal budget since cash is merely substituted for programs.

** Performed on a cost-reimbursable basis.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

November 15, 1979

MEMORANDUM TO: JIM JOSEPH
UNDER SECRETARY
DEPARTMENT OF THE INTERIOR

FROM: CURT HESSLER *Curt Hessler*
ASSOCIATE DIRECTOR

SUBJECT: Funding for the U.S. Territories

This is an interim response to your request for comments on the interagency study of issues involving the U.S. territories. Though additional comments will be forwarded shortly, these specific recommendations are being sent now to allow for additional consultations with territorial governments, to the extent you believe necessary, as they involve options not included in the earlier consultation.

Specifically, we request that options be included in the Interior report to the Domestic Policy staff that provide as follows:

- 90/10 cost-sharing applied to territorial capital improvement projects funded by Interior;
- setting limits on the maximum operational support provided annually to the territories by Interior (the 1980 base plus a 3-percent adjustment for inflation--this applies only to American Samoa now, but might apply to other territories in the future); and
- waivers of categorical grant matching fund requirements only for those programs which the Federal Government specifically wants to promote in the territories.

Copies of the draft options are attached and were given to DPS staff (Jeff Farrow) on November 9.

The primary reasons for considering such options are (1) they emphasize that with increasing self-government comes the responsibility to be more self-supporting; and (2) requests for outside assistance in funding facility construction in the territories must be very carefully viewed and prioritized--as they will be if the territorial governments must allocate some of their own resources to each project. Finally, these options provide a necessary incentive to increase local tax efforts and remove, in part, disincentives to prudent planning and spending.

Additional OMB comments on the draft final report will be sent to you by November 19.

Attachment

cc: Stu Eizenstat, Assistant to the President for Domestic Policy
Larry Meierotto, Assistant Secretary, Department of the Interior

November 9, 1979

OPTION FIVE - 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.

The 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 SIX - Waive categorical grant matching requirements only for specific activities, such as comprehensive planning, which 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.

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

Cons.

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

Department of Health, Education and Welfare





THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

DEC 10 1979

Mr. Jeffrey Farrow
Domestic Policy Staff
The White House
Washington, D. C. 20500

Dear Mr. Farrow:

Ms. Pat Anderson of the Intergovernmental Staff discussed with you by phone our concerns with the latest revision of the recommendations to the President resulting from the Interagency Policy Review.

I would like to reiterate that we indicated our concerns about this issue in a memo to the Department of Interior dated May 23, 1979, which stated:

"On the discussion of future Federal organization to manage the territorial relationship (Question 6), the report must recognize that HEW and other Federal agencies are empowered by statute with certain program operating authorities and responsibilities. Such laws would have to be modified to remove/redelegate such program operating authority to a Territorial umbrella agency within the Federal government. Furthermore, the limited expertise of such an umbrella agency to administer complex Federal government-wide programs that they do not normally administer, can only reduce the usefulness of the programs to the territories. Certainly, if the territories become more self-sufficient and move toward more "state-like" treatment, it would be expected that such a specialized organization to administer Federal government-wide programs would be less necessary."

We received the draft decision memo from Interior on December 6. Your revision was received on December 7, 1979. Recommendation number five under Question four transfers territorial functions now scattered throughout the regional offices and Regional Councils to Federal agencies in Washington. The recommendation as it stands, has the appearance of removing all territorial liaison and staffing relations from the Regions to Central agencies. The latest draft on Question four from Interior,

dated 10/30/79 offers this recommendation along with several others under Option I as a focus for improving grant coordination and information concerning grants to the territories. The issues of monitoring, providing technical assistance once grants are awarded and so forth were not dealt with.

We have discussed your modification with our Principal Regional Officials in Regions II and IX. Both felt strongly that at a minimum this issue should have further specific discussion with the territories.

Specific concerns raised included:

- (1) Territories in the Pacific would have only a two-hour period when they could talk to Washington D.C. Staff.
- (2) Both Regional PROs felt that the territories have indicated positive support for the Regional role.
- (3) Staff from Region II, such as the audit staff, Social Security Area Directors, and HEW engineers are stationed in Puerto Rico where they service both the Virgin Islands and Puerto Rico.

We appreciate the opportunity to comment on the recommendations.

Sincerely,



Ron Copeland



THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

DEC 10 1979

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OFFICE OF THE UNDER SECRETARY
OF HEALTH, EDUCATION, AND WELFARE
DEPARTMENT OF THE INTERIOR
09907

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

Dear Mr. Joseph:

We have reviewed the draft material, dated November 6, 1979, relating to recommendations from the Interagency Task Force on Territories. We are concerned that little attention has been paid to our previous comments on the draft. In particular, there are at least three issues that would require additional information and analysis before you finalize this draft.

- I. Grants-in-aid, question 1, page 30. You have moved this issue from question 4, where it was placed in the earlier draft, to question 1.. The issue in the earlier draft appeared out of context and with insufficient background information. The placement of the issue under question 1 does little to improve the readers' understanding of this substantive issue.

You entitle this issue "grants-in-aid" when in fact you are only dealing with certain grants.

The specific grants-in-aid programs you propose with estimated costs for each territory should be identified. The statement that extending program benefits to territorial residents would result in additional costs to the Federal Treasury is inadequate without indication of the extent of such costs. (It should be noted that the extension of full SSI to Puerto Rico alone is estimated to cost \$386,000,000 for fiscal year 1981.)

The issue is inadequately covered for the following reasons:

- o It does not review cultural, political, and economic factors which affect the territories situation and may argue in favor of the appropriateness of "different" treatment.
- o You identify the fact that residents of the Northern Mariana Islands are eligible for many of the Federal benefits that the other territorial residents do not receive. You do not note that the differing treatment between residents of the Northern Marianas and residents of the other territories may be justified as reflecting their differing relationship to the United States. Extension

of public assistance programs to the Northern Marianas was part of a settlement in exchange for the Islands' agreement to become a U.S. territory.

- o The emphasis throughout the six questions posed on the territories is for an increase in private enterprise and a reduction of the Federal contribution. This theme is countered in this proposal, in particular for two reasons. First, you do not identify the level of effort required by the territories to administer and effectively manage these additional programs. Two, the question of whether AFDC, SSI and Medicaid would serve as a disincentive to private employment should be addressed.
- o You identify, on page 31, the resistance of the Senate to pass such funding measures. The background for this reluctance should be identified as congressional intent to provide less Federal aid to territories than the States. A basis for this differential treatment may rest in the fact that these major programs are funded (in whole or in part) from Federal dollars derived from general revenues. Current taxation policy exempts the territories from contributing to the general revenues.

Since the issue of providing these HEW grants-in-aid programs is quite complex, we believe that greater attention to the issue pros and cons should be incorporated or the subject should be left out of this draft and addressed separately by HEW.

- II. A second major issue has to do with the waiver of matching requirements identified in option I, question 4. The issue urges removal of matching requirements for HUD and EDA grants. It does not address HEW grants. This leaves the waiver issue for consolidated grants (P.L. 95-134) up to the discretion of the Secretary of HEW. Your letter of April 23, 1979, requested no granting of waivers until the Task Force completed its task. Does this mean you now leave the issue to HEW?
- III. Finally, question 3 continues to lump together consideration of grants and ad hoc appropriations. They are quite different. Most importantly, the bulk of HEW grants are mandatory/formula grants which are statutorily fixed, continuous, and quite predictable.

Eliminating HEW grants programs in favor of matching local tax collections may lead to underfunding of some important programs such as elementary education or health care which Congress has recognized as needing support. Such national concerns that HEW programs address are present in the territories.

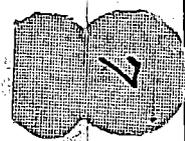
We would also note that the pros on block grants are weak. HEW's current formula grants do most anything that block grants would achieve. There are no vagaries to the HEW grant application process.

We appreciate the opportunity to comment.

Sincerely,


Ron Copeland
Special Assistant to the Secretary

Department of Commerce





UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

DEC 11 1979

MEMORANDUM TO: Jeffrey Farrow
Domestic Policy Staff

FROM: Robert T. Hall 
Assistant Secretary for
Economic Development

SUBJECT: Comments on Territorial Policy Decision
Memorandum

I regret the delay in getting EDA's comments to you on the decision memorandum as I understand the time constraints within which you are operating. Unfortunately, Interior's decision memorandum arrived concurrently with your own and while I recognized the need to respond expeditiously to yours, I did not feel a simple checklist response to be adequate. On the one hand, many of the questions relate to issues beyond the expertise and concern of EDA and on the other, there are questions of critical concern to EDA on which I would like to comment more fully. With regard to the latter my comments are as follows:

1. Organizational and procedural arrangements for handling territorial policy and programs.

The unique status and problems of the territories warrant the perpetuation and strengthening of a clearly identifiable organizational responsibility for development of territorial policy and coordination of territorial development activities. I support elevating this responsibility to a sub-cabinet office within Interior. However, I do not support giving such an office direct responsibility for administering programs relating to discrete functional development areas. Consistent with Administration policy, responsibility for such program areas should remain with those agencies with lead responsibility for them. In the case of economic development, this would be EDA.

I agree with the proposal for requiring and assisting the formulation of comprehensive multi-year territorial development plans and with procedures for coordinating the application of Federal resources to implement such plans provided that they are developed within the context of clearly articulated Federal policy and fiscal guidance. Otherwise, the resulting plans will be no more than a territorial shopping list. Development of this policy



and fiscal framework should be the responsibility of the organization for overall territorial policy and program coordination and responsibility for guiding the development of the functional components should be delegated to the various lead agencies in these areas.

2. Territorial Development Bank.

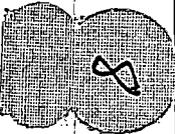
I strongly oppose the bank option. As you are aware, the Administration early on supported the establishment of a National Development Bank. As a result of adverse political reaction to this proposal, the Administration incorporated the key elements of the Bank proposal into legislation for the expansion of EDA. Under this proposed legislation, passage of which is anticipated shortly, EDA will have all the authorities and development tools that would be elements in a territorial bank proposal. In order to be responsive to the needs of the territories for private sector incentives, I am prepared to establish annual development finance funding targets, contingent upon the formulation of realistic territorial development plans, which specifically identify private sector financing opportunities.

3. Revamping the Territorial Taxation System.

The evidence available clearly suggests that the present taxation system is a disincentive to effective territorial fiscal management and to private sector investment and expansion. However, I would defer to Treasury as to the appropriate solution to the problem, except that I would not support either a bank or a block grant option. The latter may be appropriate for certain programs in the social services area but not for economic development, where flexibility is needed to respond to viable opportunities as they arise.

cc: James A. Joseph

Department of Interior





United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

December 5, 1979

MEMORANDUM

TO: Assistant to the President for Domestic Affairs and Policy

FROM: Under Secretary

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

Early in 1979, you asked me to direct an inquiry by the appropriate Federal agencies into six questions which involve Federal policy affecting the Trust Territory of the Pacific Islands and U.S. territories. That interagency review is now complete, and I am pleased to submit its results and my own recommendations on specific policy questions.

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

-- Individuals in some of the territories have lately displayed a new interest in modifying their political relationship to the United States;

-- We are increasingly concerned about inadequate economic development in the territories, where greater growth has been experienced in the public sector than in the private sector;

-- Increased deficits have arisen. Both Guam and the Virgin Islands are verging on financial crisis. The need for a more rational system of Federal financial assistance, including Federal grants-in aid, is evident;

-- Territorial income tax revenues, as a percentage of gross territorial product, have dropped substantially--apparently because of poor administration by the territorial governments--and

-- The government and administration of the territories have changed considerably in recent years. It is timely, then, to consider what organizational arrangements within the Executive Branch are desirable for the territories and the Trust Territory and whether changes are called for in the Federal presence there.

The President emphasized his personal concerns about U.S. territorial policy in November 1978 when he vetoed H.R. 13719, a measure to authorize a special appropriation for Guam and the Virgin Islands. He said at the time that the current system of providing Federal aid is costly to the Federal Government and "does not sufficiently encourage responsible financial management." He concluded that "we can no longer afford a piecemeal approach to the growing revenue problems of the territories."

The six questions presented for the interagency review address the concerns the President expressed and other issues as well. The responses of the six task forces, each of which considered one question, are attached. The task force reports were sent to interested Federal agencies, to the governors and legislative leaders of the territories and to the High Commissioner for comment. Their responses are also attached. I enclose for your convenience an Executive Summary which sets forth the six questions, summarizes the task force responses and recommendations and the views of our correspondents.

Below is a series of recommendations which I ask be sent forward to the President for his consideration. While based on the Executive Summary, the recommendations do not contain all its recommendations or basic responses. It is our judgement that some of the recommendations are not sufficiently important for Presidential attention. Others demand further study before final decisions may be made.

I suggest that a public statement be prepared and issued reflecting the President's decisions. I will be glad to help in the preparation of that statement and of any legislation or other formal documents necessary to implement the President's conclusions.

The recommendations as framed here depart in some particulars from those contained in the task force reports. I am now seeking and expect to have shortly the precise positions of the interested agencies on each recommendation. I shall transmit those positions to you as soon as possible.

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

(1) The President should state that the United States remains committed to the fundamental policy of encouraging the political, economic, and social development of the territories, and to the principle of self-determination for the people of the territories. As a consequence, all political status options are available to the people of the territories. The President would support any decision with respect to status reached by the people of the territories in a free and open referendum.

Approve _____

Disapprove _____

(2) Any territory whose people aspire to modify materially their current political status should be encouraged to express those aspirations, through their elected political leaders, to the head of the agency charged with territorial responsibilities. The head of that agency should, in turn, conduct talks with pertinent territorial leaders regarding their political aspirations and economic potential. In so doing, he should assemble such representatives as he may require from other Federal agencies of the Executive Branch. Following such talks, the head of the agency should, in concert with the leaders of the territory, submit a full report to the Congress, along with any proposals needed to effect the changes that he recommends.

Approve _____ Disapprove _____

(3) Given the small populations of the existing territories, there is little practical likelihood of achieving amendments to the United States Constitution that would permit U.S. citizen residents of the territories to participate in national elections, or that would permit voting representation in the Congress from the territories. Nevertheless, it is important that the President recognize the correctness in principle of according these rights to citizens in the territories. The President should take the initiative in proposing a Constitutional amendment to permit citizen residents of the territories to participate in national elections, according to them collectively one electoral vote. The President should take no initiative with respect to an amendment providing voting representation in the Congress for the territories. He should, however, express a willingness to support such an amendment if it is advanced in the Congress, so long as the territories are not accorded the level of participation they would receive if they were States of the Union.

Approve _____ Disapprove _____

(4) Even though locally-drafted constitutions have been defeated in recent months in Guam and the Virgin Islands, those territories should be encouraged to continue in the constitution drafting process under existing enabling legislation, so that in due course such local instruments can replace the organic acts of the U.S. Congress which now constitute the framework for these territorial governments.

Approve _____ Disapprove _____

(5) The President should establish a single Commission to examine the application of Federal laws, on a statute-by-statute basis, to each of the territories (other than the Northern Marianas, for whom a Federal Laws Commission will shortly be appointed, as required by the Northern Marianas Covenant). Representatives of each territory should join Federal representatives in deciding which Federal laws now applicable to that territory should be made inapplicable, and which laws now inapplicable should be made applicable. Recommendations, in the form of proposed legislation to effect the changes recommended, should be presented to the President, and thereafter be submitted to the Congress.

Approve _____ Disapprove _____

(6) The head of the agency charged with territorial affairs will, on behalf of the Administration, consider and make further recommendations on other items in the first paper which are not dealt with above. Among them are Senate representation for the territories, representation in the Congress for the Northern Marianas and court reform in Guam and the Virgin Islands.

Approve _____ Disapprove _____

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

(1) The President should direct the head of the lead agency for territorial affairs to develop legislation to establish a territorial development bank to encourage private sector development. The role of the bank should be to tailor financing and technical assistance packages to the particular needs and opportunities in each of the territories; assuming the lead function in promoting private sector growth and coordinating development assistance from other Federal agencies as well as the private nonprofit sector. It should be developed as a private non-profit corporation with the United States providing the bank with the majority of its equity (from 50 to 100 million dollars in initial capital). The head of the lead agency will also make specific recommendations regarding techniques for funding the bank's annual operating costs.

The major goal of the bank should be to develop effective ways of using risk-sharing and indirect financing techniques to stimulate the flow of private capital and credit into business and economic development ventures in the U.S. territories.

Approve _____ Disapprove _____

(2) While there is no disagreement within the Task Force that the Federal Government should take additional steps to foster the growth of the private sector economy in the territories, there is disagreement regarding which Federal agency should have primary responsibility for promoting long-term territorial economic development. The options are whether:

- (a) The Federal agency given the lead responsibility for territorial affairs should have this responsibility, in cooperation with territorial governments, and call upon the resources of EDA for strategy planning and implementation, and, assistance from other pertinent Federal agencies ; or
- (b) The President should designate EDA as the lead agency for territorial economic development, with the creation of a special unit within EDA responsible for territorial planning and funding.

Approve (a) _____, or

(b) _____

(3) The agency selected in (2) above should undertake an analysis of Federal constraints on economic development in the territories. Financial resources and employment authority should be made available for special studies, if needed, and for the implementation of growth strategies. Other Federal agencies with programs affecting economic growth in the territories should be directed to assist the lead agency in these efforts.

Approve _____

Disapprove _____

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

During the 1970's the public sector in the territories has grown rapidly, while the share of employment in the private sector has declined. The growth in the territorial governments has been matched by a substantial increase in Federal assistance, including special or ad hoc assistance, and growing deficits in the territorial government budgets. Since 1973, territorial income tax revenues in the Virgin Islands and Guam as a percentage of gross territorial product, have dropped by one third, apparently because of poor administration. The real problem is reconciling three separate objectives: promoting fiscal self-reliance, encouraging economic growth and development and enhancing the standard of living in the territories.

(1) Despite the disparate Federal and territorial views on alternative means of Federal assistance to the territories, the President should issue an explicit statement on Federal policy for funding the territories in the future. The statement should indicate a focus on capital improvement projects, economic development and greater territorial contributions over time to funding local programs and capital improvements.

Approve _____ Disapprove _____

(2) To implement this policy in FY 1981 and establish needed incentives for prudent territorial planning and spending, the President should approve (a) the phasing in of a 90/10 Federal-territorial cost-sharing ratio by 1982 for territorial capital improvements funded by the Department of the Interior; (b) a specific ceiling set on operational funding provided by Interior to territories set at the previous year's base, plus a 3-percent inflation adjustment; and (c) selective waivers of territorial matching fund requirements only for those Federal categorical programs which the Federal Government especially wants to promote in the territories.

(a) Approve _____ Disapprove _____

(b) Approve _____ Disapprove _____

(c) Approve _____ Disapprove _____

(3) To provide appropriate assistance and oversight for helping territories eliminate chronic deficits, the President should approve (a) the immediate development of a legislative proposal to be included in the FY 1981 Budget authorizing a Federal match of increased territorial tax collections over a given base and (b) increased Federal oversight of territorial budgets and financing on a temporary basis until the deficit problems are solved.

Approve _____

Disapprove _____

(4) In addition to, or as an alternative to (1),(2), and (3) immediately above, and because of the disparate views expressed from the territories and from Federal agencies concerning alternative means of Federal assistance to the territories -- matching territorial tax collections, cost sharing, waiving matching fund requirements -- and the undetermined fiscal implications of each of them, the President should recognize that each has merit. He should charge the head of the agency responsible for the territories with exploring these choices further with territorial leaders and pertinent Federal agencies, and with submitting proposed legislation to the Congress to implement his conclusions.

Approve _____

Disapprove _____

(5) The income tax situation has deteriorated to the point where remedial action is imperative. Three options are proposed: (a) extending the Internal Revenue Code with IRS administration to the territories; (b) fixing up the technical deficiencies in the present systems and having the IRS increase its administrative assistance to the territorial finance departments; (c) authorizing and providing assistance to the territories to drastically simplify, reform and administer the territorial income tax system. Treasury, OMB and Interior prefer Option (a) because they believe it offers the only realistic hope of solving the problems with the existing income tax system. Guam and the Virgin Islands prefer Option (b) on the grounds that the present system can be made to work if technical assistance is increased and that it conforms better to the policy of territorial self-government. American Samoa and the Northern Marianas prefer Option (c) (substantial reform), and the Treasury believes that Option (c) is preferable to Option (b).

Option (a) _____ Extend Federal Internal Revenue Code to the territories, under IRS administration.

Option (b) _____ Fix up present systems and provide technical assistance.

Option (c) _____ Authorize and assist in drastic simplification, reform, and administration.

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

In order to improve the effectiveness of Federal grant programs in the territories:

(1) A Presidential Memorandum or Executive Order should be issued that would encourage territorial Chief Executives to strengthen A-95 or other territorial grant coordinating units and, second, direct Federal grant agencies to keep the lead agency for territorial affairs currently informed of grant applications, approvals, and disapprovals, and with financial data related to the grants. The latter would not authorize approval authority at the Federal level other than that vested by law in each grantor agency.

Approve _____ Disapprove _____

(2) The Presidential Memorandum or Executive Order should encourage the territories to develop comprehensive multi-year development plans and annual investment plans as a basis for grant coordination and for the evaluation of requests for project or program assistance.

Approve _____ Disapprove _____

(3) Based upon experience with multi-year development planning under a Presidential Memorandum or Executive Order, legislation, if then determined to be desirable, should be drafted authorizing joint-Federal/territorial multi-year planning with Federal planning grants; the authorization of Federal approval of such multi-year plans; and the appropriation of implementing funds, if required.

Approved _____ Disapprove _____

(4) The head of the agency responsible for territorial affairs should, in cooperation with other Federal agencies, and following consultation with territorial leaders, develop a test proposal to provide block grants on a pilot basis in lieu of categorical grants-in-aid.

Approve _____ Disapprove _____

(5) The President should modify Executive Order No. 12149 so as to assign to Federal agencies in Washington territorial functions now scattered in several regional offices and Regional Councils.

Approve _____ Disapprove _____

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

The President should state that the continued development of territorial governments with elected officials should be accompanied by changes in the nature of the Executive Branch's responsibility to the U.S. territories. Rather than direct administration or executive oversight--highly important functions in the past--the primary role of the Federal lead agency should be to foster the self-reliance of the territories. The emphasis should be placed on developing territorial economies, facilitating the ability of territorial governments to interact with Federal agencies and the United States Congress and enhancing private and public sector managerial and technical expertise.

(1) Accordingly, the Secretary of the Interior should retain lead responsibility for U.S. territories, with increased support from other agencies and the White House Staff.

Approve _____ Disapprove _____

(2) The organizational arrangement within the Interior Department with respect to responsibility for territorial affairs should be restructured to reflect changes in the Federal responsibility. An Assistant Secretary level position should be established to coordinate Federal support and direct a staff within Interior. The staff should have experience in development planning, interagency coordination and national affairs.

Approve _____ Disapprove _____

(3) To respond to the desires of the U.S. territorial leaders for greater White House sensitivity to the peculiar problems of territories, staff assistance for territorial matters should be among the major responsibilities of a senior assistant on the Domestic Policy Staff.

Approve _____ Disapprove _____

(4) The President indicated last year (and the Congress followed suit this year) that he would support whatever political status decision is made by the people of Puerto Rico. We have concluded that our existing policy of assigning no office responsibility for special liaison, advocacy and assistance should continue until there is an expression from Puerto Rico to the contrary.

Approve _____ Disapprove _____

(5) While no formal arrangement confers upon Interior responsibility for the Northern Mariana Islands, we believe the agency that has responsibility for Micronesia pre-Trusteeship should continue to have responsibility for the Northern Marianas. Post-Trusteeship, Northern Mariana concerns should be within the purview of the territories office.

Approve _____ Disapprove _____

There is agreement that administrative responsibility for the Trust Territory of the Pacific Islands, prior to the termination of the trusteeship, should rest with the agency that has responsibility for the U.S. territories. The current political status negotiations are leading to at least two--and probably three--Micronesian states in free association with the United States following termination of the trusteeship. These freely associated states (FAS), if they take the form now anticipated, will not be U.S. territories but quasi-independent states. The U.S. relationship with them must be handled accordingly.

(6) The Office of Micronesian Status Negotiations, Interior, State, and OMB believe that an early determination as to which Federal agency or office will serve as the lead agency for the FAS as now foreseen following termination of the trusteeship would serve to assure the FAS that they would not be treated as territories of the U.S. Such assurance would appreciably help expedite the negotiations. Transportation, on the other hand, believes that this decision should be deferred until we know what kind of political entities we will be dealing with. The question is whether to defer a decision or to decide now about organizational arrangements for the post-trusteeship period.

Defer _____ Decide now _____

(7) If a decision is made now, and in view of the probable non-territorial status of the new entities, the Département of State, rather than Interior or any other domestic department or agency, is the obvious choice to serve as the lead agency. State should assume responsibility for relations with the new entities upon termination of the trusteeship.

Approve _____

Disapprove _____

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

(1) There is general agreement within the Task Force that a continuing Federal presence is needed in the territories because of the substantial annual Federal financial contribution to each of them, and that the Federal Comptroller should provide that presence.

There is also agreement that technical assistance in financial management should continue without interruption. At issue is whether such assistance should be provided by the Federal Comptroller as it is now.

The President should state either that:

(a) For the immediate future, this Federal presence will consist primarily of the Federal Comptrollers who should continue to provide not only auditing functions, but technical assistance in financial management as well;

OR

(b) The Comptrollers' functions will be limited to the auditing function only except that the Comptrollers will continue to provide technical assistance in financial management until new Federal machinery for that purpose is in place.

Option (a) _____

Option (b) _____

(2) The President should charge the head of the agency with territorial responsibilities (a) with providing technical assistance to territorial governments, at their request, on economic and social development, financial management, and other matters of public administration, and (b) with establishing additional field support in the territories to provide policy liaison, coordination of Federal activities, and the coordination of technical assistance.

Approve _____

Disapprove _____