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REPORT BY THE U.S.

General Accounting Office

Issues Affecting U.S. Territory And Insular Policy

The United States faces a complex set of policy issues with its principal territories--American Samoa, Guam, the Northern Mariana Islands, the Virgin Islands, and Puerto Rico. The issues involve political, economic, and organizational relationships between the federal government and the territories in such areas as political status; treatment under federal policies, laws, and programs; economic and financial assistance; and representation and oversight.

GAO believes federal policymakers in the Congress and executive branch will likely be challenged to further clarify policy toward the territories and to enhance federal-territorial relations. GAO is providing information and views which are intended to contribute to the debate on whether further policy guidance is needed.

UNITED STATES GENERAL ACCOUNTING OFFICE

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GAO/NSIAD-85-44
FEBRUARY 7, 1985

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WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-217276

The Honorable James A. McClure
Chairman, Committee on Energy and
Natural Resources
United States Senate

The Honorable Morris K. Udall
Chairman, Committee on Interior and
Insular Affairs
House of Representatives

As requested by your letters of March 25, 1983 and June 20, 1983, respectively, we have examined certain issues surrounding U.S. policies toward its territories.

This report provides information and viewpoints on the current state of affairs in federal-territorial relations in terms of federal policies, laws, programs, and organization.

Copies of this report are being provided to the Departments of Interior and State and to other interested parties.

Frank C. Conahan
Director

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REPORT BY THE
U.S. GENERAL ACCOUNTING OFFICE

ISSUES AFFECTING U.S.
TERRITORY AND INSULAR POLICY

D I G E S T

Because ultimate political status has not yet been determined by each territory or established by Congress, territorial political, social, and economic development follows an unclear path which complicates federal-territorial relations. Many territory officials believe U.S. policy should be more clearly defined, particularly for economic development and treatment of territories under federal laws and programs.

At the request of the Senate Committee on Energy and Natural Resources and the House Committee on Interior and Insular Affairs, GAO reviewed (1) the background and history of U.S. territorial and insular policy, (2) the extent to which U.S. foreign and domestic policies consider the potential impact on the territories, (3) whether federal policies, laws, and programs are meeting U.S. policy objectives and territorial needs, and (4) whether the present federal organization for program and policy responsibilities in the territories is adequate to coordinate and provide consistent federal administration for territorial matters. This report includes information on these issues in the context of U.S. policy and relations toward its territories. GAO does not attempt to determine what U.S. policy should be nor prescribe how relations between the federal government and the territories should be handled.

GAO found the issues involving federal-territorial relations, such as appropriate levels of representation, treatment under federal laws and programs, and economic and social development strategies, are becoming increasingly complex with no simple or ready-made solutions. GAO believes they are likely to require greater congressional attention and to stimulate debate on whether further policy guidance is needed to clarify and strengthen federal-territorial relations.

Tear Sheet

GAO/NSIAD-85-44
FEBRUARY 7, 1985

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ULTIMATE STATUS OF U.S. TERRITORIES IS UNCLEAR

Prior to the acquisition of offshore territories beginning at the turn of the century the United States, under the framework of the Northwest Ordinance of 1787, established a traditional policy objective of eventually granting statehood to its contiguous territories.

The current policy objective toward offshore territories--encouraging self-determined political, economic, and social development--is less clear. The Congress, under Article IV of the Constitution, establishes federal policy for U.S. territories--Puerto Rico, American Samoa, Guam, the Virgin Islands, and the Northern Mariana Islands. The ultimate political status of these offshore territories has not yet been determined. (See ch. 2.)

TERRITORIES ACHIEVE GREATER SELF-GOVERNMENT AND LOCAL AUTONOMY BUT STATUS REMAINS AN ISSUE

The U.S. policy of self-determination has resulted in freely chosen but different types of political status in each territory. Each has attained greater self-government and local autonomy, which in turn has complicated relations with the federal government. Many territory officials support the principle of self-determination but believe political status is a major unresolved issue in federal-territorial relations. All the territories want more representation in Congress and greater voice within the federal establishment. Some, such as Guam and the Virgin Islands, are re-examining their political status with the United States. Many believe that federal policy direction is unclear because it offers little specific guidance on how the territories can achieve economic self-reliance and social development. (See ch. 3.)

COMPACT OF FREE ASSOCIATION COULD INFLUENCE U.S.-TERRITORIAL RELATIONS

Under U.N. supervision, the United States administers the Trust Territory of the Pacific Islands, commonly known as Micronesia. In

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March 1984, the Compact of Free Association, a proposed political status agreement among the Federated States of Micronesia, the Marshall Islands, and the United States, was submitted to Congress for approval. The Compact represents a unique status arrangement which GAO believes could influence U.S. future relations with its territories, especially those in the Pacific.

The Compact, the culmination of 15 years of negotiation, is a highly detailed and complex legal agreement which will grant the Micronesian states virtual control of all internal and external matters, except for security and defense which will remain under U.S. control. With some limited exceptions, U.S. laws will no longer apply and the Micronesian states can negotiate bilateral agreements or join international organizations. The Compact provides for a 15-year economic assistance commitment by the United States at an estimated cost of $2.2 billion.

Because of their geographic proximity and similar economic and social problems, the U.S. territories in the Pacific are likely to scrutinize closely the new arrangement between the freely associated states of Micronesia and the U.S. government. Their officials have already raised concerns about the potential impact of the Compact on them, particularly in economic and social areas. Because of the Compact, GAO believes that policymakers will face new challenges to improve federal-territorial relations. (See ch. 4.)

ECONOMIC AND SOCIAL DEVELOPMENT AFFECTED BY FEDERAL POLICIES, LAWS, AND PROGRAMS

The United States has established a policy of encouraging economic self-reliance and social development in its territories. Financial and technical assistance and other incentives to each territory have provided some economic growth and improved the standard of living of the residents. The United States has helped to finance and build schools, hospitals, housing, roads, utilities, and other infrastructure and provided health, educational, and other social services which have enhanced the well-being of

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territorial residents. Notwithstanding these efforts, most of the territories have made little progress toward becoming economically self-reliant and remain highly dependent on federal assistance.

Most of the territories face many indigenous constraints--such as geographic isolation from U.S. and world markets, limited natural and manpower resources, small land areas, limited infrastructure to support development and attract investment, and large public sectors--which make economic self-reliance an unlikely prospect for the foreseeable future. (See pp. 23 to 25.)

FEDERAL CONSTRAINTS RELATE TO INCONSISTENT TREATMENT IN FORMULATING AND EXTENDING POLICIES, LAWS, AND PROGRAMS

GAO found that there is no federal policy which details how the territories should be treated in formulating and extending laws and programs. Territory officials identified instances when federal policies, laws, and programs have constrained economic and social development because they were inconsistently applied, insensitive to unique territorial circumstances and needs, or inappropriate for local conditions. Examples cited included the Caribbean Basin Initiative provisions affecting the rum industry and the tuna industry in the Virgin Islands and American Samoa, respectively; Department of the Treasury rulings preventing the use of tax exempt bonds; legislation to eliminate important tax benefits to Puerto Rico; and shipping, tax, immigration, and environmental laws which constrain development initiatives.

Congress and the executive branch have acknowledged many of the problems identified by the territories and have initiated several actions meant to remedy many of the problems. For example, a laws commission was established for the Northern Mariana Islands in 1980 and the Department of Interior began a review of federal laws affecting the territories in 1981. Congress has enacted legislation, such as Title V of Public Law 95-134, which authorized federal agencies to consolidate grants to the

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territories to minimize administrative burdens. In addition, federal agencies have become more responsive to the territories' needs and, in most instances, have established good working relations with territorial program administrators. Waivers and exemptions to program regulations, technical assistance, and other mechanisms to relieve administrative burdens were cited as examples of the better working relationship.

Nevertheless, many territory officials believe that federal policy is not well defined, causing disenchantment and uncertainty about their future relationship with the United States. They believe the United States should establish a policy framework which specifies how territories should be treated within the federal system and provides a basis for them to achieve greater economic self-reliance and social development.

In 1980, the results of an interagency task force on the territories led to a statement by President Carter to establish a policy framework for the territories. Some initiatives, such as elevating the role of the Department of Interior's Office of Territorial and International Affairs, were implemented after the Carter policy pronouncement; however, they did not relieve many territory concerns. GAO believes policymakers in Congress and the executive branch are likely to face greater pressure from the territories to establish a policy framework which addresses these issues. (See pp. 36 to 39.)

ISSUES RELATED TO ORGANIZATION

As the territories have attained greater self-government and autonomy over their local affairs, questions have been raised about the federal-territorial organizational relationships, such as: Is the federal government effectively coordinating its administrative and policy efforts? Is the Department of the Interior effectively addressing territorial concerns and meeting its responsibilities? Is a new federal structure needed to meet territory concerns and carry out U.S. policy objectives?

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The trend in federal involvement in the territories is marked by (1) a significant increase in the number of federal agencies involved in programs and making decisions affecting the territories and (2) a shift in the traditional role of Interior from direct territorial administrative authority to limited oversight, territory advocate, and assistance provider. Territory officials are generally satisfied with the current decentralized approach to program administration provided by individual federal agencies and indicated that good working relationships have been established with most agencies. However, they believe better federal policy coordination is needed to systematically address development needs when formulating individual agency policies.

Many territory officials also criticize the institutional capacity of the Department of Interior to meet their needs. For example, they believe Interior does not have sufficient influence to represent them in the budget process or in policy matters involving other federal agencies. Within Interior, there is some disagreement on its role vis-a-vis the territories in terms of federal oversight, program and policy coordination, and territory advocacy. (See pp. 44 to 49.)

Several proposals have been made to change federal organizational responsibility for the territories. The options range from a more centralized, interagency organization to a decentralized approach with no single federal agency responsible, as currently exists for Puerto Rico.

No clear consensus exists in the territories on what approach is best suited to their needs. Many territorial leaders see no need to make major changes in the current federal approach in administering programs. However, many support the concept of a high-level interagency group to handle policy-related matters and address major territorial concerns. The territories agreed that the federal government should be more responsive to their needs, regardless of the organization arrangement.

In GAO's view, a change in organizational responsibility for territorial affairs might

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remedy some of the territories' concerns. Establishment of a formal interagency policy group authorized to address major policy matters in a comprehensive fashion or a legislatively authorized office attached to the White House, might provide the representative focal point wanted by many territorial leaders. Although an organizational change may not enhance or resolve U.S. territorial relations without a corresponding clarification of U.S. policy toward such issues as political status, economic and financial assistance and relations, the degree of federal oversight over territorial affairs and treatment under federal laws and programs, it could provide the impetus for addressing these issues.

AGENCY COMMENTS

The Departments of Interior and State and the governors of American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands commented on GAO's report. (See apps. I through VII.)

Interior supports GAO's conclusion that its role as a direct authority over territorial government has diminished, and that its role is primarily as a provider of technical assistance and territory advocate.

State said organizational options for the federal-territorial relationship should reflect the direction of the relationship--greater territorial autonomy within the context of self-determination. State also said greater federal centralization over territorial affairs would be perceived by the territories as a reversal of this direction. However, State also recognized the need for better policy and program coordination and said an interagency coordinating committee for the territories could fulfill this role.

The governor of the Virgin Islands recommended that the Congress enact a law giving the territories authority to develop a federal policy compact to include economic assistance and political status.

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The governor of American Samoa also supported the idea of developing a long-term economic development and financial assistance agreement. He also recommended establishment of an organization within the Office of the President or a separate organization to handle territorial affairs.

The governor of Guam said that the United States should adopt a flexible stance which recognizes each territory's distinctive and separate needs. For Guam, he indicated the creation of commonwealth status as proposed by the government of Guam will resolve many of the issues addressed in the GAO report.

The governor of the Northern Mariana Islands said the United States has honored its pledge guaranteeing self-government, and that for the most part, relations between the federal government and the Northern Mariana Islands have been excellent.

The governor of Puerto Rico pointed out that Puerto Rico for the most part is not at all similar to the other territories and therefore should not be judged in the same context as the other territories. (See pp. 50 and 51.)

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ABBREVIATIONS

FAS	Freely Associated States
FSM	Federated States of Micronesia
GAO	General Accounting Office
IRC	Internal Revenue Code
NMFS	National Marine Fisheries Service
NMI	Northern Mariana Islands
OTIA	Office of Territorial and International Affairs
OMB	Office of Management and Budget

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CHAPTER 1

INTRODUCTION

The principal U.S. territories are Puerto Rico and the Virgin Islands in the Eastern Caribbean, and American Samoa and Guam in the Pacific. These territories, sometimes known as the flag territories, are under U.S. sovereignty and generally subject to U.S. laws. Although each enjoys a different type of governmental status--Puerto Rico is a commonwealth; Guam and the Virgin Islands are governed by organic acts and American Samoa by its local constitution--all are part of the United States. The U.S. also exercises sovereignty over a number of largely uninhabited islands, including Wake, Midway, Palmyra, Navassa, Johnston Atoll, Kingman Reef, Baker, Jarvis, and Howland.[1] These smaller U.S. possessions are for the most part within the administrative responsibility of the Department of the Interior but some are administered either by the Department of Defense, or the U.S. Coast Guard. A general description of the territories and insular areas is found in appendix VIII.

The other major insular areas currently under U.S. administration are part of the Trust Territory of the Pacific. Under a 1947 United Nations (U.N.) agreement, the United States became the administering authority for the islands known as Micronesia. Today the Trust Territory is composed of four local governments: the Commonwealth of Northern Mariana Islands (NMI),[2] the Republic of Palau, the Federated States of Micronesia (FSM), and the Republic of the Marshall Islands. These Micronesian states are not under U.S. sovereignty. Nevertheless, the United States has administered these insular areas in a manner similar to its flag territories.

The Pacific and Caribbean territorial and insular areas play an important role in representing U.S. national security interests. Some territories such as Puerto Rico, Guam, American Samoa, and the Virgin Islands have represented American security interests as members in the armed forces for almost a century. In addition, defense installations in Puerto Rico, Guam, and some of the Micronesian islands are important to U.S. defense and security in the Caribbean, Asia, and the Pacific.

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[1]This report addresses policy and organizational issues surrounding the major territories and insular areas. These smaller possessions are not included in our analysis.

[2]The NMI is included in our analysis as a flag territory although technically it is still part of the Trust Territory.

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MICRONESIAN STATUS NEGOTIATIONS

In 1969, the United States and Micronesian political leaders of the Trust Territory began negotiations to change their political status, which would in turn lead to termination of the U.N. trusteeship arrangement. Negotiations were successfully completed with the Northern Mariana Islands, which chose to become a U.S. territory. The Covenant with the Northern Mariana Islands was approved by a joint resolution of Congress in 1976. However, until the trusteeship is terminated, the NMI remains a part of it.

The United States and the Federated States of Micronesia and the Republic of Marshall Islands have reached final agreement on a new type of political status--free association. The free association relationship is defined in the Compact of Free Association, under which the Micronesian states will exercise sovereignty over their internal and foreign affairs, while the United States will retain full responsibility and authority for security and defense matters. The Compact, currently with Congress for approval, represents a final step in the process to end the U.N. trusteeship. The Compact contains several unique provisions defining the relationship between the United States and each freely associated state (FAS). It also is influencing the ongoing debate among many of the flag territories about the meaning of U.S. policy toward them and the future of U.S. territorial relationships. (See ch. 4).

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Chairmen of the Senate Committee on Energy and Natural Resources and House Committee on Interior and Insular Affairs, we reviewed U.S. policy for its territories and insular areas. Our objectives were to address (1) the background and history of U.S. territorial and insular policy, (2) the extent to which the territories and insular areas have been considered in the formulation and conduct of U.S. foreign and domestic policy, (3) whether policies, laws, and programs designed with stateside objectives in mind consider the effect on the political, social, and economic development of the territories, and (4) whether the present federal organization is adequate to coordinate the delivery of federal programs and services to these areas, and provide a consistent basis for policy, including treatment under U.S. laws.

To accomplish these objectives, we conducted a literature search on past and current territorial policy and related matters. We relied heavily on previous studies and reports, including many made by GAO, to determine the political, economic, and social conditions in each territory and insular area. (See app. IX.)

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Our review was conducted from June 1983 to April 1984 at each territorial government and at numerous federal agencies in Washington, D.C., including the Departments of Interior, State, Treasury, and Defense. We also met with White House officials, congressional representatives and committee staff responsible for oversight and administration of the territories.

We interviewed key territorial leaders, including the Governors of each territory and the Presidents of each Micronesian government. We met with key executive branch officials involved in administration and policy-making for the territories and insular areas. We also met with the U.S. Ambassador for the Micronesian Status Negotiations to discuss the terms and potential impact of the Compact of Free Association on federal-territorial relations. We also talked with government and private sector representatives in each territory to gain a perspective on how U.S. policy and laws affect economic development. Our review was conducted in accordance with generally accepted government audit standards. We obtained the views and comments of the Department of Interior and State and the governments of Puerto Rico, American Samoa, Guam, the Virgin Islands, and the Northern Mariana Islands on a draft of this report. These comments are included in appendixes I through VII.

This report discusses the nature of the problems, real and perceived, with current U.S. policy, and U.S. territorial relations. We did not attempt to determine what U.S. policy should be, nor did we make an in-depth analysis and evaluation of all the issues and problems of the territories and insular areas.

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CHAPTER 2

U.S. TERRITORIAL POLICY: A HISTORICAL PERSPECTIVE

The U.S. Constitution does not specify in detail the policies to be followed by the federal government in administering the territories. Article IV, section 3 of the Constitution states "The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States... ." The courts have interpreted the territorial clause of the Constitution to permit broad congressional discretion in deciding questions of territorial status. As a result, the Congress is largely responsible for the policies under which the U.S. territories are administered. Although the Trust Territory of the Pacific Islands is administered under a 1947 U.N. Trusteeship Agreement, the Congress exercises general legislative jurisdiction over this area's political future as well.

Historically, U.S. territorial policy has evolved to accommodate changing national objectives. The initial thrust of the policy, which emerged against a background of rapidly expanding frontiers, emphasized statehood as the ultimate objective for the contiguous territories. The 1787 Northwest Ordinance was the nucleus of this traditional policy. The U.S. Congress, which has complete authority over the territories, established general requirements for evaluating whether a territory was ready for statehood. Statehood, as contemplated in the Ordinance and recognized by Congress, was the common denominator which bonded traditional territorial policy.

The acquisition of offshore territories at the turn of the 20th century altered traditional policy. The newly acquired insular areas, which possessed unique geographic and cultural characteristics, were valued primarily for their strategic importance. They did not fit the traditional mold of states. In a series of decisions rendered by the U.S. Supreme Court in the early 1900s, the offshore territories, except for Hawaii, were classified as unincorporated, a term distinct from previous territories destined to become states.

1787 NORTHWEST ORDINANCE: GENESIS OF TRADITIONAL TERRITORIAL POLICY

The matter of U.S. territories first surfaced following the American Revolution. Upon conclusion of the War in 1783, 13 independent states were created, bound loosely through the Articles of Confederation. States which had land claims to territorial areas not included in their boundaries ceded them to the new central government. To organize and administer these territories (the current states of Ohio, Indiana, Illinois, Michigan, and Wisconsin), the Congress of the Confederation passed the

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Northwest Ordinance of 1787. The Ordinance, reaffirmed by Congress in 1789 following ratification of the U.S. Constitution, established the framework for developing future territories and admitting new states. The Ordinance represented a statement of the federal government's general attitude toward and policy for the territories' ultimate status. It established the precedent that the territorial system's long-range objective was to admit new states. To prepare the territory for the transition to statehood, residents were subject to the same federal laws and taxation as the existing states. The Ordinance assumed that the limits on democratic government were temporary, and increased measures of self-government were extended as the territory matured. It insured that territorial residents received the full protection of their constitutional rights and that the territory would be admitted into the Union on an equal footing with the original states.

Although the Northwest Ordinance established the basis for a cohesive territorial system, it did not prescribe detailed admission procedures. The U.S. Constitution empowers Congress to admit new states. In the absence of specific criteria, the Congress has generally measured whether a territory was ready for statehood against three standards.

1. The inhabitants of the proposed new state are imbued with and sympathetic toward the principles of democracy as exemplified in the American form of government.

2. A majority of the electorate desire statehood.

3. The proposed new state has sufficient population and resources to support state government and to provide its share of the cost of the federal government.

While statehood deliberations have resulted in some trends, the broad authority of Congress and the diversity of new states led to many variations in admission procedures, statehood conditions, and time frames for achieving statehood.[1] The various factors affecting these patterns, including population size and composition, geographic location, economic development, and historical circumstances, have all affected these trends.

1898 SPANISH-AMERICAN WAR ALTERS TRADITIONAL TERRITORIAL POLICY

The 1898 Spanish-American War marked a turning point for U.S. territorial policy. Under the Treaty of Paris, Spain ceded the Philippines, Puerto Rico, and Guam to the United States.

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[1]Trends and variations in statehood admission procedures were analyzed in our March 1980 report, Experience of Past Territories Can Assist Puerto Rico Status Deliberations (GGD-80-26).

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These islands represented unique acquisitions, because they were not geographically connected to the North American continent; previous territories had all been contiguous to, or located on the continent. Cultural distinction further separated these islands from traditional acquisitions.

Treaty of Paris highlights direction of changed policy

Congress had to determine the ceded islands political status and the inhabitant's civil rights. For the first time in its history, the United States had acquired territory without promising citizenship. Further, the Treaty of Paris did not hold the promise, actual or implied, of statehood.

Congress debated the policy implications of the treaty during the ratification process in early 1899. During the ensuing debate, Congress examined the propriety of acquiring territories without defining their legal status. Supporters of the treaty maintained that the United States had a sovereign right to acquire and govern territories. As such, the United States was responsible for establishing suitable forms of government for the territories and preparing them for eventual self-government. Opponents of the treaty declared that the federal government had no power to hold territories indefinitely as colonies, because doing so was contrary to democratic principles.

The debate also raised questions regarding possible statehood for the newly acquired territories. In February 1899, a joint resolution introduced in the Senate stated in part:

> "1. That the acquisition by the U.S., through conquest, treaty, or otherwise, of territory not adjacent to and geographically part of the Continent of North America carries with it no constitutional or moral obligation to admit said territory, or any portion thereof, into the Federal Union as a State or States."
>
> "2. That it is against the policy, traditions and interests of the American people to admit states erected out of such non-American territories, or portions thereof into our Union. . . at any time or under any conditions."

The resolution was not adopted and thus the possibility of eventual statehood for offshore territories was not ruled out.

On February 6, 1899, the Senate ratified the treaty by a narrow margin, but the issue of status was left unresolved.

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THE INSULAR CASES: THE SUPREME COURT ESTABLISHED A NEW TERRITORIAL DOCTRINE

In a series of decisions known as the Insular Cases (1901-1922)[2], the U.S. Supreme Court had a major role in establishing a territorial doctrine which influenced the subsequent direction of territorial policy. The Insular Cases established the doctrine of incorporation which distinguished between unincorporated territories which were partially protected by the Constitution and incorporated territories which were guaranteed full protection of the Constitution. As a result, incorporated territories had an inherent right to be considered for statehood but an unincorporated territory did not.

In separate decisions, the Court declared Puerto Rico and the Philippines as unincorporated territories; Alaska and Hawaii were defined as incorporated and eventually became states. All the current flag territories are unincorporated.

The Insular Cases reaffirmed Congress' complete authority over the territories, and the new doctrine of incorporation enabled it to exercise authority in the offshore territories significantly different from that for the contiguous territories. In effect, unincorporated territories were accorded a lesser status than incorporated territories, since they were not granted full rights under the Constitution. The fundamental distinction between the two types of territorial status placed the offshore territories in a legal "holding pattern" which implied that they would have to undergo an indefinite period of development before final status was resolved.

CURRENT POLICY ADVOCATES SELF-DETERMINATION

The United States currently advocates a policy of self-determined political, economic and social development toward its territories and insular areas. The principle of self-determination has remained a fundamental U.S. policy objective since the end of World War II, and has been reaffirmed by all

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[2]In the principal case (Downes V. Bidwell, 182, U.S. 244,287 (1901)) the Court had to determine if Puerto Rico's Organic Act of 1900, which imposed temporary duties on exports, conflicted with the constitution's uniformity clause. This clause required that ". . . all Duties, Imports, and Excises should be uniform throughout the United States." Because the Treaty of Paris, unlike all previous territorial acts, did not contain provisions for incorporation, Puerto Rico was held to be unincorporated and thus the Congress was not bound by the uniformity clause.

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recent U.S. administrations. The federal establishment, led by the Department of the Interior, is attempting to carry out these broad policy objectives. The impact and problems associated with the broad policy of self-determination are discussed in chapters 3 through 6.

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CHAPTER 3

POLITICAL DEVELOPMENT LEADS TO GREATER SELF-GOVERNMENT BUT POLICY QUESTIONS PERSIST

The United States has shown flexibility in the political development process for each territory under its administration. As a result, the territories have freely chosen different forms of political status based on their unique characteristics and needs. The general trend has been toward greater autonomy and self-government. Despite the strides in political development, many territories believe the meaning of self-determination as a policy is unclear because it offers little specific guidance for attaining greater economic self-reliance. Several Federal and territory officials believe U.S. policy must be translated into comprehensive terms which address economic, social, and political development concerns.

This chapter discusses political development of the flag territories and the NMI. Chapter 4 covers recent political developments in the Micronesian states under the Trust Territory of the Pacific.

SELF-DETERMINATION PERMITS FLEXIBLE APPROACH TO POLITICAL DEVELOPMENT

In 1962, President Kennedy summarized the federal government's attitude to the territories' political development.

> "Local self-government is among the most cherished of American democratic traditions. This nation is committed to the principle of self-determination and will continue to support and encourage responsible self-rule throughout the world and particularly in those territories under the jurisdiction of the United States."

President Carter's 1980 statement on the territories, the most recent effort to address U.S. policy, also endorsed the fundamental principle of self-determination, noting that all status options should be open to the people of the insular areas. The current administration continues to support the policy of self-determination.

In adhering to the principle of self-determination, the United States has generally acceded to the wishes of the territories with respect to status. In 1946, independence was granted to the Philippines. In 1952 commonwealth status was granted to Puerto Rico, and in 1976, the Congress approved the covenant with the Northern Mariana Islands which grants commonwealth

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status once the trusteeship is terminated. In Guam, the Virgin Islands, and American Samoa, a number of different governmental arrangements have been supported and further efforts toward self-government encouraged. Currently, the United States is working with Guam in its effort to examine its status and relationship with the federal government.

Self-government has been an important part of political development

One commonality linking all the territories is their gradual move toward greater self-government. While the early years of U.S. stewardship of the territories were characterized by military administration and relatively few advances in self-government, the post-World War II period marked a change. Inhabitants of the territories, who for decades had sought more autonomy, found support in the Congress and executive branch. Table 1 summarizes the territories' strides in the past several decades.

Table 1

Trends in Self-Government

	Guam	Puerto Rico	American Samoa	The Virgin Islands	Northern Mariana Islands
Acquired by United States	1898	1898	1900	1917	Upon termination of trusteeship
First Organic Act passed[a]	1950	1900	none	1936	none
Received nonvoting delegate in U.S. House of Representatives	1972	1900	1980	1972	none
Elected first local legislature with full or substantial legislative authority	1950	1900	1960	1936	1977
Granted U.S. citizenship	1950	1917	Residents are mostly U.S. nationals[b]	1927	Upon termination of trusteeship
Elected first governor	1970	1948	1977	1970	1977
Granted constitution	Rejected by voters in 1979	1952	1960	Rejected by voters in 1979	1977

[a]Organic acts were passed by Congress to establish the local legal framework for governing each territory. Guam and the Virgin Islands continue to be governed under their respective organic acts, while Puerto Rico is now a constitutional government.

[b]A national is defined as a person who is either a citizen or noncitizen of the United States, owing permanent allegiance to the United States. In general, U.S. nationals enjoy the same protection and many of the same rights as U.S. citizens.

The trend toward greater self-government has provided a high degree of local autonomy in each territory and has led to a

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lessened federal level of control and authority. For example, the Department of the Interior, the primary administrative agency for the territories, has undergone a significant shift in responsibility as the territories have progressed. This shift is discussed in greater detail in chapter 6. The implication of this trend in the future political relationship between the territories and the United States is not clear; however, the territories are pressing for greater voice and representation within the federal system and are seeking greater clarification of their political and economic relationship with the United States.

Territories want greater representation

Voting representation in the Congress is constitutionally guaranteed only to state residents. The territories, except NMI, have some representation through nonvoting delegates who serve in the U.S. House of Representatives. These delegates serve on and may vote in committee. However, the territories are not represented in the U.S. Senate, and its residents may not vote in presidential elections.

More representation in Congress and voting rights are issues in U.S.-territory relations. For example, advocates for Puerto Rico's statehood believe that only statehood status would "give Puerto Ricans political and economic equality, including full participation in the U.S. Congress and the right to vote in presidential elections." The other territories believe their current representation does not fully ensure that their concerns are heard. In 1981, the delegates from the Virgin Islands, American Samoa, and Guam introduced legislation to provide a Presidential vote for their territories. In addition, several bills have been introduced to provide full voting representation in the House of Representatives. So far, none of these legislative proposals have been enacted.

POLITICAL STATUS REMAINS AN ISSUE

While the U.S. policy of self-determination has helped the territories to develop politically, it provides no specific guidance on ultimate status or goals and milestones for economic and social development. As a result, several territories are reexamining their political status with the United States in search for a more clearly defined relationship.

Puerto Rico

Of all the current territories, Puerto Rico has had the longest history of self-government. Even before attaining commonwealth status in 1952, Puerto Rico's residents have debated political status with the United States. Public opinion is

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divided on whether to continue or modify the current commonwealth arrangement or to seek statehood or independence. The debate illustrates the problem of the U.S. policy of self-determination with no ultimate status signal.

Since the mid-1970s, a number of status proposals have been put forward. In 1975, a modified commonwealth proposal, the "Compact of Permanent Union Between Puerto Rico and the United States," was introduced to Congress but was never reported out of committee. In 1976, President Ford proposed statehood for Puerto Rico, but no action was taken. In 1978 and 1981, Presidents Carter and Reagan, respectively, supported statehood as an option if the Puerto Rican people expressed such a desire in a plebiscite. The status options remain a subject of great debate, permeating the political scene in Puerto Rico.[1] They have sparked debate on whether the United States should take the initiative by specifying conditions which would have to be met before Puerto Rico can become a state. Some Puerto Rican leaders believe the policy of self-determination does not adequately address Puerto Rican concerns over future status. They believe the United States should indicate what it would permit on such issues as allowing Puerto Rico to retain Spanish as its main language under statehood, whether a gradual reduction in its current federal income tax exemption is permissible, and other important issues unique to Puerto Rico.

Other leaders in Puerto Rico believe future status is a local responsibility and that the people must decide for themselves what their future relationship with the United States should be, a view currently supported by the Reagan Administration.

Guam

Better defining its relationship with the federal government through political status is one of Guam's highest priorities. Discussions to change status were most recently initiated in a 1982 referendum in which Guamanians voted overwhelmingly for commonwealth status. In December 1983, Guam officials and congressional representatives held a formal meeting to discuss Guam's commonwealth proposal. Guam is currently refining a draft commonwealth proposal which it intends to submit to the Congress.

Guam's efforts to establish a new political status illustrate the evolving relationship between the territories and the

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[1]For a comprehensive discussion of status issues, see our March 1981 report, Puerto Rico's Political Future: A Divisive Issue With Many Dimensions (GGD-81-48).

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federal government. While Guam's efforts are an act of self-determination to upgrade its political status, they are also an attempt to resolve a number of problems which Guam has been discussing with the federal government for several years. Many of these problems center on Guam's view that federal constraints are hampering economic development efforts. In the context of status talks, Guam is tailoring a political status which addresses constraints such as the application of federal laws to Guam, Guam's treatment under federal assistance programs, Guam's participation in regional and foreign activities, and control of federal land on Guam.

Guam also hopes to establish formal parameters for its relationship with the United States in a commonwealth agreement. In a statement to a congressional delegation in Guam in 1983, the Governor of Guam said the ambiguity surrounding Guam's relationship with the federal government "is at the root of virtually every other issue of concern between the federal and territorial governments." Guam's legislative leaders told us a commonwealth agreement can help eliminate the uncertainties inherent in Guam's current relationship, and better define Guam's status in the American family.

The Virgin Islands

For several years, the Virgin Islands' political development efforts centered on replacing its Organic Act with a constitution. More recently, however, priority has shifted to political status discussions, attempting to rectify problems which some territorial leaders claim have resulted from an ambiguous U.S. territorial policy.

Since 1980, the Virgin Islands has initiated two political status commissions. The first was charged with examining the territory's present relationship with the United States and suggesting status options for the voters to consider in a referendum. Although the commission's final report identified and examined a number of status alternatives, no final status recommendation was made. According to members of that commission, the effort became encumbered by partisan politics and lack of interest, and thus did not accomplish its objectives.

The second and ongoing effort was initiated by the Virgin Islands legislature. In February 1984, it created a Select Committee on Status on Federal Relations to determine the status of the Virgin Islands and propose a "Compact of Federal Relations" between the Virgin Islands and the United States. The Committee will address

> "the entire range of the (federal-territory) relationship, including the applicability of federal laws and programs to the Virgin

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Islands, federal and congressional oversight and authority in local matters, and representation of the people of the Virgin Islands in the U.S. Congress."

Virgin Island leaders do not view the current status initiative strictly as a means of political evolution. They see the legislature's efforts as a means to address constraints to the islands' economic development. The proposed "Compact of Federal Relations" is intended to maintain existing economic benefits and to secure others. Thus, the Virgin Islands is seeking a way to resolve outstanding problems and remove the degree of uncertainty in its relationship with the U.S. government.

American Samoa and NMI

American Samoa and the NMI are not seeking to change their political relationship with the United States. American Samoa currently supports its status as an unincorporated, unorganized territory. Its leaders said their primary political objective is to preserve and maintain the Samoan way of life and land tenure system, which they believe could be threatened by changes in political status with the United States.

The NMI will formally be granted commonwealth status under terms of its negotiated covenant with the United States when the trusteeship is ended. The covenant establishes a more defined relationship with the United States, including a financial and economic assistance package and creation of a laws commission to study U.S. laws to determine whether they should apply to the NMI. NMI officials are generally satisfied with this arrangement and are currently negotiating with the U.S. over new financial arrangements once the initial 7-year agreement ends in 1985. However, they expressed hope that the new status and the NMI laws commission will help resolve some outstanding problems with the federal government, especially in tax and economic areas. (See ch. 5.)

RECENT FEDERAL EFFORTS TO CLARIFY TERRITORIAL POLICY

In 1979, the Carter administration began a study of U.S. territory policy. Its objective was to identify major problems in federal-territorial relations, and to set forth a series of actions to remedy them. The study resulted in a February 1980 presidential statement which reaffirmed the basic principle of self-determination and established a policy framework to improve the federal-territory relationship.

The 1980 policy statement was criticized by some because it did not include Puerto Rico or adequately convey many territorial concerns. Nevertheless, the statement pointed out that

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prior to then, a policy framework for the territories was lacking and concluded that

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

Some specific initiatives in the policy statement were implemented. For example, the Department of Interior's Office of Territorial Affairs was reorganized and headed by an Assistant Secretary to provide a stronger voice within Interior. In addition, Interior was established as the focal point for political status discussions. Most other initiatives were never fully carried out, including multi-year economic planning, establishment of a federal laws commission, and full extension of the Internal Revenue Code to the territories.

Since 1980, no comprehensive effort has been made to establish a more clearly defined and consistent policy for the territories. Territory officials believe that federal relations with the territories have improved but that policy direction is lacking, particularly for economic development. Many officials believe federal policy is haphazardly applied to the territories in such areas as federal laws, programs, and policies and that a more comprehensive, defined approach is needed for the territories to develop their economies, become more financially self-sufficient, and establish a more permanent status with the United States. (See ch. 5.)

CONCLUSION

The trend in political development of U.S. territories is clearly toward greater self-government and responsibility for local affairs. Many of the territories continue to press for clarification in their relationship with the federal government; some, such as Guam are doing so through political status discussions. The terms of discussion focus heavily on economic and representation issues. In addition, many territory officials are calling for a more clearly defined federal policy to better address their economic, political, and social concerns. As noted in chapter 2, until the Congress chooses to exercise its constitutional prerogative to establish an ultimate status for the territories, it is likely that federal-territory relations will continue to be ambiguous and somewhat contentious.

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CHAPTER 4

COMPACT OF FREE ASSOCIATION ESTABLISHES A NEW STATUS FOR PARTS OF MICRONESIA

Since 1947 the United States, under a U.N. agreement, has administered the Trust Territory of the Pacific Islands--an area of over 3 million square miles commonly known as Micronesia. Currently, there are four governments still under the trusteeship, NMI, Palau, the Federated States of Micronesia (FSM), and the Marshall Islands. The NMI has chosen to become part of the United States as a territory, and Palau is currently attempting to resolve internal constitutional problems before joining the people of the FSM and the Marshall Islands in entering into a new relationship with the United States. The Compact of Free Association, which defines this new relationship, may pose new challenges for U.S. policymakers in defining and maintaining federal-territorial relations. Some issues, such as foreign economic assistance, fishing rights, immigration, and economic competition, have already been raised.

At the end of World War II the fate of the islands of Micronesia was the subject of much debate in the federal government. The United States wanted to insure that the islands would never again be used by unfriendly powers to threaten U.S. security. However, absorption into the United States was not an acceptable alternative because it conflicted with U.S. and allied policy, which opposed territorial expansion. Instead, the United States proposed to administer Micronesia under the U.N. international trusteeship system. As administering authority, the the United States was charged with promoting the political, economic, social, and educational development of the Trust Territory.

To protect its security interests, the United States proposed a special arrangement calling for a U.N. Strategic Trusteeship, under which it was committed to the same general development objectives as the flag territories but was given additional authority to establish bases on the islands and to foreclose Micronesia to third countries for military purposes.

U.S. POLICY IN THE TRUST TERRITORY

Unlike the flag territories, the Trust Territory is not under U.S. sovereignty, or subject to the U.S. Constitution. Its residents are citizens of the Trust Territory, not the United States. While U.S. policy for the flag territories does not specifically outline ultimate status, the Trusteeship Agreement is not intended to be a permanent status arrangement.

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Under the agreement, the U.S. is committed to promote self-government and to allow the local people to choose their own status arrangement such as territorial status, independence, or an arrangement like free association.

U.S. policy objectives in the administration of Micronesia are quite similar to those for the U.S. territories, especially for social and economic development. Micronesian residents face many of the same development constraints as their flag territory neighbors. For example, as discussed in chapter 5 the financial dependency on the United States and indigenous and federal constraints to development in Guam, American Samoa, and the NMI are also present in Micronesia. In recent years, the federal government has directed its efforts at strengthening the local economies and correcting deficiencies in financial management, health-care, and educational systems.

Advances in political development lead to status negotiations

Like the U.S. territories, the Micronesian states have made important advances in political development. In 1965, the Congress of Micronesia was created as the legislative authority for the Trust Territory. Executive responsibilities remained with the U.S. High Commissioner, who was appointed by the President. However,in 1979, the Department of the Interior delegated executive, legislative, and judicial responsibility, within specified limits, to the governments of the FSM, Palau, and the Marshall Islands. This was done in recognition of Micronesian desire to manage their own affairs. The FSM, the Marshall Islands, and Palau adopted their own constitutions in 1978, 1979, and 1980, respectively. The Secretary of Interior will represent U.S. interests in the Trust Territory until the trusteeship is terminated.

STATUS NEGOTIATIONS CULMINATE IN COMPACT OF FREE ASSOCIATION

In 1969, the Congress of Micronesia formed the Future Political Status Commission, which began to consider the Micronesian status issue and eventually recommended "a self-governing Micronesia in free association with the United States."

Negotiations have been long and difficult and so far have culminated in two different status arrangements. The NMI, which had long expressed its desire for closer ties with the United States, began separate negotiations in 1972 for commonwealth status, which culminated in the covenant agreement approved by the Congress in 1976. The FSM, Marshall Islands, and Palau continued negotiations for free association throughout the 1970s.

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In 1982, representatives from the United States and the governments signed the Compact of Free Association, which defines the precise terms of the new status. This was followed by public education campaigns and plebiscites in each district. The Compact received the requisite approval in the FSM and the Marshall Islands, and in March 1984, was formally submitted to the United States for approval.

The people of Palau are attempting to resolve their problems with certain defense and security provisions of the Compact. As of December 1984, officials from the U.S. Office for Micronesian Status Negotiation were optimistic that the problems would be resolved.

WHAT THE COMPACT PROVIDES

The Compact of Free Association is a unique status arrangement between the United States and the FSM and Marshall Islands. The Compact and its subsidiary agreements comprise a highly detailed set of broadly based legal documents. The FSM and the Marshall Islands as freely associated states (FAS) will be completely self-governing entities. Unlike the U.S. territories, the FAS will be sovereign states governed largely by laws of their own making. When the Compact goes into effect, U.S. laws, in general, will not apply to them. Their autonomy will include the ability to conduct their own foreign affairs, except for defense and security-related matters. They will be able to conclude commercial and fishery agreements, to seek membership in regional and international organizations, and, in general, to act on a bilateral basis with other nations.

The FAS will also have control over their future political status. The Compact states that either party to the agreement--the United States or one of the Micronesian governments--may unilaterally terminate the political relationship. Therefore, free association can last as long as it continues to be in the interest of the United States and the FSM and Marshall Islands.

Economic assistance

The Compact recognizes that the FAS are not yet ready to assume complete economic independence from the United States. Over a period of 15 years, the United States will provide direct cash assistance currently estimated at $2.2 billion.[1] By approving the Compact, the Congress will authorize 15 years of economic assistance. Although Congress is to appropriate the Compact funds on an annual basis, the 15-year authorization is a commitment to provide a guaranteed level of assistance, which is

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[1]Actual assistance is tied to an inflation type index.

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meant to remove the uncertainty surrounding the annual budget cycle and to facilitate long-term economic planning.

Economic assistance is also intended to help the FAS undertake economic development activities and provide essential public services. They must prepare national development plans outlining activities to which they plan to commit the resources. The plans, which must receive the concurrence of the U.S. government, will establish goals for the various sectors of the economies in an effort to lessen dependence on outside resources and to approach economic self-reliance.

The United States will also provide weather and postal services and the services of the Federal Emergency Management Agency and the Federal Aviation Administration. In addition, the FAS may apply for technical assistance from any authorized federal agency.

Under the Trusteeship, the FSM and the Marshall Islands are eligible for and participate in many federal grant programs. Once the Compact goes into effect, their participation in such programs will essentially cease, and they will be permitted to design programs to meet the specific needs of their citizens.

The Compact acknowledges that additional financial and program assistance may be required, so the FAS may request the Congress to provide assistance above the amount provided in the Compact.

Defense and security

Free association is distinguished from independence by the reliance of one state on another for security and defense. The United States, under the Compact, will have full authority in defense and security-related matters, including the

--obligation to defend the Micronesians from attack;

--option to establish and use military areas and facilities subject to the terms of the specific bilateral agreements; and

--option to foreclose or "deny" access to any third country for military purposes.

To enable the United States to exercise its defense authority, the Micronesians must refrain from any actions which the United States determines conflicts with its defense-related responsibilities.

While the political relationship of free association may be terminated at any time, certain related provisions are subject

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to their own time frames. For example, the U.S. will retain the right to deny access to Micronesia for security reasons regardless of whether the Compact is terminated. In addition, the U.S. obligation to defend Micronesia against attack will remain in force as long as the United States exercises its foreclosure or denial right.

POTENTIAL ISSUES RELATED TO THE COMPACT

Because of their geographic proximity and similar economic and social problems, the Pacific flag territories (American Samoa, Guam, and the NMI) will probably watch the new relationship between neighboring Micronesia and the United States closely. Some provisions in the Compact, such as foreign affairs, economic assistance, and increased local autonomy, have already generated some interest and concern. While the impact of the Compact on the U.S. flag territories is not fully known, we believe it could cause the territories to re-examine their status relationship with the United States.

Foreign affairs autonomy

Under the Compact, the FSM and the Marshall Islands will have significant independence in foreign affairs activities. They will be eligible for economic assistance from bilateral and multilateral donors, can negotiate treaties and agreements of a non-defense nature with foreign countries, and will be eligible to apply for membership in some international organizations. None of these rights are enjoyed by the flag territories.

Territory officials from Guam, the NMI, and American Samoa have shown interest in receiving some of these benefits and are concerned about the potential impact these benefits might have on them. For example, territory officials have expressed interest in joining the Asian Development Bank, a multilateral lending institution which provides economic assistance to developing countries. They believe membership in the Bank will enable them to become more closely integrated with Pacific neighbors, as well as make them eligible for low interest loans. Currently, U.S. flag territories are not eligible for membership in the Asian Development Bank or most other international or regional organizations.

Economic and local autonomy

Some of the principal economic and domestic provisions in the Compact may also attract interest in the territories. For example, the long-term economic assistance commitment, currently only enjoyed by the NMI, may prove of particular interest. Guam has recently expressed interest in developing a long-term economic assistance program for capital improvements, which it

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believes will obviate many current problems caused by the annual budget process, which it claims disrupts effective economic planning. In their comments on this report, the governors of American Samoa and the Virgin Islands also supported the establishment of a long-term economic development and financial assistance agreement with the federal government.

The general exemption from federal laws called for in the Compact is another potential area of interest to the territories. The application of federal laws is a major issue in the territories, (see ch. 5.) and the fact that the FAS will be exempt from most federal laws has already raised some concerns. For example, Guam officials are concerned that because the FSM and the Marshall Islands will be exempt from U.S. immigration laws and its residents will have free access into the United States and its territories, an influx of immigrants to Guam might occur, causing economic and social problems. Guam officials would like to control their own immigration laws, a right currently enjoyed by the NMI. If granted such authority, Guam could conceivably remedy any future possible immigration problems from the FAS.

The exemption from federal laws may also give the Micronesian states a competitive advantage because they will no longer face the same federal and regulatory constraints as the U.S. territories. For example, although the FAS already establish their own wage and tax laws, under the Compact they will be able to establish new investment and economic incentives to attract Asian and U.S. industries which could compete with the flag territories. The FSM and the Marshall Islands will have equal access to the U.S. market with the other U.S. territories. For example, with the removal of federal regulations and establishment of economic incentives, they could become more competitive with the tuna industry in American Samoa.

CONCLUSION

The Compact of Free Association represents a unique status arrangement between the United States and the Micronesian states of the FSM and the Marshall Islands. If approved, it will establish a political relationship markedly different than the relationship between the United States and its flag territories. Under the Compact, the FAS will enjoy their own sovereignty and, except for defense and security matters will be largely independent, self-governing bodies.

The key provisions of the Compact--economic assistance, foreign affairs, and domestic authority--are likely to attract the interest of the flag territories because they address areas of current concern to them. We believe U.S. policymakers will face new challenges to improve U.S.-territory relations as a result of the Compact.

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CHAPTER 5

ISSUES AFFECTING TERRITORIAL ECONOMIC AND SOCIAL DEVELOPMENT

The United States has helped to improve the standard of living and well-being of territorial residents and tried to help them become more economically self-reliant. It has provided substantial financial and some technical assistance to each territory as well as numerous incentives to help achieve these broad objectives. Yet, the U.S. goal of establishing greater economic self-reliance has not been achieved, and all of the territories remain heavily reliant on federal assistance to support their local economies.

We found that progress in meeting territorial needs is often tied into federal recognition of the unique circumstances of each territory. Formulating and extending federal laws, programs, and policies without considering unique territorial needs has caused some problems and disenchantment in the territories. Many territory and some federal officials attribute this to lack of a clearly defined and understood set of economic and social objectives with a corresponding means to carry them out, and to unclear federal policy on how the territories should be treated within the federal family.

According to territory officials, the federal government in recent years has improved its efforts to recognize territorial problems and has sought to overcome them. Nevertheless, the officials identified instances of insensitive, inconsistent, and inappropriate federal policies, laws, and programs which they claim have hampered development.

We categorized concerns raised by territorial officials as follows.

--Instances when the territories believe their needs were not adequately addressed in the formulation of U.S. foreign and domestic policies. Examples cited include the effects of the Caribbean Basin Initiative, Department of Treasury rulings against investment bond initiatives, and a congressional proposal to eliminate corporate tax incentives for U.S. firms operating in Puerto Rico.

--Instances when federal laws were inconsistently applied or were extended to the territories without adequate consideration of local conditions. Some examples cited include shipping laws, such as the Jones Act, environmental laws, and tax and immigration laws.

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--Instances when federal programs were unevenly extended, did not recognize local conditions, or established an administrative burden not anticipated for the territories. Some examples cited included programs for the elderly, food stamps, and welfare.

TERRITORIES ARE HEAVILY RELIANT ON FEDERAL ASSISTANCE

The United States has spent millions to build an economic base in each territory and to promote economic development. Infrastructure projects, such as schools, hospitals, roads, utilities, and other facilities, have been provided.

In addition to cash and program grants and loan guarantees, the U.S. has given the territories special tax treatment and provided various trade incentives, such as duty free access of many goods into the United States to support internal development and achieve greater economic self-sufficiency. Residents of the territories are generally exempt from federal taxation. Many corporations also receive generous tax benefits. Some territories receive other tax advantages which increase their revenue base. For example, federal excise taxes collected on rum and other selected goods produced in Puerto Rico and the Virgin Islands are returned to the local governments--$279 million and $35 million in fiscal year 1983, respectively. In Guam, federal income taxes paid by U.S. military personnel are returned to the local treasury. In fiscal year 1983, about $21 million was rebated to Guam.

Despite these efforts the territories remain heavily dependent on federal financial assistance. As shown in table 2, except for Puerto Rico, federal assistance as a percentage of total revenues in fiscal year 1983 ranged from 33 percent in the Virgin Islands to 72 percent in the NMI. The other Micronesian states of the Trust Territory were even more reliant on federal funding--85 percent in fiscal year 1983. If territorial taxes paid in lieu of federal income taxes are considered an indirect subsidy, the degree of assistance is even higher than the table indicates.

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Table 2
Federal Assistance to Territorial Governments and Local Revenues, FY 1981-1983
($ millions)

	U.S. federal assistance to territorial governments[a]	General fund local revenues (local tax and nontax revenue)[b]	Total	Federal assistance as percent of total
American Samoa				
1981	$ 40.9	$ 17.3	$ 58.2	70
1982	37.8	17.4	55.2	68
1983	42.5	17.9	60.4	70
Guam				
1981	93.8	123.0	216.8	43
1982	99.2	115.8	215.0	46
1983	72.2	117.0	189.2	38
Northern Mariana Islands				
1981	38.4	10.7	49.1	78
1982	37.8	17.3	55.1	69
1983	47.9	18.7	66.6	72
Virgin Islands				
1981	135.9	195.4	331.3	41
1982	122.7	201.4	324.1	38
1983	103.7	213.7	317.4	33

[a]Includes continuing and adhoc Department of the Interior grants-in-aid and grants by other federal agencies, and excise and federal income taxes collected by the Treasury Department and returned to the Virgin Islands and Guam.

[b]Includes locally generated income taxes, other local taxes and fees. It does not include revenues generated by autonomous local government agencies.

Although not as heavily reliant as the other territories, Puerto Rico, nevertheless, obtains substantial federal assistance. According to the Department of Commerce's Federal Expenditures by State For Fiscal Year 1983, Puerto Rico received about $4.4 billion in grants and direct payments to individuals. Puerto Rican officials acknowledge that federal support is higher than that received by most states but, in their view, is not out of proportion given Puerto Rico's per capita income and relative poverty.

Constraints to developing more self-sufficient economies

To varying degrees, most of the territories face a number of constraints which hamper economic and social development.

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For example, Puerto Rico is more economically developed than others, which face such constraints as

--geographic isolation from major world markets and the mainland United States;

--small land areas and populations;

--limited natural resources, especially petroleum;

--infrastructure and facilities inadequate to support the expansion of local industry and to attract significant outside investment;

--limited skilled labor forces and managerial and entrepreneurial skills; and

--large public sectors, which tend to drain resources needed for private sector development.[1]

In addition to these largely indigenous constraints, territory officials also cite a number of federal constraints to development, primarily caused by inconsistent and sometimes insensitive treatment in formulating and applying federal policies, laws, and programs.

PROBLEMS WITH FEDERAL POLICIES

The United States has no overall strategy for encouraging economic development or promoting in a comprehensive and consistent fashion the private sectors in most of its territories. With the possible exception of an economic program in Puerto Rico in the late 1940s, known as Operation Bootstrap, no long-term development efforts were pursued for the territories. Instead, the federal government has tended to pursue remedies to individual development problems outside the context of any concerted policy or plan. Interior officials believe the federal government ought not dictate such strategy, but allow the territories to determine their own individual strategies.

Many territorial officials believe the United States continues to pursue a generally inconsistent, uncoordinated, and sometimes insensitive policy to the territories. The former governor of Guam, in a December 1980 presentation before the incoming Reagan Administration, noted that:

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[1]Appendix IX provides a listing of GAO and other reports and studies which detail many of the development constraints facing each territory.

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"National policies often neglect to consider our interest at all, or do so only as an afterthought (e.g. by adding "and the Territories" to pieces of legislation.) Policies developed specifically for the Territories are too often developed without proper input from the affected island governments and people. Furthermore, these policies have tended to lack a strong sense of direction, have had varying degrees of commitment from President to President and Congress to Congress, and have often lacked the necessary understanding of what it is like to live and work in an American territory in the Pacific or Caribbean, thousands of miles away from Washington, D.C. Correspondingly, there has never been a good understanding of the role, if any, that the Territories should play in national policy. As a result, policies for the Territories have been haphazardly developed. There have been piecemeal responses to problems. For example, laws have been applied to some Territories but not others without apparent reason, or have conflicted with the intent and letter of earlier enacted legislation, or, are simply irrelevant or outdated. The lack of input from the Territories and the inconsistent development of policies are two aspects of the same problem."

Territory officials identified examples of foreign, economic, and domestic policies which in their view did not adequately consider the territories' interests and needs, and adversely impacted economic development. The most prominent examples were the Caribbean Basin Initiative (CBI) and foreign relations, Treasury rulings on investment bonds and a legislative attempt to eliminate a corporate tax incentive in Puerto Rico.

The CBI and territory interest in foreign relations

All the territories are becoming more active in foreign and regional activities, in some cases as representatives for the U.S. government. In addition, many of the territories are interested in expanding foreign and regional relations to enhance economic development and attract investment. However, officials from some of the territories believe that the United States has not adequately considered their potential role or has formulated policies which could adversely affect them.

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Officials from the Virgin Islands and American Samoa cited the CBI as a case in point. The CBI is a foreign policy initiative meant to stimulate economic growth, trade, and development in the Central American and Caribbean region. It provides tax and trade incentives and development assistance to foreign countries in this region.

Virgin Islands officials believe the tax and trade provisions of the CBI, particularly entry of duty-free rum from other Caribbean countries into the United States, could harm their local rum industry. They also complained that although some "safeguards" were provided in the legislation, the potential impact the CBI could have on the Virgin Islands was not considered until the territory raised the issue.

The governor of American Samoa said he was not notified by any federal officials about a proposed provision in the CBI to allow canned tuna from foreign sources to enter the United States duty-free. He said he learned of the provision from the local tuna industry. Since American Samoa's tuna canneries are the largest private industry in the territory, such a provision could have had an adverse competitive impact on them. Although the tuna provision was eventually eliminated from the CBI, American Samoan officials believe they should have been involved in formulating the legislation to ensure that their views were adequately considered.

Federal officials involved in the formulation of the CBI said the territories were adequately considered and that their input was sought early in the process. They also pointed out that the CBI was primarily a U.S. foreign policy objective to enhance U.S. relations in the Caribbean and that the U.S. territories were not initially singled out for special consideration. According to administration officials, once input was received from the territories, some changes to the CBI were made to provide some safeguards to them, including rebating excise taxes to the Virgin Islands and Puerto Rico, which were collected on foreign rum entering the United States. In short, federal officials believe the territories were fairly treated in the formulation of the CBI.

Federal officials also acknowledge the territories increasing interest in becoming more involved in regional and foreign activities. State Department officials said territory involvement in regional organizations, such as the South Pacific Commission, comprised of island nations in the Pacific, has been encouraged. However, they also said that greater territorial involvement in foreign activities must be assessed by the federal government on a case-by-case basis. Department of State officials said the flag territories are part of the United States and therefore are generally subject to the same foreign policy restrictions as states.

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Treasury rulings on investment bonds

Recently the Department of Treasury restricted Guam and some of the other territories from issuing certain types of tax-exempt investment bonds, or from establishing tax havens for foreign investors and U.S. corporations. These proposed revenue enhancing initiatives and the federal response to them illustrate the problem caused when the goal of greater self-sufficiency for the territories clashes with U.S. tax and fiscal policy. Some insular officials claim that these actions contribute to growing uncertainty of the overall objective of U.S. policy to the territories. The examples also raise questions whether the territories should receive special treatment, different than states, under U.S. tax and fiscal policies.

Arbitrage bonds

In late 1983, Guam attempted to issue $850 million worth of tax-exempt securities known as arbitrage bonds. Guam hoped to earn revenue from the interest earned when the tax exempt bonds are reinvested at higher rates of interest. Treasury blocked the issuance of the bonds and announced that it was recommending immediate legislation to end these bonds' tax free status. A Treasury official said that since the states have been prohibited from marketing these bonds since 1969, the action was taken to prevent the territories from taking further advantage of a tax loophole which the Congress was seeking to remove.

Guam officials argued that Treasury's action was contrary to the U.S. objective to encourage economic self-reliance. They pointed out that just prior to the Treasury announcement, Puerto Rico had marketed a $450 million bond issue. According to the Governor of Guam, Treasury's decision cost Guam $91 million in potential equity capital. The Governor and other Guamanian officials cited Treasury's action as an example of a federal policy contradicting a U.S. objective to allow the territories to become more self-reliant.

Tax havens

Another example cited by Guam was a December 1982 Treasury decision to prevent Guam's proposal to become an international finance center. Guam wanted to establish itself as a finance center by enhancing U.S. corporations' access to international capital markets by offering tax free securities, such as Eurobonds, to foreign investors. At the time, the Netherlands Antilles, under tax treaty with the United States, served as a bond center for mainland companies seeking to tap foreign sources of capital. Treasury opposed Guam's attempt to obtain a similar advantage, citing its general opposition to tax havens. A Treasury official said that such arrangements are a drain on

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the U.S. treasury because no taxes are withheld, creating the opportunity for tax avoidance or evasion. Treasury also cited its general opposition to this method of gaining access to foreign capital markets. While Treasury supported the general objective of insular economic development, it stated that Guam should not serve as a conduit for transitory foreign investment, and should not receive a benefit not available to the states. The Congress later affirmed Treasury's position with the passage of the Tax Reform Act of 1984 which effectively eliminated potential benefits of establishing an intermediary to handle these types of financial transactions.

Guam officials said that this is another example of a federal policy action to prevent the territory from achieving greater self reliance. The Governor of Guam, in his February 1984 testimony before the House Interior and Insular Affairs Committee, called Treasury's action inconsistent because at the time it granted foreign citizens a privilege denied to U.S. citizens residing in Guam. According to the Governor, Guam would have realized about $50 million in annual revenue had its investment strategy been implemented.

Guam officials said if Guam had been allowed to sell arbitrage bonds and establish itself as an international finance center, it would have become completely self-reliant and would no longer have to depend on federal assistance.

Congressional proposal to eliminate an important tax benefit to Puerto Rico

Puerto Rico officials cited a 1982 congressional proposal to eliminate an important tax benefit as an example of U.S. insensitivity to Puerto Rican development needs. The proposal entailed a change to section 936 of the Internal Revenue Code, which provides a federal tax exemption on profits earned by U.S. firms operating in Puerto Rico. Section 936 is an important incentive in Puerto Rico's ability to attract industry and capital to the island. The proposed change would have eliminated the tax advantage, thereby adversely impacting Puerto Rico's economy.

According to Puerto Rico officials, they were not consulted about the proposed legislative change and had to lobby the White House and Congress to obtain a compromise which protected the tax benefit for firms operating in Puerto Rico. They cited this example as a case where national tax policy was being formulated without their input, which could have had adverse effects on their economy. Puerto Rico officials said the uncertainty created by the proposed change hurt new investment in Puerto Rico, as some firms cancelled or postponed investment actions.

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PROBLEMS WITH FEDERAL LAWS

There is no federal policy which details how the territories should be treated in formulating and extending laws. As a result, some laws apply to some territories but not others. Many territory officials believe that some federal laws are extended without adequate consideration of local conditions and that they constrain local development efforts.

The federal government acknowledged the problems created by federal laws as early as 1950 and 1954 when temporary laws commissions were created for Guam and the Virgin Islands, respectively. Since 1980, several efforts have been initiated to help remedy the problem, including the creation of a laws commission for the Northern Mariana Islands in 1980 and a Department of Interior study of federal laws begun in 1981. Both efforts are ongoing. In addition, at least one area of concern to the Pacific territories--fishing--has been studied by the Department of Commerce National Marine Fisheries Service.

Inconsistent application of federal laws

Table 3 illustrates some categories of laws which are inconsistently applied. Territorial officials cite these laws and others as constraints to economic development because they do not provide benefits received by other territories, do not recognize a unique local condition, are costly to implement, or deprive the territory of a means to generate revenue.

Federal officials involved in examining the legal questions believe that, for the most part, the territories are added to legislation with little consideration of the potential impact on them and must fend for themselves when a law or program causes a problem.

Table 3
Examples of Inconsistent Application of Federal Laws

	Puerto Rico	Virgin Islands	American Samoa	Guam	NMI
Jones Act	Applies in part	Exempt	Exempt	Applies	Exempt
Immigration and Nationality Act (INA)	Applies	Applies	Exempt	Applies	Exempt
Internal Revenue Code	Exempt	Applies	Exempt	Applies	Applies[a]

[a]Effective January 1, 1985

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Jones Act

Guam claims that the Merchant Marine Act of 1920, commonly known as the Jones Act, inhibits its ability to establish a tuna transshipment industry because foreign flag vessels may not be used in the transportation of merchandise, in this case tuna, between two points in the United States. Some Guam officials believe the Jones Act should not apply to Guam because of its geographic distance from the U.S. mainland and because both American Samoa and the neighboring NMI are exempt.

Puerto Rico officials said the Jones Act hurt tourism because cruise ships, mostly foreign owned, were not allowed to off-load passengers for more than 24 hours. The officials said this restriction drove away tourist dollars and gave an unfair advantage to neighboring Virgin Islands and other Caribbean locations.

We noted that this prohibition should now be eliminated with the enactment on October 30, 1984, of Public Law 98-583, which allows foreign passenger ships to travel one way between Puerto Rico and U.S. ports.

Officials from American Samoa, the NMI, and the Virgin Islands cite the exemption from the Jones Act as a economic benefit.

Immigration and Nationality Act (INA)

Control over immigration is another area where some territories believe federal law caused economic and social dislocation. Virgin Island and Guam officials said the INA has hurt development because the local governments could not control the influx of alien workers who competed with local residents for jobs. Although this problem was eventually remedied, they claim other aspects of the INA continue to hamper development. For example, until Guam was provided an exemption under the 1984 Omnibus Territories Act, Public Law 98-454, October 1984, the Guam Chamber of Commerce and other Guam officials said immigration laws hindered tourism because of temporary visa requirements placed on tourists and business visitors to Guam. According to the Chamber, foreign visitors, mainly from Japan, had to obtain visas from a U.S. consulate before they could enter Guam. The visa requirement was a hindrance which hurt the territory's largest private sector industry--tourism. This put Guam at a competitive disadvantage with its Pacific neighbors, including the NMI, which controls its own immigration and therefore did not face similar constraints. The Chamber estimated that eliminating visa requirements for Japanese tourists would have generated an additional $2.5 million in tourist expenditures in 1981.

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Internal Revenue Code (IRC)

Guam and the Virgin Islands tax systems mirror the IRC, that is, all provisions of the IRC are applied to them. Each time a change in the tax code occurs, it has a potential financial impact on these territories. For example, the Virgin Islands reported a potential loss of about $13 million in fiscal year 1982 and an estimated $25 million in fiscal year 1983 due to changes in federal tax rates and regulations. Guam business officials reported in 1982 that the mirror tax system has "saddled Guam with an overly complex, inadequate revenue generating capacity which imposes non-competitive tax rates which hinder efforts to attract foreign and U.S. corporations to Guam." They believe the IRC places Guam at competitive disadvantage with Pacific-Asian neighbors with lower tax rates, and that Guam should be allowed to adopt its own income tax system. Similar concerns were voiced by NMI officials, who believe the IRC is inappropriate for their local situation. The NMI has successfully deferred implementation of IRC provisions until January 1, 1985.

At the time of our review, the Department of Treasury was studying tax treatment of these territories to develop a mutually satisfactory tax system.

Other problems

A government of Guam Planning Office analysis in 1982 identified 38 different federal laws and regulations, including labor and wages, tax, communication, and others, as constraining Guam's economic development. Guam and NMI also cited the Clean Air Act as an example of a federal law which was based on stateside conditions which are not appropriate for a small island with prevailing tradewinds. Guam faced costly decisions to either burn expensive low sulfur fuel or to install $20-million scrubbers on its power plants. After years of arguing its case, Guam received a temporary exemption from the Clean Air Act under provisions of the 1983 Territory Omnibus Act (Public Law 98-213).

FEDERAL EFFORTS TO ADDRESS LAW PROBLEMS

In the early 1950s, Congress authorized separate laws commissions for Guam and the Virgin Islands to identify federal laws hampering their development. Both commissions were short-lived, but some law changes resulted from their recommendations. Since 1980, efforts to remedy problems with federal laws include

--creation of the Northern Mariana Islands Laws Commission in 1980;

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--proposals to establish a congressionally authorized laws commission for all the territories;

--a Department of Interior review of federal laws begun in late 1981;

--a study by the National Marine Fisheries Service (NMFS) on the impact of federal fishing laws on the Pacific territories; and

--passage of the 1983 and 1984 Omnibus Territories Acts provided some legislative remedies to particular law problems, such as a temporary exemption to Guam of provisions of the Clean Air Act.

Many territorial officials acknowledge these efforts to remedy the problems and indicated that greater awareness of the territories' unique circumstances can help to overcome many of the constraints to development. These officials believe they should be given greater voice in formulating federal laws in order to avoid the types of problems experienced in the past. They also believe the federal government must continue to address federal constraints to the territories' quest to become more economically self-reliant.

NMI laws commission

In 1980 the Northern Mariana Islands Laws Commission was established, pursuant to the 1976 covenant agreement between the NMI and the United States, to survey all U.S. laws and determine whether they should apply to the NMI. The Commission has recommended several changes to existing laws, including exemptions from some provisions of the Clean Air Act, extending certain rights and privileges of citizenship to NMI residents, and clarifying the applicability of federal torts claims to NMI residents. The Commission is continuing to review laws and has been positively received by both the NMI and the Congress.

Proposal for congressionally authorized laws commission

In February 1980, President Carter proposed legislation to establish a federal commission to survey the applicability of all federal laws to Guam, the Virgin Islands, and American Samoa. The President believed a broad-based review was necessary to "make sense out of the somewhat confused pattern of federal laws that now apply or fail to apply to the territories." The proposed commission failed to receive sufficient congressional support. Other attempts have been made to create such a commission, including legislation introduced in 1982 and 1983. According to a 1983 House Committee on Interior and Insular

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Affairs report, the proposed commission was to help Congress develop a

> "rational legal framework from the current inconsistent and inappropriate coverage of the insular areas in Federal laws which inhibits economic expansion, creates inequities, denies otherwise recognized Federal responsibilities and frustrates the objectives of well intentioned federal and insular programs."

So far, none of these proposals have been enacted.

Department of Interior review of laws

In late 1981, when it became apparent that a comprehensive federal laws commission was not obtaining sufficient support, Interior's Office of the Solicitor began a study of the applicability of laws to the U.S. territories and Trust Territory. According to the study leader, a former Director of the Office of Territorial Affairs, Puerto Rico is not included in the present analysis because it is outside Interior's jurisdiction. However, she said that Interior plans to prepare an addendum after its current study is completed which will detail the application of federal laws to Puerto Rico.

The objective of the study is to examine all federal laws and provide a legal analysis of the respective statutes, including what the statute does, where it is applicable, and any particular problems it presents. As of August 1984, 10 legal areas involving fishing, shipping, transportation, bankruptcy and banking had been studied. The results of the analyses have been circulated to the territorial governments and cognizant federal agencies for comment. It is anticipated that legislative proposals will be submitted to Congress based on the results of the analysis. Interior believes the review may be completed by October 1986.

National Marine Fisheries Service study

In response to concerns raised by officials from the Pacific territories, NMFS conducted a review of federal laws that adversely affected fisheries development in the Pacific territories. NMFS reported that most federal laws concerning fisheries and fisheries development were

> ". . . mainland laws and as such are insensitive to special Island needs. Island leaders wish either to be exempt from such laws

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or have such laws tailored to the realities of Island conditions and their specialized needs."

In late 1983, NMFS completed its study and developed legislative and administrative recommendations designed to remove legal impediments to fisheries development. For example, NMFS supported legislation to liberalize federal vessel documentation laws which hindered the promotion of fisheries' development in the Pacific territories. Under the then existing NMFS' loan guarantee program, financing was limited to vessels of more than 5 tons. Since most territories could not afford such large vessels, NMFS proposed modifying regulations to expand loan guarantees for smaller fishing vessels owned by residents from Guam, American Samoa and the NMI. An American Samoan official said NMFS' recommended action would provide relief and potentially expand the local fishing fleet by 50 percent. The 1984 Omnibus Territories Act provided relief from vessel documentation laws for all the territories.

FEDERAL ASSISTANCE PROGRAMS

The United States has contributed to the social development of its territories through the extension of Federal assistance programs. Schools, hospitals, housing, and other infrastructure projects have been heavily supported. In addition, grant programs provide resources which enable the territories to deliver various social services. Territorial officials agree that the United States has enhanced the general well-being of territorial residents and raised their standard of living.

Despite these advances, the territories have experienced problems with federal programs, including

--adverse effects on traditional cultural values,

--burdensome rules and regulations,

--funding ceilings, matching requirements, and

--exclusion from specific programs available to the states.

The problems center on the ways the territories are treated in formulating, extending, and implementing federal programs. Essentially, these problems--similar to those identified with the applicability of federal laws--are attributed to instances when programs are developed to meet stateside needs without fully considering the potential impact on the territories. They also call into question whether U.S. social objectives for its territories are well defined.

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Cultural values

Some of the territories, particularly in the Pacific region, identified programs which have not been appropriate. For example, Guam officials said the territory has participated in programs that have disrupted the local culture, such as those sponsored under the Older American Act of 1965, which has altered the traditional responsibilities of the extended family by shifting care for the elderly from the family to the government.

American Samoan officials said that they recognize that the local culture is sometimes threatened by well-intentioned federal programs. As a result, Samoa selectively applies for programs; for example, although eligible to do so, it has chosen not to participate in the federal Food Stamp Program, and Aid to Families With Dependent Children because they have a "welfare" connotation that is unacceptable in the Samoan culture.

Burdensome rules and regulations

Several territorial officials said that application, reporting, and monitoring procedures for some federal programs are difficult to comply with because of limited local resources. Program officials in Guam said that the medicaid reporting requirements were burdensome for the local agency staff. A Virgin Islands official said that environmental compliance standards tied to grant funding were inappropriate because the local agency did not have the resources or personnel to perform continuous testing. Puerto Rico officials said that reporting regulations should be relaxed for those programs in which the Commonwealth does not fully participate, such as medicaid and nutritional assistance.

Exclusions and limitations from programs

Federal assistance programs are often extended to the territories by defining them as states, but funding allocation formulas often differ from those of the states. Usually, appropriation language states that the territories will share in a specified percent of the amount appropriated for the program or it specifies a set amount for each territory. For example, the nutritional assistance program which replaced the food stamp program, established an annual ceiling of $825 million in Puerto Rico. No ceiling applies to states under the food stamp program.

Many territorial officials expressed concern about what they consider uneven funding treatment relative to the states. For example, all the territories are subject to a dollar ceiling

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on the federal matching share of medicaid costs, a condition not imposed on states. Virgin Island health and social service officials claimed that ceilings are discriminatory and limit the local government's ability to provide service to territorial residents. They believe the Virgin Islands should be considered as a state for the purpose of program funding. Puerto Rico believed that all programs available to states should be fully available to Puerto Rico. Although Puerto Rico does receive statelike treatment for most federal programs, there are some exceptions; it is excluded from the Supplemental Security Income program, as are all other territories except NMI, and receives set funding levels for Aid to Families with Dependent Children, Medicaid, and the Social Services and Nutrition Assistance Block Grants. A consulting firm under contract with the Puerto Rican government estimated that Puerto Rico would have gained about $1 billion in federal program benefits in fiscal year 1981 by receiving the same benefits as states.

In its comprehensive economic study of Puerto Rico issued in December 1979, the Department of Commerce stated that

> "There is no apparent consistent rationale underlying the mixture of exclusions, ceilings, and differential matching rates that are currently applied by Congress to Puerto Rico in its Federal program participation."

As far as we could determine, the conclusion reached then by the Commerce study remains true today.

THE FEDERAL GOVERNMENT RECOGNIZES PROBLEMS AND HAS TAKEN SOME CORRECTIVE ACTION

In recent years, the United States has shown greater understanding and flexibility in dealing with the territories' unique conditions. Legislation has been passed to provide special treatment, such as Title V of Public Law 95-134 enacted in 1977 which authorized federal agencies to consolidate certain grants to the territories to minimize administrative burdens created by application and reporting procedures. Under this law, federal agencies may permit a territory to submit a single application for a consolidated grant. Territorial program officials said that grant consolidation has significantly eased program administration.

The Congress has also recognized the territories' funding limitations; Public Law 96-205 enacted in 1980 directed the Department of the Interior to waive matching requirements for all grants to the territories, and other federal departments were required to waive matching requirements for grants under

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$100,000 made to American Samoa and the NMI. The matching requirement waiver was raised to $200,000 in 1983 for American Samoa and NMI, and in 1984 for Guam and the Virgin Islands.

There is also some evidence that individual programs are being tailored to meet local needs. NMI's food stamp program and American Samoa's medicaid program implemented in 1982 are two examples. NMI's food stamp program is structured so that 25 percent of the food stamps issued must be used to purchase local food stuffs. According to the NMI Governor, the program provides a needed social service and benefits the local economy.

Recognizing American Samoa's unique circumstances, Congress authorized the Department of Health and Human Services great latitude to waive or modify the requirements of Title XIX--the federal medicaid program. According to the Governor of American Samoa, the flexible medicaid requirements tailored to American Samoan conditions permitted them to design a program which does not disrupt local customs.

Waivers relieve some administrative problems

In addition to legislation eliminating some administrative burdens, federal agencies have granted waivers to certain regulations. Territory officials said that federal agencies have become more receptive to the territories' needs and that administrative and program problems are handled directly by the territories and the appropriate federal agencies. The officials said that good working relationships have been established with most of the federal agencies involved in the territories' programs.

Because most program problems tend to be administrative, many territorial leaders see no need to make major changes in the current federal approach in administering programs. However, many believe a mechanism should be put in place to ensure that the territories are made aware of federal programs available to them and that it provide a means for the territories to express their view when unique circumstances call for modifications in the way they are treated in each program.

CONCLUSION

Despite progress in achieving some economic growth and improving the general well-being of their residents, the territories depend heavily on federal assistance and most are not making much progress toward economic self-reliance. Each territory has unique local constraints to development which preclude complete economic and financial self-reliance in the foreseeable future. However, federal constraints caused by policies, laws, and programs are raising questions about overall U.S. policy objectives for its territories.

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There is no federal policy which spells out how the territories should be treated when formulating and extending laws and programs. Some laws and programs apply to some territories but not to others. Territory officials identified a number of laws which they believe constrained local development efforts and caused significant loss of potential revenues. They also complained about the unequal treatment received in the extension and application of certain federal programs.

In the past 5 years, the Congress and federal agencies have increasingly recognized these problems and have taken several actions to remedy them. For the most part, the initiatives focus on either a single territory, such as the Northern Mariana Law Commission, or on single issues, such as the National Marine Fisheries Service study on fishing laws and the temporary exemption on the Clean Air Act provided to Guam and NMI in the 1983 Omnibus Territory Act. Thus, some individual laws and programs are being tailored to meet local needs.

It appears that economic and social development in the territories revolve around two central issues: (1) whether an economic development strategy can be developed to overcome or ameliorate indigenous and federal constraints and (2) whether the United States and territories can find common ground on how the territories should be treated in the formulation, extension, and application of federal policies, laws, and programs. While territory officials agree that the federal government has in recent years made progress in recognizing many territory needs and concerns, many believe U.S. policy does not adequately address these two issues. As the territories strive for greater autonomy and self-reliance, U.S. policymakers in Congress and the executive branch are likely to face greater pressure to establish a policy framework which addresses these issues.

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CHAPTER 6

FEDERAL ADMINISTRATION OF TERRITORIES SHOULD REFLECT U.S. TERRITORIAL POLICY

In the past 15 years, the Pacific territories and the Virgin Islands have assumed increased autonomy and greater control for managing their own affairs. The federal presence and influence have lessened to the point where the federal-territorial organizational relationship, particularly in policy matters, is raising such questions as:

--Is the federal government effectively coordinating its administrative and policy efforts to meet the broad objectives of encouraging political, economic and social development?

--Is the Department of the Interior, which is primarily responsible for territorial affairs, except Puerto Rico, effectively addressing territorial and federal concerns?

--Is a new federal organizational structure needed to better address territorial concerns and implement U.S. policy objectives?

OVERVIEW OF TERRITORIAL ADMINISTRATION

Because U.S. interests in territorial acquisition at the turn of the century were largely strategic and defense-oriented, early administration was vested in the military. The territories, except for Puerto Rico which was under military control for only 2 years, were administered by the Navy--for 14 years in the Virgin Islands and nearly 50 years in Guam and American Samoa. Military administration set the stage for federal relations with its territories, a period marked by direct supervisory control and limited self-government.

With no congressional framework for territorial government, all authority was vested in the naval governors who administered the island's internal affairs. Military governors generally concentrated their efforts in the areas of public works, sanitation, health, and education. Little effort was made to foster local self-government or economic development.

Early civilian administrators continued direct control over territorial affairs

By the early 1950s, the United States had transferred administration of the territories to civilian control under the

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Department of the Interior. The transfer occurred in recognition that territorial problems were largely economic and social in nature. By 1951, Interior had jurisdiction over Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Trust Territory of the Pacific Islands.

Centralized federal authority in the territories remained constant, however, and Interior's role included many supervisory functions, including

--appointing territorial governors in American Samoa;

--managing territorial government operations through the governors; and

--administering and coordinating federal assistance and programs in the territories.

Puerto Rico's move toward self-government marks the beginning of decreased direct federal involvement in territorial administration

When Puerto Rico achieved commonwealth status in 1952, it was removed from Interior's jurisdiction and assumed responsibility for its own internal affairs. No single federal agency was directed to replace Interior, and Puerto Rico has continued its singularly unique relationship to the federal government since that time. In 1961, a presidential memorandum directed that matters pertaining to Puerto Rico were to be referred to "The Office of the President." The White House continues to have responsibility for Puerto Rico, and, according to an administration official, arbitrates problems involving Puerto Rico and federal agencies. He said the White House tries to ensure that the Commonwealth's administrative and policy concerns are adequately presented, and that high-level attention is given to Puerto Rico by federal agencies.

Other territories move toward greater autonomy

As discussed in chapters 3 and 4, the other territories and insular areas have acquired or are moving toward increased local autonomy--largely self-governing entities. Their political development, resulting from a series of specific legislative and administrative actions by the Congress and the executive branch, has contributed to the U.S. government's reduced administrative authority and presence in the territories.

TRENDS IN FEDERAL INVOLVEMENT

As the territories and insular areas became increasingly self-governing, federal administration has been marked by (1) a

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significant increase in the number of federal agencies involved in programs and decision-making affecting the territories and (2) a shift in the role of the Department of the Interior from a direct administrative authority to a posture of providing assistance, limited oversight, and attempting to advocate territorial views. This trend toward a more decentralized, reactive approach has met with partial approval by some territorial officials who believe the federal government should no longer be directly involved in territorial administration. However, these two events have also generated some criticism from the territories concerning overall federal effectiveness in meeting territorial needs.

Territorial governments have increasingly used federal programs to facilitate their economic and social development. This has decentralized the U.S. government's role in the territories and further complicated the practical aspects of single agency management. According to a Department of Commerce publication, at least 15 agencies provided direct financial assistance to the U.S. territories and the Trust Territory in fiscal year 1983. Statistics compiled by Commerce show that about $2.5 billion in grants were provided to the insular governments in that same year. About $2.1 billion, or 84 percent, went to Puerto Rico. The many federal agencies involved in formulating and implementing policies and programs for the territories, have made it difficult for the government to coordinate economic and social development activities. A 1979 interagency task force formed to study U.S. territory policy identified this lack of coordination as a significant organizational deficiency. The task force indicated that the territories received numerous federal grant programs which were approved unilaterally by individual federal agencies; it concluded that this process was "devoid of any apparent or deliberate policy thrust."

Attempts have been made to strengthen the existing federal organization to enhance greater program coordination. The Secretary of the Interior created a Committee of Interagency Territorial Assistance in 1976. It was apparently not completely effective, however, since President Carter's 1980 territorial policy statement called for increased federal program coordination. The President stated that the administration would issue a directive requiring all federal agencies to keep Interior informed of all grant applications and decisions affecting the territories. A proposed executive order to implement this requirement was sent to the Office of Management and Budget (OMB) in November 1980 but was not issued.

Current efforts to coordinate programs and policies

Federal officials continue to recognize the need for improved territorial program and policy coordination. Several

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informal interagency committees have been established in recent years to foster coordination of territorial and insular affairs. The White House Task Force on Puerto Rico represents the Commonwealth in policy and administrative matters. Interior and the White House co-chair an informal interagency committee to address and resolve issues affecting the territories. This committee meets irregularly, and generally only when issues or problems arise. It does not address major policy matters such as political status. A third interagency body handles matters associated with the Micronesian status negotiations. In 1983, Interior established separate interagency subgroups to address health and economic issues. According to the Assistant Secretary for Territorial and International Affairs, the committees were formed to "get the federal family moving in the same direction." He indicated that these groups have improved communication among high-level agency officials and improved the quality of programs and services available to insular area governments.

Territory officials provided a mixed response to federal agency involvement in program administration and policy. The officials generally are satisfied with the current multiple agency involvement in grant and assistance programs and said they have learned to work with individual agencies which have become more attentive and sympathetic to territorial problems. Most were strongly opposed to centralizing program and grant administration under one agency. Territory officials said a move to create a bureaucratic layer or "middleman" to ensure coordination and program review is unnecessary, counterproductive, and contrary to the territories' desire for increased local autonomy. Puerto Rico officials particularly oppose any change in the current decentralized federal approach for program administration.

In contrast, many territorial officials express the need for better federal policy coordination. As noted in chapter 5, the territories have expressed dissatisfaction with various policies made by different federal agencies which have directly affected them and constrained development efforts. Questions on tax policy are handled by Treasury, environmental policy by the Environmental Protection Agency, immigration policy by the Immigration and Naturalization Service, and so forth. Territory officials believe the current organizational framework involving many federal agencies is not effectively addressing their policy concerns, especially economic development, because their needs are not considered in a systematic fashion based on an overall development strategy.

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DIMINISHED ROLE OF INTERIOR RAISES POLICY AND ORGANIZATION QUESTIONS

The Department of Interior has undergone a significant shift in responsibilities as the primary federal administrator of the territories. Its current role is primarily limited to budget support, technical assistance, representing territorial views to the federal establishment, and oversight of government expenditures and operations. According to many territory officials, Interior's overall effectiveness in these areas is limited by institutional constraints and organizational influence within the executive branch. Officials from several territories believe a change in federal organization is needed.

Constraints and perceived lack of influence

The Office for Territorial and International Affairs (OTIA) is a small component of the Department of the Interior. In fiscal year 1984, OTIA was authorized a staff of 66, including 15 under the High Commissioner for the Trust Territory, with a budget of about $4.3 million for administration and technical assistance. OTIA will oversee the approximately $213 million requested in fiscal year 1985 for the territories and Trust Territory, less than 3 percent of Interior's overall fiscal year budget request of $6.5 billion.

Recognizing the limited influence exerted by such a small office, the President directed that the head of OTIA be elevated to Assistant Secretary level in 1980. Nevertheless, territorial officials have criticized OTIA as institutionally incapable of meeting its stated mission of providing effective assistance and promoting territorial interests to the rest of the federal establishment, particularly in budget and policy related matters.

Budget support

All the territories, except Puerto Rico, have received funds for government operations and capital improvements through Interior grants. As noted in chapter 5, these funds combined with other indirect federal assistance, such as tax rebates to Guam and the Virgin Islands, comprise the substantial portion of revenues available to the local governments.

According to several territory officials, a key institutional constraint is OTIA's inability to fully support territorial budget requests. Faced with administration budget objectives and internal budget competition within Interior, OTIA is often placed in a difficult position of trying to support higher territorial budget requests than the administration

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will accept. Territory officials believe OTIA is too small to argue persuasively the territories' case within Interior and with OMB. As a result, the territories frequently submit budget requests directly to Congress.

The recent 1985 fiscal year budget requests from Guam and the Virgin Islands illustrate the problem. Guam submitted a $211 million request to Interior which OTIA pared down to $2 million. However, OMB eliminated the entire request. Guam subsequently requested $62 million directly from Congress. The Congress approved $5.7 million for Guam for fiscal year 1985.

In February 1984, the Virgin Islands asked a House Committee for $18 million for fiscal year 1985. No formal budget request was submitted to Interior. The budget director for the Virgin Island government said there was no reason to involve Interior in the process because it is ineffective in getting budget requests through to Congress. In general, territory officials believe their funding needs are not being adequately addressed by Interior, even though OTIA is usually sympathetic to them. Some believe territory budgets should be submitted directly to OMB and Congress to eliminate the institutional barriers within Interior.

Some Interior officials acknowledge that constraints exist in the budget process and that at times the territories receive low priority. They said OTIA must compete with other Interior offices as well as conform to budget targets established by OMB. OTIA's budget officer said that territories might be better off if they were part of an independent agency which did not have to compete with many other offices.

Interior officials also point out that part of OTIA's role is to insure fiscal accountability and therefore to scrutinize the territories' budget requests to insure they are legitimate. OTIA officials acknowledge that conflict exists between an advocacy role and fiscal accountability. However, they believe that some of the territories set unrealistic expectations in their budget requests and then blame Interior for not having them realized. The Assistant Secretary for OTIA said territory budgets should not be "rubber stamped" but should go through a review process like those of any other requestor of federal funds.

Advocacy role questioned

Many territory officials believe Interior is not influential enough to adequately represent their interests with the rest of the federal establishment, especially in policy-related matters. They believe Interior does not have much "clout" in areas outside its jurisdiction. For example, Guam officials

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cited Interior's inability to forcefully represent Guam's case in Treasury decisions on arbitrage bonds and other tax policies.

Some territory officials believe Interior is no longer well suited to meet their needs, especially economic development needs. They cite Interior's main areas of interest--land management, parks, and minerals as inappropriate for the territories. Others said Interior represents the "colonial" past when the federal government was in direct control of the territories. They believe a new organization is needed to erase this past image and to establish a more forward-looking approach to the territories.

Interior trying to develop a partnership relationship with the territories

Interior officials recognize that their authority is somewhat limited in dealing with other federal agencies. Nonetheless, they believe they can keep lines of communication open between the territories and the federal establishment and facilitate territorial needs through technical assistance, economic development initiatives, and advocating the removal of legislative and program constraints. They believe that Interior is the best agency to deal with overall territorial matters because of its record of experience and expertise built up over the years.

OVERSIGHT ROLE: A REFLECTION OF UNCERTAINTY IN THE FEDERAL-TERRITORIAL RELATIONSHIP

Interior, through its Office of Inspector General, performs an audit function for all the territories except Puerto Rico. This role in relation to Interior's overall administrative responsibility has led to questions about the appropriate degree of federal oversight in light of increased territorial autonomy. Officials from the Office of Inspector General believe Interior's responsibility for financial and program oversight is not well defined. At issue is Interior's authority to enforce actions by the territorial governments in response to audits, to ensure that the governments spend monies according to federal guidelines, and to improve management of local and federal programs. These officials believe that OTIA is not exercising an effective oversight role due in part to an inability to enforce compliance with audit recommendations by the territories. Interior Inspector General officials believe a conflict exists between exercising oversight versus supporting greater autonomy for the territorial governments.

Interior officials believe that the level of federal oversight is a policy question which should be addressed by the Congress and that more definitive guidance is needed to specify

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the level of federal administrative management of territory activities. They believe that Interior is placed in a dilemma of supporting greater territorial autonomy while at the same time exerting oversight over federal activities and government operations in the territories.

ORGANIZATIONAL OPTIONS SHOULD REFLECT THE DIRECTION OF FEDERAL-TERRITORIAL RELATIONSHIP

Given the territories' general dissatisfaction with Interior, a number of changes have been considered in the past 5 years. A 1979 interagency task force on the territories addressed this issue and offered several options. One of the options, elevating the territorial responsibility within Interior, was implemented by the Carter administration. Despite this effort, many territorial officials and some in Congress continue to call for change. Should the Congress decide to consider organizational changes, we believe that it should first address whether the current level of federal oversight and presence in the territories is adequate. The amount of oversight exercised by the government is critical to addressing the organization question. A significant increase in oversight would require greater federal presence in local affairs, which appears to be contrary to the trend toward increased self-government and the U.S. principle of self-determination.

Centralization or decentralization

Another organizational question related to territorial policy is whether the federal government should move toward greater centralization or decentralization of territorial affairs. The coordination of federal activities, particularly for policy matters, is another element to be considered in addressing organizational options. If the Congress believes that greater coordination of policy and program issues is needed, a centralized organization merits consideration. This could be accomplished by placing all the territories and insular areas, including Puerto Rico and the Trust Territory, in one agency. Some have suggested an interagency body, drawing expertise from many parts of the federal establishment for this function. This office could be independent or could be part of the White House. A centralized organization reporting to the White House, for example, might have the potential for better coordination and greater institutional influence than an executive branch agency, like Interior.

A decentralized approach might be considered if the Congress wants the territories' administrative relationship to resemble federal-state intergovernmental relations. Puerto Rico's relationship to the federal government would serve as a

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model for this approach. A disadvantage in this approach would be the lack of strong coordination and oversight over programs and policies.

TERRITORIES WANT TO BE REPRESENTED BY AN EFFECTIVE ORGANIZATION

We solicited the territories' views on organizational structure but found no clear consensus. Many officials favored placing oversight responsibility for all the U.S. territories in the White House, similar to Puerto Rico. They believe doing so would elevate territorial concerns and provide more influence. Puerto Rican officials, however, do not want the Commonwealth included in an organization with the other territories. A high-level Puerto Rico official said this would be viewed as a setback for Puerto Rico and a "colonial" act by the United States.

Some officials believe that the territories may not need formal agency representation because the local governments now deal directly with the federal establishment in many administrative areas. An NMI official said the territory might not require single agency oversight because it could deal directly with the Congress on budget matters. American Samoa's delegate to Congress and other officials suggested that there may not be a need for any federal administering agency.

Despite the disparity of their views, territorial officials agreed that they want the government to be more responsive to their needs. A Virgin Islands official summarized many of the comments we received when he said that organizational issues should not be analyzed in terms of agency placement. The most important question to be addressed is influence. Any organization representing the territories within the federal government should have the legislative support to ensure that it can consistently provide meaningful assistance.

CONCLUSION

Organizational options represent one dimension in the complex relationship between the federal government and its territories. Territorial officials are primarily concerned that their views are heard at the highest possible level within the federal system. Many believe the Department of the Interior's Office of Territorial and International Affairs is not institutionally suited to meet this need, however, no clear consensus exists on what type of organizational arrangement is needed.

We believe a change in organizational responsibility for territorial affairs might remedy some of the territories' concerns. Establishment of a formal interagency policy group, authorized to address high-level policy or territorial issues

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in a comprehensive fashion, or a legislatively authorized office attached to the White House, might provide the representative focal point wanted by many territorial leaders. Although an organizational change may not enhance or resolve U.S. territorial relations without a corresponding clarification of U.S. policy toward such issues as political status, economic and financial assistance and relations, the degree of federal oversight over territorial affairs, and treatment under federal laws and programs, it could provide the impetus to addressing these issues.

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CHAPTER 7

SUMMARY OF AGENCY AND TERRITORY COMMENTS

The Departments of Interior and State and the governors of American Samoa, the Northern Mariana Islands, Puerto Rico, the Virgin Islands, and Guam provided written comments on a draft of this report, which are included in appendixes I through VII.

Interior's comments support our observation that its role has diminished over time to a point where it no longer exerts much direct influence over the territories. Interior points out that while it is committed to advocating territorial interests, the realities of a massive federal bureaucracy limit federal attention to territorial concerns. In consonance with the concept of self-government, Interior believes the individual territories must develop their own priorities and work with Interior to help achieve them.

The Department of State said organizational options for the federal-territorial relationship should reflect the direction of that relationship--greater autonomy within the context of self-determination. State said greater centralization of territorial affairs within the federal government could be perceived by the territories as a move to reverse the present direction of U.S. territorial policy. State recognizes the need for better coordination of both policy and program issues and suggests that an interagency coordinating committee fulfill those needs. State opposes establishment of a single committee for both the flag territories and the Micronesian states, preferring a separate federal interagency organization for each. Finally, State said it is sensitive to the desire of many flag territories to expand foreign and regional relations and that it attempts to take these interests into account in formulating foreign policy initiatives, such as the Caribbean Basin Initiative.

The governor of the Virgin Islands concluded that our report is comprehensive and informative. He recommended that the Congress promptly enact a law giving the flag territories authority to develop a federal policy compact which encompasses and determines economic and social direction as well as political status of each territory. The policy should include a significant economic development, financial assistance package.

The governor of American Samoa also said our report comprehensively presents the issues associated with present U.S. policy on the insular territories. He also supported the concept of developing a long-term economic development and financial assistance agreement between American Samoa and the United States. He said that U.S. policy on the territories needs clearer definition and more effective direction. The governor said that a single federal agency, such as Interior, cannot

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effectively administer U.S. territorial policy because territorial problems are too small to warrant high level federal attention. Therefore, the governor recommends the establishment of an organization within the Office of the President or a separate agency focusing solely on territorial concerns. He also supports State's view that a separate organization is needed for the Micronesian states.

The governor of the Northern Mariana Islands commented that while the territories have much in common, goals and aspirations may differ within each. The governor said that in general the NMI has an excellent relationship with Interior and other federal agencies and with the Congress. The governor said the United States has honored its pledge guaranteeing self-government. He also commented that Interior has performed well in providing technical assistance and, in general, supporting territorial interests. The governor suggests that Interior's role in dealing with the territories be expanded to make it more effective in dealing with other federal agencies such as OMB.

The governor of Puerto Rico expressed concern that the report emphasizes problems of the Pacific territories and that Puerto Rico is not at all similar to the other territories in terms of history, culture, degree of economic development, population, and experience with self-government. The governor believes Puerto Rico should not be compared with the other territories, and that it has more in common with the states than any other territory. The governor also expressed concern that our chapter on the Compact of Free Association not be interpreted as a model for U.S. policy toward the territories. In particular, he emphasized that Puerto Rico has historically maintained close ties to the United States, and that the Compact is appropriate only for the Micronesian states which are not part of the United States. Finally, the governor commented that Puerto Rico is an active partner with the United States in representing U.S. national security, and that its citizens serve as members in the U.S. armed services.

The governor of Guam commented that the crux of improving federal-territorial relations is the need for the federal government to respond to each individual territory in a flexible manner. He said that the Congress does not need to establish an ultimate status for each territory, but wants congressional support for legislation to establish commonwealth status for Guam. The governor said commonwealth status will resolve many of the issues addressed in our report.

These and other comments from State, Interior, and the territory governments were incorporated in the body of this report to reflect updated information or to clarify certain points.

APPENDIX I

AMERICAN SAMOA GOVERNMENT
OFFICE OF THE GOVERNOR
PAGO PAGO, AMERICAN SAMOA 96799

Serial: 1069

November 11, 1984

Mr. Frank C. Conahan
Director
National Security and International Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is in response to your letter of October 11, 1984 forwarding for review and comment the draft report of the United States General Accounting Office (GAO) entitled "Issues Affecting U.S. Territory and Insular Policy."

First, I would like to commend GAO and especially the evaluation team which came to American Samoa for excellent research and the preparation of a report which as far as this Territory is concerned presents comprehensively and for the most part fairly the issues associated with present U.S. policy on the insular territories.

Next, I would point out two places in the draft report which seem to us to require some clarification.

A. Note b in Table I on page 15 attempts to define the term "U.S. national" as it relates to American Samoa. While the definition stated provided is correct so far as it goes, we believe the footnote would be more complete if it also paraphased 8 USC 1101(a)(29) and 1408. The effect of these two provisions is to define a non-citizen national as (i) a person born in American Samoa on or after formal United States acquisition (April 17, 1900 for Tutuila and Aunu'u Islands, July 16, 1904 for the Manu'a Islands, and March 4, 1925 for Swains Island), (ii) a person born outside the United States on or after June 27, 1952 of U.S. national parents who had resided in the United States or American Samoa prior to the person's birth, and (iii) a person of unknown parentage and place of birth found in American Samoa while under the age of five years (at least after reaching the age of 21 years).

B. The draft report discusses the economic self-reliance of the territories in Chapter 5. The relationship of federal financial assistance to local revenue efforts is portrayed in Table 2 on page 38. This presentation places American Samoa in a particularly unfavorable light. The figures used in this table would indicate

GAO Note: Page number references may not correspond to the page numbers in the final report.

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that in general American Samoa received in excess of 90% of its reve support from federal sources. The result is derived by categorizing local excise and income taxes as "federal". This is misleading to the reader in several ways. First, it presupposes that if these tax were collected and retained by the federal government, we would not impose alternative territorial taxes, such as sales taxes, gross receipts or other income taxes, or tangible property taxes. Second the figures used do not take into account American Samoa's revenue from the various enterprise activities operated by the territorial government.

When the total generated revenue is presented with the inclusion of the enterprise activities the degree of average federal participatio drops from over 90% to 70% (see Appendix A). If the use of the questionable tax revenue sources are removed from the analysis, not added to the American Samoa tally, but simply eliminated from the comparison, the federal rate drops still further to 61%. A reasonab case can be made that in the absence of the listed tax sources, American Samoa would generate a revenue amount at least equal to hal the lost federal yields. In this case the actual federal fiscal participation in American Samoa would be only 53%. This figure is n significantly out of line with present levels of federal participati with some states. This near parity would be achieved without progra such as revenue sharing and others for which American Samoa is not eligible.

Last, I would offer comments and suggestions on several specific are

1. Federal organization. The history of the insular territories especially since 1950, demonstrates rather emphatically, in my view, that any federal agency administering U.S. policy on those territori does not function effectively within a major department or other large agency of the U.S. Government. This statement is not intended to be critical of any Secretary of the Interior, present or past, or the head or staff of any territorial organization within the Department of the Interior. Most, if not all, Secretaries have responded postively to their territorial responsibilities. Their territorial organization staffs have been sensitive generally to territorial concerns and have included many dedicated persons. The present staff deserves specialnote in this regard. The program is simply too small to warrant prolonged attention of higher authority in this setting.

Accordingly, it is my strong opinion that U.S. territorial policy requires and deserves administration either by a special organizator within the Office of the President or by a newly established separat agency, serving in both cases, no other purpose. Equally required,

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the administration of U.S. policy on the flag territories and freely associated states to come upon termination of the UN trusteeship of Micronesia must be placed in separate agencies to account adequately for the different issues involved in these relationships.

2. Application of federal laws. American Samoa has been satisfied generally with the ongoing program of the Department of the Interior to study the application of federal laws. The effort is constructive. It is of concern, however, the Department or any other cognizant organization, submit any changes in existing laws proposed by it to us for review and recommendation before submission to the Congress. The impetus for legislation can, of course, come from many sources, but this assurance would at least regularlize the process within official channels.

3. Preemption of territorial laws. There appears to be potential in federal court decisions preempting state laws, or county or municipal ordinances, in favor of federal laws to put territorial attempts at statutory regulation in some jeopardy. For American Samoa, there is particular concern for our communal land tenure and Matai (chief) title system. This could extend to immigration, customs, business regulation and other issues. Thus, in this context, we suggest that the enactment by the Congress of legislation protective of special territorial needs should be explored thoroughly.

4. Long-term financial commitments. Presently, direct federal financial assistance to American Samoa is provided on an annual basis through appropriations to the Department of the Interior and the various applicable federal grant programs. This process makes long-term planning for economic development, for example, and other extended programs uncertain, if not precarious. There is a lack of program continuity. Therefore, we think that means of assuring long-term U.S. commitments should be considered for specific areas of economic and social development. This step might be accomplished through a separate agreement, however styled, between the United States and American Samoa.

It is my hope that this GAO report will signal the lack of and need for a realistic and sustained U.S. policy on the insular territories. The problem and program needs clearer definition and more effective direction.

Sincerely,

Peter T. Coleman

PETER TALI COLEMAN
Governor of American Samoa

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	FEDERAL ASSISTANCE	LOCAL REVENUE	TOTAL	FEDERAL PERCENTA
As presented in the Table 2 of the GAO draft report:				
1981	54	5	59	93%
1982	49	6	55	89
1983	56	5	61	92
When American Samoa's enterprise activities are included for purpose a more complete presentation.				
1981	54	19	73	74%
1982	49	22	71	69
1983	56	26	82	68
When the excise taxes and income taxes categorized as federal are eliminated from the comparison altogether.				
1981	37	19	56	66%
1982	32	22	54	59
1983	38	26	64	59
If one-half of questioned taxes by the federal government were in fa collected by American Samoa.				
1981	37	27	64	58%
1982	32	30	62	52
1983	38	35	73	52

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United States Department of State

APPENDIX II

Comptroller

Washington, D.C. 20520

November 19, 1984

Dear Frank:

I am replying to your letter of October 11, 1984 to the Secretary which forwarded copies of the draft report: "U.S. Territory and Insular Policy".

The enclosed comments on this report were prepared in the Bureau of East Asian and Pacific Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

Roger B. Feldman

Roger B. Feldman

Enclosure:
As stated.

Mr. Frank C. Conahan,
Director,
National Security and
International Affairs Division,
U.S. General Accounting Office,
Washington, D.C. 20548

Issues Affecting U.S. Territory and Insular Policy

The Department of State endorses the GAO report's broad conclusion that organizational options for the Federal-territorial relationship should reflect the present direction of that relationship -- i.e., greater autonomy within the context of self-determination. That evolution accords with long-declared global United States policy on dependent territories.

Greater centralization of territorial affairs within the Federal Government in the area of program activities is likely to be seen in the territories and abroad as a move to reverse the present direction of U.S. territorial policy and as an impediment to more efficient direct access to Federal agencies by the territorial governments.

On the other hand, the Department recognizes the need for better coordination of both policy and program issues and suggests that an interagency coordinating committee and working groups, as have been used in the Micronesian situation, could fulfill those needs.

The Department would oppose establishment of an interagency body that would have jurisdiction over Micronesian as well as territorial affairs. Our present obligations as an Administering Power on behalf of the United Nations and the nature of our future relationships to the Micronesian states under the Compact of Free Association call for an entirely separate organizational structure for dealing with the freely associated states following termination of the trusteeship. Any organizational arrangement linking the freely associated states and the flag territories would be seen from abroad as a perpetuation of "colonial status quo" and could only provide fuel for the malicious Soviet charges that the Compact is nothing but a sham annexation.

Presidentially approved policy on the management of our post-trusteeship relations with the Micronesian states calls for a two-level interdepartmental structure consisting of an interdepartmental policy steering committee chaired by the Department of State, with the Departments of Defense, Interior and Justice, and JCS, OMB, and NSC as regular members, and other agencies participating as the subject matter requires, and an interdepartmental professional staff tailored to the requirements of the situation, attached to and headed by a career officer of the Department of State, with deputies from

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the Departments of Defense and Interior and with additional personnel seconded by these and other departments and agencies as needed.

The Department is sensitive to the desire of many of the territories to expand foreign and regional relations, especially to enhance economic development and attract investment, and it attempts to take these interests into account in formulating foreign policy initiatives. The report, however, notes the perception of some territorial officials that their interests were not taken fully into account in drafting the legislation associated with the Caribbean Basin Initiative. The possibility of adverse effects on the territories was considered in formulation of the policy and input was sought from the territorial governments early in the process. Once input was received from the territorial governments, changes were made to the initiative to provide safeguards for the territories' interests. The Department believes the territories were fairly treated in the formulation of the Caribbean Basin Initiative and it intends to continue to give special attention to seeking policy input from the territorial governments in cases where their interests might be affected.

Paul Wolfowitz
Assistant Secretary
Bureau of East Asian and Pacific Affairs

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Commonwealth of the Northern Mariana Islands
Office of the Governor
Saipan Mariana Islands 96950

Cable Address
Gov NMIS

NOV 21 1984

Mr. Frank C. Canahan, Director
United States General Accounting Office
National Security and International
Affairs Division
Washington, D.C. 20548

Dear Mr. Canahan:

Thank you for providing us with a copy of the draft report entitled "ISSUES AFFECTING U.S. TERRITORIAL AND INSULAR POLICY". It is gratifying to us that an agency of the Federal Government is reviewing problem areas in an effort to improve relationships between the Territories and the United States. The task is enormous when one considers the political, social, cultural and economic diversity of the various flag territories, commonwealths and emerging independent entities who have chosen free association with the United States. While we have much in common, our goals and aspirations may differ greatly from other Micronesia entities and our relationship with the United States may be different. For example, although we are geographically close to the Territory of Guam and share a common culture and language, Guam has been a flag territory since 1898 and has been self-governing for a far greater period of time. In contrast, because the United States never exercised sovereignty over the Northern Mariana Islands, many problems which Guam faces are not relevant to us. For example, the land takings issue and Commonwealth status are not issues which we must deal with, as the Federal Government never seized lands and we have already negotiated Commonwealth status by mutually agreeing to the Covenant. (U.S. Public Law 94-241.)

This background information and brief explanation should give you an understanding as to why our areas of concern may differ greatly from other territories and insular possessions.

First, as a general statement, we have had excellent relationships with the Department of Interior, the Department of State, Congress and the multitude of federal agencies which we have dealt with since January 1978. Obviously, major areas of disagreement have arisen which will be mentioned later but, for the most part, problems have been resolved through negotiations and compromise. Many of these problems involved the fact that

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many mid-level management officials did not know that the Northern Mariana Islands had entered into the Covenant and were totally unaware of the rights guaranteed under that agreement. Once they became aware, the problems were usually resolved quickly and to our mutual satisfaction. Other issues required action at the highest level. For example, President Carter issued a proclamation in order to allow local people to use fishing vessels given to our government by Japan. Other issues which generally involve applicability or inapplicability of federal laws have been the subject of extensive review and study by the Commission on Federal Laws. Unlike many other territories and insular possessions, our Covenant has built-in mechanisms for the resolution of disputes. For example, see Section 902 of Public Law 94-241, which requires that special representatives meet and consider issues affecting our relationship.

Although your draft report does not specifically mention the Commonwealth's relationship with the United States Congress and the committees which have oversight over the territories, we feel an obligation to inform you that we feel that we have been treated quite fairly. Since 1978, supplemental appropriations have been made to fund needed projects such as a new power plant, new hospital and improvements to our water system. Capital improvements funds guaranteed by the Covenant would have been insufficient to fund projects of this magnitude and the United States Congress, which has plenary authority over us, has been most responsive to our requests.

It is true, as indicated in your draft report, that, until recently, the United States was primarily interested in the Trust Territory of the Pacific islands for strategic purposes. However, in all fairness, the United States did honor its pledge guaranteeing self-government. The most serious problem affecting the Northern Mariana Islands is that, on several occasions, attempts to attract more businesses to our island have been thwarted because of positions taken by federal officials. Although the Department of the Treasury has indicated that the income tax (which is mirrored after that of the United States) is inappropriate to our needs, both as a revenue measure and as an inducement to do business, the Department of Interior has been most reticent to act as our advocate before the appropriate committees of Congress. Several tax task forces have addressed this problem and we are ready to transmit draft legislation which would adopt, in a modified form, the Internal Revenue Code (IRC). I note that the IRC does not apply in either American Samoa or Puerto Rico. More importantly, it is not the local income tax in either the

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Marshalls or the Federated States of Micronesia. Why should the Commonwealth of the Northern Mariana islands be treated differently, particularly when we are specifically given the power to rebate such taxes should we desire to do so? Again, we are hopeful that the issue of taxation can be resolved early next year. However, we need the support of the Department of Interior.

Another pending problem best exemplifies our frustrations. Provisions in our Covenant enable us to benefit from Headnote 3(a), which allows us to export goods into the United States duty free provided certain requirements are met. Without notice to us, the Department of the Treasury, pursuant to a Presidential Executive Order, promulgated regulations which would effectively deliver a death blow to our infant textile industry. Support from the Department of Interior has been lukewarm at best. Opposition forces in Washington, D.C. fail to recognize that we are also members of the American political family and that our citizens will be deprived of their livelihood should the regulations take effect in their present form. Due to the infancy of our textile industry, it has become necessary to allow the importation of skilled workers. However, every attempt is being made to replace such persons with local people once they acquire the necessary skills through training.

Both of the above examples demonstrate that, when we make a sincere attempt to become self-sufficient, our efforts become frustrated. I do feel that the Office of Territorial and International Affairs in the Department of Interior does a very credible job in providing oversight, in providing us with technical assistance and in acting as our advocate when called upon. Unfortunately, it often lacks the necessary resources and manpower to successfully present our views when serious opposition appears. The territories and insular possessions may be best described as a group of half-brothers or half-sisters who need a strong father figure in Washington who understands our problems, our goals and our aspirations. We in the Northern Marianas have been dominated by foreign powers for approximately four hundred years. We desire, ultimately, to be economically independent. At the same time, we recognize that we are small and powerless pawns in the hands of foreign powers other than our chosen ally, the United States.

One area where improvement is needed involves our dealings with the various agencies of the federal government. Local governmental departments which have a history of dealing with their federal counterparts have, for the most part, developed close

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working relationships. However, when there are changes in personnel due to transfers, retirements, etc. or when a new program is established with a federal agency not familiar with the Commonwealth problems do arise. One solution would be for OTIA to act as a clearing house and to educate other federal agencies regarding the territory involved.

One area where the OTIA deserves high marks relates to providing technical assistance to the Commonwealth. We appreciate that we often lack the necessary expertise to do certain tasks and such assistance is truly needed. The personnel which have been assigned to the Commonwealth have provided such expertise and have demonstrated a willingness to impart their expertise to local people. In many instances, the expert has completed his task and, by training local personnel, has made his position obsolete. Providing technical assistance is far superior to providing funds and, in the long run, the federal government obtains a better return on its investment. We would recommend that this type of assistance be expanded.

Provisions in our Covenant require that Special Representatives be appointed to discuss future multi-year financial assistance after the expiration of the seven-year period of guaranteed annual assistance by the United States. President Reagan has appointed Assistant Secretary Montoya and the Commonwealth will be represented by Lieutenant Governor Pedro A. Tenorio. We feel that future financial assistance is necessary to our economic and social development and applaud the negotiations and draftsmen of the Covenant for the foresight in providing a method to resolve matters of such importance. We also are of the opinion that Mr. Montoya is an excellent choice as he is a very familiar with our problems as well as our aspirations.

Although our government maintains excellent relationships with the United States Government, many of our citizens still experience problems while traveling or residing in the United States. Provisions in our Covenant allow qualified persons to elect to become a U.S. citizens or nationals upon termination of the Trusteeship Agreement. It was generally thought that termination would take place in 1981. Recent U.S. Public Laws have given our people certain privileges granted U.S. citizens but these people do not have sufficient evidence of such status. We would suggest that temporary U.S. passports be granted to persons who would otherwise qualify for U.S. citizenship under the Covenant.

We take some exception to that portion of the draft which states that the territories have not made much progress in

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becoming economically self-reliant. We in the Northern Mariana Islands have raised taxes and have attempted to attract new businesses in order to broaden our tax base. The additional revenues raised may not be reflected on Table 2 which appears on page 38 of the draft. We are in the process of verifying our statistical data and will advise you accordingly by separate letter.

In closing, we feel that the present system is working well but could be improved. OTIA has been, in our opinion, most responsive to our needs particularly in the areas of technical assistance and infrastructure improvements. If anything, we would suggest that its role in dealing with the territories be expanded so that it could be more effective in dealing with other agencies such as OMB when it presents its recommendations to the Congress or to the President. Thank you for giving us the opportunity to comment and present our views.

Sincerely,

PEDRO P. TENORIO
Governor

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APPENDIX IV

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

NOV 23 1984

Mr. J. Dexter Peach
Director
Resources, Community, and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We have reviewed the GAO draft report on Issues Affecting U.S. Territorial and Insular Policy, and the following are our comments:

Chapter 1

Page 1

In the first paragraph, second sentence, you may wish to substitute "sometimes known" for "commonly known". The usage of "flag territories" is new and not uniformly embraced.

Later in the first paragraph, of the nine island areas named, five are by Executive order within the administrative responsibility of the Interior Department. It would therefore be more accurate if the second to the last sentence of the paragraph were revised to read: "These smaller U.S. possessions are for the most part within the administrative responsibility of the Department of the Interior but some are administered either by the Coast Guard or by components of the Department of Defense."

In the second paragraph, second sentence, it would be desirable to change "became the trustee" to "became the administering authority". The former phrase carries with it substantial possible legal consequences which have been the subject of recent litigation and which may give rise to more.

Page 2

While the United States has strong national security interests in the Pacific and Caribbean Territorial and Insular areas, it should be noted that these territories are also extensions of America, and have been so for almost a century in the case of Puerto Rico, Guam and the Virgin Islands.

In the third full paragraph, because in 1969 there were no separate "governments" in the Trust Territory, it would be well to substitute for "the Micronesian governments of" the words "political leaders in."

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Page 3

In the first full sentence, it would be desirable if "U.S. territory" were deleted, and "commonwealth in political union with the United States -- a status approximating that of a U.S. territory" were substituted. Although the Northern Marianas generally concede that they will become a "territory" of the U.S. following termination, the use of "commonwealth" is preferred, so both references seem desirable here.

In the last sentence of the paragraph continued from the preceding page, we suggest that instead of "the status of the rest of Micronesia is resolved", there be substituted "the trusteeship is terminated". The suggested language is accurate, and it eliminates the suggestion that Palau may be able to hold the rest of the Trust Territory hostage.

The first full paragraph on that page contains a number of statements and terms which are either somewhat misleading or otherwise imprecise. We suggest that the paragraph be revised into the two paragraphs suggested below. We believe the suggested language will meet the purposes intended by the existing paragraph, and will eliminate the difficulties we perceive in it:

> The United States and two Micronesian states, the Federated States of Micronesia and the Republic of the Marshall Islands, have reached final agreement on a new and unique political relationship and political status -- that of free association -- which will come into full effect upon termination of the trusteeship. The free association relationship is defined in a Compact of Free Association, under which the Micronesian states will exercise sovereignty over their internal and foreign affairs, while the United States will retain full responsibility and authority for all security and defense matters. The Compact has been approved by the governments of the Federated States of Micronesia and the Marshall Islands, and by their peoples in United Nations-observed plebiscites, and it is now before the U.S. Congress for approval. A similar arrangement with Palau is under review after an earlier version did not receive final approval in Palau. This was because the Compact received 62 percent popular approval in the Palau plebiscite, but Palau's constitution required 75 percent approval in light of the U.S. defense authority.
>
> Approval of the Compact of Free Association will provide the basis for termination of the trusteeship with the United Nations, and will open a new chapter in relations between the Federal government and the peoples of areas which seek self-government and political autonomy within the context of a close relationship with the United States. The arrangements contemplated by the Compact have also sparked new debates in the U.S. territories about how their relations with the Federal government can be improved, consistant with U.S. sovereignty. (See Chapter 5).

Chapter 2

Page 11

In the second to the last line of the footnote, in the interest of clarity, it would be helpful to add the words "held to be" before "unincorporated."

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Chapter 3

Page 14

This administration, indeed, supports the concept of self-determination and encourages the territories to determine for themselves what is best for them in their relationship with the United States. It should be noted that all territories have expressed at various times their desire for closer ties with the United States.

In the first full paragraph, the year "1976" should be changed to "1978", because it was not until the later year that the government of the Northern Marianas Commonwealth came into being, even though the Covenant received U.S. approval in 1976.

Page 15

In Table 1, we offer three suggestions:

-- The final date in the Table (1977, pertaining to "Granted constitution" for the Northern Marianas) should be 1978, because it was in that year that the Constitution became effective;

-- In Footnote a, instead of "now a constitutional government" (which suggests that prior to 1952 Puerto Rico's government was unconstitutional), insert in lieu of that phrase the words "governed under a constitution locally drafted and approved"; and

-- Add a further footnote, keyed to the Table's use of "Elected first local legislature". In fact all five areas had local legislatures, generally elected, prior to the dates shown, but some had advisory authority only (as in Guam), and others were subject to various but serious constraints upon their authority. To overcome this problem, the footnote might read: "The date given relates to the first elected legislature with either full or substantial legislative authority."

Page 16

In the second paragraph, first sentence, it would be desirable to change "guaranteed only" to "limited". As written, the implication is that citizen residents of the territories, while not "guaranteed" the right to vote in national elections, could still be granted that right. They cannot, without a Constitutional amendment, and the suggested change would make that clear.

Page 18

In the first incomplete paragraph, second to the last line, the use of "tax exemption" is not inaccurate, but more meaning would be conveyed if there were substituted for it the words "exemption from the Federal income tax laws". That is the tax about which controversy has swirled, and for which a graduated reduction was proposed by the former Governor.

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Page 19

First three lines should read: "Guam is currently refining a draft commonwealth proposal which it intends to submit to the Congress." No action will be taken during the remainder of 1984, and the final draft may not be ready in 1985.

Page 21

It should be noted that Assistant Secretary Richard T. Montoya, the President's Special Representative, is currently negotiating with the NMI government on the future level of Covenant funding.

Chapter 4

Page 25

Negotiations between the United States and Palau are complete and the agreement was signed by the U.S. and Palau representatives in May, 1984. Palau is now attempting to resolve internal constitutional problems in the formal adoption of the document by the legislature and in a plebescite. An election held September 4, 1984, failed to obtain 75 percent approval of a constitutional amendment and was not recognized by the United States.

The concept of U.N. "supervision", which appears in the first and the last lines on this page, is not entirely apropos. It would be preferable if on the first line, "under U.N. supervision" were deleted and "pursuant to an agreement with the U.N." were substituted. On the last lines, it would be well to delete "international supervision of the U.N." and substitute "U.N. international."

Page 26

At the end of the first full paragraph, you my wish to add: "In addition, the Trusteeship Agreement was thereby entered into with the Security Council of the United Nations, where the U.S. possesses a veto, instead of with the General Assembly, where it does not. The General Assembly had hitherto been the U.N.'s contracting party for trusteeship agreements." This veto consideration was at least as important a rationale for the strategic trust as were the others stated.

In the second full paragraph, first sentence, because the territories are not "sovereign entities" in the context of international law, it would be desirable to delete "a sovereign entity, subject" and insert "subject to U.S. sovereignty or".

At the end of the second full paragraph, you may wish to add: "Rather, the Trusteeship Agreement commits the U.S. to promoting "self-government or independence", as the peoples concerned might elect. That could include becoming a U.S. territory, independence, or the type of arrangement defined in the Compact."

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Page 27

The High Commissioner is appointed by the President, and not the Secretary of the Interior.

The statement "The High Commissioner will represent U.S. interests in the Trust Territory until the trusteeship is terminated" is not completely accurate. The authority of the High Commissioner is delegated by the Secretary of the Interior under an executive order. Therefore, with the problems in Palau, it is possible that the operation of the High Commissioner may be phased out prior to formal termination. It would be more appropriate to say the "Secretary of the Interior will represent U.S. interests in the Trust Territory until the trusteeship is terminated."

Page 28

Negotiations have been completed between the United States and Palau. We are encouraging Palau to resolve internally its problems with certain defense and security provisions of the agreement. You may wish to insert at the beginning of the first full paragraph: "Even though the people of Palau voted by 62 percent to approve the Compact,"

In the second full paragraph, you may wish to revise the third sentence to read as follows: "Except for rights retained by the United States in connection with defense and security matters, the Micronesian states will be self-governing entities."

In the sentence immediately following, we suggest the deletion of "will be sovereign states" and the substitution of "will approximate sovereign states."

Page 30

No decisions have been made as to which federal grant programs the respective Freely Associated States will be allowed to participate in post compact. The Compacts provide specific funds for health and education programs, but this is separate from existing federal grant programs.

The first sentence of the second paragraph, we believe, might better read: "The United States will also provide support and certain services through the U.S. Postal Service, Weather Service, Federal Emergency Management Agency, the Federal Aviation Administration, and the Civil Aeronautics Board (or its successors)."

Page 32

Although the Micronesian governments may appear to have a more beneficial relationship with the United States government as a consequence of the Compacts, it should be pointed out that the flag territories are part of the United States whereas the Micronesian entities are not. Economic Benefits should not be the sole consideration.

At the end of the first paragraph, you may wish to add to the end of the first sentence: "and make proposals for reform and reorganization of their legal and policy relations with the Federal government."

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Page 33

If, under terms of the Compacts, the Micronesians will accrue greater benefits, it appears unlikely then that there will be a massive influx of immigrants to Guam and the other territories.

Chapter 5

Page 37

The use of the word "rebates", on the sixth line, may be confusing, in light of the Northern Marianas' laws (which were effectively repealed by the U.S. Congress) providing that once the Federal income tax law is in effect there, almost all local taxpayers would receive a 100 percent "rebate" of all of the taxes they had paid. To avoid this problem, you may wish to delete "rebates" and insert "payments to the territorial treasuries."

Page 38

In Table 2,

-- Two references for footnote "a" appear. Probably that following "American Samoa" should be deleted.

-- In the "Total" column, the figure shown for Puerto Rico in 1981 appears to be in error.

-- In the footnote, the problem discussed above concerning the use of the word "rebated" occurs again. Perhaps there might be substituted for it the words "retained by the territories or covered into territorial treasuries".

Page 39 and 40

While there may appear to be no overall federal strategy for encouraging economic development in a comprehensive and consistent fashion, it must be noted that all territories have popularly elected representatives, both in the territories and in the nation's capital, and the federal government ought not to dictate such strategy in consonance with the concept of self-determination. It should be pointed out also that the needs and problems of individual territories are not necessarily the same. This administration continues to encourage elected territorial leaders to develop their individual priorities and to work with the Department of Interior, through OTIA, in achieving them. It is presumed that territorial delegates to Congress are in the best posture to identify laws inimical to territorial interests, and to seek congressional exemption to their application.

Page 47

In the second paragraph, the "1950" appearing in the first sentence should be changed to "1950 and 1954", and at the end of the sentence there should be added, "respectively."

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Page 48

In the first full paragraph, the second sentence is inaccurate. It is not the Jones Act but instead the Nicholson Act that concerns the off-loading of tuna from foreign vessels. The Nicholson Act, however, does not apply to Guam, pursuant to a 1950 ruling of the Treasury Department. We suggest that the sentence be deleted.

In the sentence next following, instead of referring to "Guam officials", you may wish to qualify the reference, perhaps by substituting "Some Guam officials". Many in Guam have in recent years changed their views as to the benefits and burdens of the Jones Act.

Page 49

Under the 1984 Omnibus Territories Bill, visa requirements for foreign travel to Guam are waived.

Page 53

At the end of the first full paragraph, it would be helpful if you were to add: "Interior plans, however, to prepare at the conclusion of the present study an Addendum that will detail the application of all Federal laws to Puerto Rico." Because Interior has had requests for this work, particularly from Congressional committee staff personnel, it would be desirable to include this sentence, so that the requests that we have had and that we expect to honor will not appear to have been overlooked.

Page 59

Under the 1984 Omnibus Territories Bill, waiver of matching grants up to $200,000.00 was extended to the Virgin Islands and Guam.

Chapter 6

Page 64

Please note that gubernatorial appointments in Guam and the Virgin Islands were made by the President. Governors in American Samoa were appointed by the Secretary of the Interior.

In the last sentence of the second full paragraph, we suggest that you delete "most of". In 1951 Interior was given responsibility for all of the Trust Territory. It was in 1952 that that authority was diminished, but it was entirely restored in 1962. In the circumstances and the context, the recommended deletion will serve the interests of accuracy, and it will not be misleading.

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Page 65

In the second sentence of the first paragraph, the use of the verb "enjoyed" implies that Puerto Rico was and is content with the lack of Interior oversight. That view has in recent years been contradicted by some Puerto Rican leaders who believe that it was an error for Puerto Rico to have no "home" in the Executive Branch (other than the White House, which has not functioned very effectively as such and which probably cannot, for organizational reasons). In lieu of "enjoyed", the more neutral "continued" might be substituted.

Page 69 and following

The Territories and their governments are not instrumentalities of the Department of the Interior. They are self-governing entities whose aspirations and responsibilities are, to a degree, similar to those of state and local governments. With the passage of time, the Department of Interior's role has diminished, and rightly so. On the other hand, DOI's oversight role applies primarily to the disbursement and accountability of federal funds. This applies to all recipients of federal financial assistance and is not exclusive of the territorial governments.

Not generally understood is the multitude of interests bidding for administration and congressional attention and the role the territories play in the overall scheme of things. While DOI, through OTIA, is committed to advocate territorial interests, the realities of a massive federal bureaucracy limits federal attention to territorial concerns, irrespective of the departmental or agency organization assigned to pursue territorial objectives. Federal and indigenous constraints can be overcome but they require specific objectives and determination on the part of territorial leaders and the cooperation and assistance of federal officials.

Page 71

Second paragraph should show that of the $62 million requested by Guam, $5,725,000 was approved by Congress. During at least the past several years, the Virgin Islands did not submit a budget request through the Department of the Interior.

At the end of page 71, a word has been dropped. Perhaps it should be "better".

Page 72

In connection with the first full paragraph, a further area of difficulty might be mentioned, perhaps by the addition at the end of the paragraph of the following: "There is, of course, a further inhibition upon OTIA officials as territorial advocates. They cannot serve as independent advocates of territorial budget requests in light of the Federal budget process, which requires that they, like all Federal officials, must conform to the budget decisions of OMB and the President."

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Page 73

Last paragraph should read:

"These officials believe that OTIA is not exercising an effective oversight role due in part to an inability to enforce compliance by the territories with audit recommendations. This oversight responsibility conflicts with OTIA's statutory responsibility to support greater autonomy for the territorial governments."

It should be noted also that when OTIA disagrees with recommendations made by the I.G., or when the I.G. attempts to make policy decisions outside its area of responsibility, OTIA often sided with the territorial governments, as is appropriate in its role as an advocate for the territories.

Page 83

On the last line, the term "retains" would be preferable to "maintains". The latter implies an active role, and as a factual matter, that is inaccurate

Sincerely,

Richard T. Montoya
Assistant Secretary
Territorial and International Affairs

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APPENDIX V

THE VIRGIN ISLANDS OF THE UNITED STATES
OFFICE OF THE GOVERNOR
CHARLOTTE AMALIE, ST. THOMAS, V. I. 00801

November 28, 1984

Mr. Frank C. Conahan
Director
U.S. General Accounting Office
National Security and International
Affairs Division
Washington, D. C. 20458

Dear Mr. Conahan:

After reading the draft report "Issues Affecting U.S. Territory and Insular Policy", I conclude that the report is the most informative and comprehensive of its kind that I have read.

My comment is brief, and is to make the following recommendation:

> Congress should promptly enact a law giving the Flag Territories the authority to develop a Federal policy compact subject to negotiation and approval by Congress, which encompasses and determines the economic and social direction, as well as the political status of each Territory. The policy should include a significant economic development financial assistance package for each Territory. After Congress gives its approval on the negotiated compact, then it should be returned and presented, unaltered, for a final referendum vote.

I hope that my recommendation will help bring about a solution to the complex problems and issues outlined in your report.

Sincerely yours,

Juan Luis
Governor

5000280

Office of the Governor
La Fortaleza
San Juan, Puerto Rico 00901

November 28, 1984

Mr. Frank C. Conahan
Director
National Security
and International Affairs Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Conahan:

Enclosed are my comments on the Draft Report of the General Accounting Office (GAO) Study, Issues Affecting U.S. Territory and Insular Policy.

From the point of view of analysis of organizational problems, the Draft Report appears to be fairly thorough with regard to the Pacific territories. I find, however, that it adds nothing to previous studies of Puerto Rico. In fact, it is essentially a study of the problems of the Pacific territories, which, to my knowledge, have not previously received adequate attention.

My comments emphasize one main concern: the nature of the request from the Senate and House was such that GAO had to analyze all of the territories, whereas in terms of history, integration with the United States, citizenship, experience with internal self-government, population, degree of economic development, social conditions, not to mention culture, Puerto Rico is not at all similar to the other territories, particularly those in the Pacific.

I also find that the Draft Report emphasizes the quasi-sovereign aspects of the Compact of Free Association for Micronesia, without taking into account the continued control of the United States over the territory for as long as it is convenient. The

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Mr. Frank C. Conahan November 28, 1984

Compact may be terminated unilaterally at any time by either the United States or Micronesia; the United States has a perpetual right to deny access to Micronesia for security reasons; and Micronesia is obligated to prepare national development plans which must have the approval of Congress. I do not presume to comment on the desirability of this arrangement for Micronesia, but this is not "sovereignty" to me.

Thank you for the opportunity to comment on the Draft.

Sincerely,

Carlos Romero-Barceló

Enclosures

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COMMENTS OF THE GOVERNOR OF PUERTO RICO, CARLOS ROMERO-BARCELO, ON GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT---ISSUES AFFECTING U. S. TERRITORY AND INSULAR POLICY

I. Organizational problems. We agree with the analysis of existing organizational problems, including the inconsistency of federal policy toward the various territories: the inequitable and inadequate application of federal laws; and the absence of appropriate consultation with the territories.

However, much of the Report focuses on the role of the Department of the Interior (as territorial oversight entity, lobbyist, advocate, etc.) and on the enactment of the Omnibus Territories Act in 1984. Within that context, it is not made sufficiently clear that Puerto Rico neither falls under the jurisdiction of the Department of the Interior nor under the provisions of the Omnibus Territories Act.

II. Puerto Rico and the other territories. While the Draft Report represents an understandable attempt on the part of GAO's staff to place the territories within a framework of uniformity, the truth of the matter is that such uniformity simply does not exist in practice. To a degree, Puerto Rico and the other territories do share

similar advantages or handicaps, in much the same way as do--for example--large cities, or states within a specific geographical region. However, we believe that--in general--the circumstances confronting Puerto Rico are sufficiently different, in nature and/or scope, that they render invalid most attempts to compare Puerto Rico's situation directly with those of the other territories. It is as if one were to compare Great Britain and the Republic of Malagasay as "island societies," without taking into account such factors as history, proximity to other countries, culture, political institutions, education, infrastructure, and economic development. To a great extent, such an exercise would be like comparing apples with oranges. Our position is that Puerto Rico has more in common with the states as a group than with the other territories as a group, and that Puerto Rico likewise has much more in common with the states than does any other single territory.

The Draft Report, on page 39, lists a number of constraints which hamper economic and social development. Let us examine these constraints as applied to Puerto Rico:

1. "Geographic isolation from major world markets and mainland United States." Though it is undeniable that virtually every offshore island is to some extent geographically isolated from major markets, we would like to

point out that Puerto Rico and the Virgin Islands are located about 1000 miles from the mainland U. S., whereas the Pacific territories are situated anywhere from 4000 to 6000 miles from the mainland. Puerto Rico and the Virgin Islands are closer to the mainland than Hawaii and almost all of Alaska. Puerto Rico and the Virgin Islands are situated directly in between two huge world markets: the United States and Latin America. The Report omits any mention of the transportation facilities presently available (in Puerto Rico and elsewhere) that contribute to surmounting the problem of comparative geographic isolation; in Puerto Rico's case, such facilities include over 3,000 passenger and cargo flights weekly and over 80 weekly ocean sailings to and from the mainland.

2. "Small land areas, and except for Puerto Rico, populations." The total land area of <u>all</u> of the other territories combined is approximately 1000 square miles, whereas Puerto Rico's land area is some 3435 square miles (larger than the states of Rhode Island and Delaware). The combined population of <u>all</u> of the other territories is some 250,000, whereas Puerto Rico's population is 3.3 million, including a capital city of over 400,000 with a metropolitan area of more than 1 million inhabitants, plus four other SMSA's of over 100,000 persons each. Puerto Rico's population exceeds

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that of at least two dozen of the 50 states.

3. "Limited natural resources, especially petroleum." Puerto Rico possesses substantial (although unexploited) deposits of copper and nickel. Moreover, we would remind the reader that the same thesis also applies to the states: there are "resource-rich" states and "resource-poor" states.

4. "Infrastructure and facilities inadequate to support the expansion of local industry and to attract significant outside investment." We disagree completely. Puerto Rico's Economic Development Administration maintains offices in ten (10) mainland cities, as well as two (2) European offices and an office in Japan. Over 150 of the "Fortune 1000" manufacturers operate plants in Puerto Rico. In 1984, manufacturing constituted 58 percent of Puerto Rico's GNP. It would be redundant to mention here the infrastructure of roads; airport and port facilities; electric power; water supply; telecommunication services; available factory, warehouse and commercial space; hospitals; schools; universities; and many others, not found in the quantity or quality of facilities in Puerto Rico. Suffice it to say that Puerto Rico cannot be compared with the other territories with respect to infrastructure and facilities for commerce and industry.

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5. "Limited skilled labor forces, and managerial and entrepreneurial skills." Again we disagree completely. See appendix. As an indirect but perhaps persuasive indication, San Juan alone has some 20 employment agencies and/or executive management recruitment firms. Approximately 85% of middle management is Puerto Rican.
6. "Large public sectors, ranging from 24 percent in Puerto Rico to 46% in Guam." First, the Draft Report (in Appendix I, page 80) states that the public sector in the Trust Territory ranges up to 57%. Second, Puerto Rico's public sector employment is not much greater than that of many states. Hawaii, for example, has 21% employment in the public sector.
7. Apart from these "constraints" mentioned in the Report, we include two positive factors which were not specifically acknowledged.
   A. Educational System. For details, see Appendix. We would simply state that Puerto Rico has more students in post-graduate institutions than the entire population of any other territory and more students per capita enrolled in institutions of higher education than the U. S. national average.
   B. Manufacturing, commerce, trade. In 1983, some 58% of Puerto Rico's Gross State Product came from these sectors, which employ 38% of the work force. Also, employment is diversified among the various

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manufacturing, financial and construction sectors. Therefore, there is no comparison with the other territories which have virtually no manufacturing sector and/or are almost exclusively dependent on tourism and one other source of non-governmental employment (e.g., American Samoa-tuna canneries; Guam-military.)

III. "Economic Self-reliance." The Report emphasizes the lack of "self-sufficiency" and heavy dependence on federal assistance. We assert that "economic self-sufficiency," while a laudable goal, is simply impossible in today's world of trade and commerce. We know of no state which does not share economic interdependence with other states and the federal government. Would GAO infer that Hawaii should be economically self-reliant despite its distance from the mainland, geographic isolation, limited population and comparative lack of natural resources?

We know of no small nation which is not economically interdependent to a large extent with one or more major nations. If, by "economically self-reliant," the Report refers to dependence on federal assistance, we disagree sharply with Table 2 on page 38. According to most authorities, federal

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transfer payments from the U. S. constituted 21.4% of Puerto Rico's Gross National Product in 1981, 23.0% in 1982 and 22.6% in 1983. Of these transfer payments, 59% were earned benefits. While federal assistance to Puerto Rico is higher than to most states, it is not unreasonably out of proportion, given Puerto Rico's per capita income and relative poverty. According to a study by the National Governors' Association in 1982, federal assistance constituted the largest single source of revenue for all the states.

If the staff of GAO relied on Federal Expenditures by State for FY 1983 for the table on page 39, we would point out one glaring omission. Because of a computer code error by DOD when supplying this information, Defense procurement contracts are stated as $0, whereas actually they totalled $217 million. Defense procurement contracts, like earned benefits, may be a federal expenditure, but are not regarded as federal assistance.

IV. "Economic Development Strategy". Page 39-40. There is an underlying premise in the Draft Report: namely, that the U. S. has no economic development strategy for the territories, except for piecemeal actions such as Operation Bootstrap. We believe that the economic development strategy of the

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nation should take into account the situation of the territories as well as that of the states, insofar as possible. For those unfamiliar with federal programs, we believe that there should be some mention that, aside from loans, there are few federal grant programs dedicated to economic development per se (Community Development Block Grants (CDBG), Urban Development Action Grants (UDAG), and Economic Development Administration (EDA) grants). Concerning these programs, Puerto Rico's allocations have been equitable and respond to Puerto Rican development plans. Also Puerto Rico has an enviable record in UDAGs, which are competitive nationwide among all municipalities, large and small.

V. Political Status.

1. We submit that although Puerto Rico now has the same internal powers as a state, the word "commonwealth" itself means nothing when applied to Puerto Rico, since the Island possesses none of the attributes or drawbacks of quasi-sovereignty or sovereignty. On the contrary, Puerto Rico is completely subject to the decisions of the Congress of the United States (See Harris v. Santiago-Rosario 446 U. S. 651 (1980)). Puerto Rico is no more a "Commonwealth" (in the sense of Canada within the

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British Commonwealth) than is the "Republic" of Palau a Republic (in the sense of the Dominican Republic).

2. Although purportedly the Draft Report does not deal with status, there is a disquieting emphasis on the "Compact of Free Association for Micronesia," as if this Compact offered a model for U. S. policy toward all the territories. From its context, the Report appears in this regard to be contemplating only the other Pacific territories; nevertheless, we must note the possibility that many readers will understand it to include Puerto Rico, as well, through ignorance or misinterpretation. We must confess that we feel almost equally ignorant about the Republic of Palau, the Republic of the Marshall Islands and the Federated States of Micronesia. It is not for us to pass judgment on the aspirations and destiny of these 116,000 non-citizens under trusteeship, or on the merits of the present proposed Compact achieved for two of these three entities after 15 years of negotiations, at a cost that would amount to $2.2 billion over the next 15 years.

The Compact is an accomplished fact and we hope it will be successful for Micronesia. However, it is apparent to us that the Report (in its present

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form) could be readily exploited by separatists in Puerto Rico as an argument to support a gradual or accelerated move away from political equality with the rest of the nation (U.S.).

Those provisions of the Compact which include the option of unilateral termination thereof by either the U.S. or Micronesia at any time; the requirement for a national plan which must receive the concurrence of Congress; the perpetual right of the U. S. to deny access for security reasons -- these aspects will be downplayed by Puerto Rico separatists in favor of stressing the "free" use of a bonanza of billions of dollars, in an appeal to greed rather than to integrity. The reaction from other ideological sectors will stress the prospect of losing our close ties to the U. S. despite the desire of no less than 45% of our population who desire equality through statehood.

The adverse consequences of the resulting controversy could very well include a flight of capital, the posponement or cancellation of planned investment, and an upsurge in migration to the mainland by experienced and highly productive members of our professional and managerial sector.

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We fully realize that the formulation of political status options is neither the focus of the Draft Report nor the intent of Senator McClure's request, and that a factual narrative concerning the Compact has nothing to do with the use to be made of the Report thereafter. However, since any discussion of organizational or policy changes will necessarily involve status, we feel that explicit acknowledgment of the fact that Puerto Rico's situation is completely different from those of the other territories would be more realistic and more in keeping with the purpose and intent of the Report.

VI. National Security. We find the emphasis on page 2 (to the effect that U. S. interests focus on national security) to be --if true-- a sad commentary on the significance of Puerto Rico's 86-year history as a United States possession. This section reads as if Puerto Rico were a foreign nation which has to be persuaded to continue "close and friendly relations" with the U. S. Puerto Ricans have been U.S. citizens for almost 70 years. Presently there are some 150,000 Puerto Rican veterans of the U. S. armed forces residing on the Island. Some 2,000,000 Puerto Ricans reside in the 50 states.

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This statement constitutes an insult to our loyalty, our integrity, and to our record of participation in the affairs and in the defense of the nation. We might add that it also offers what would readily be construed as federally sanctioned encouragement to radical elements whose goal is to force Puerto Rico's separation from the U. S. against the will and the democratically expressed desire of the overwhelming majority of the Puerto Rican people.

Submitted by: Carlos Romero Barcelo
CARLOS ROMERO-BARCELO
GOVERNOR OF PUERTO RICO

5000204

TABLE XIII

ENROLLMENT AT UNIVERSITY LEVEL BY INSTITUTIONS, PUERTO RICO: 1976-77 TO 1982-83

Institutions	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Total	111,311	119,083	126,196	130,105	135,160	139,459	151,893
University of Puerto Rico	50,225	50,492	50,248	50,837	52,680	51,159	51,273
Río Piedras, y Extramuros	24,216	23,846	23,531	22,816	23,373	21,267	19,755
Mayaguez	9,130	8,767	8,899	8,339	8,808	9,238	9,241
Ciencias Médicas	[illegible]	2,835	2,583	2,476	2,571	2,625	3,137
Cayey	2,351	2,601	2,541	2,695	2,836	3,155	3,319
Humacao	3,233	3,343	3,277	3,868	3,693	3,307	3,134
Bayamón Col. Univ. Tec.	-	-	-	3,963	3,967	3,908	4,444
Arecibo Col. Univ. Tec.	-	-	-	-	2,863	2,821	3,256
Ponce Col. Univ. Tec.	-	-	-	-	-	-	1,745
Regional Colleges[1/]	9,175	9,100	9,417	6,680	4,749	4,838	3,240
Arecibo	2,369	2,359	2,422	2,467	3/	3/	3/
Ponce[b/]	1,922	1,622	1,523	1,515	1,651	1,565	-
Bayamón	2,763	2,879	3,136	-	-	-	-
Aguadilla	1,005	1,036	1,133	1,045	1,067	1,160	1,257
Carolina	1,086	1,204	1,203	1,458	1,614	1,644	1,476
Utuado	-	-	-	195	417	469	507
Other Governmental Organizations[2/]	2,461	2,586	2,455	3,119	3,246	1,421	3,995
Private Institutions	58,625	66,005	73,493	76,149	79,234	83,374	92,346
Bridgeport University	-		296[a/]	-	-	-	-
Universidad Interamericana	26,379	28,420	28,749	30,226	32,396	34,479	37,741
Universidad Católica de P.R.	10,804	11,762	11,138	11,698	11,456	12,021	13,048
Fundación Educ. Ana G. Méndez	10,560	12,245	13,093	12,279	12,915	13,307	15,232

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Cont'd (TABLE XIII)

Institutions	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Universidad Sagrado Corazón	3,934	5,051	5,929	6,425	6,588	7,032	7,275
Universidad Central de Bayamón	2,039	2,615	2,911	2,704	1,912	1,404	1,724
Universidad Mundial	3,795	4,813	4,813	4,666	4,751	4,536	5,327
Antillian College	248	195	541	732	647	753	788
Caribbean University College	866	904	1,204	1,591	1,949	2,197	2,694
Instituto Comercial de P.R.	-	-	1,800	1,794	1,619	1,652	1,472
E.D.P. College	-	-	817	1,094	1,327	1,842	2,334
New York University	-	-	229	214	232	251	197
American College of P.R.	-	-	1,313	2,009	2,406	2,910	3,518
Ramírez College of Business and Technology	-	-	660	717	688	623	604
Centro Caribeño de Estudios Post-Graduados	-	-	-	-	348	367	392
uthorized Private Institutions	-	-	-	-	-	3,505	4,279
Escuelas de Enfermeras (o) Anestesistas							
Hospital Auxilio Mutuo	-	-	-	-	-	20	20
Puerto Rican School For Nurse Anestheties	-	-	-	-	-	35	16
Huertas Business College	-	-	-	-	-	337	559
Instituto Técnico Comercial Junior College, Inc.	-	-	-	-	-	733	643
Colegio Universitario Cristiano de las Américas	-	-	-	-	-	N.D.	243
New Hampshire College	-	-	-	-	-	90	140
Caguas City College	-	-	-	-	-	774	858
Universidad Politécnica de P.R.	-	-	-	-	-	407	579
Facultad para las Ciencias Sociales Aplicadas	-	-	-	-	-	22	18
University of Phoenix, Residence Center	-	-	-	-	-	215	304
Universidad Central del Caribe, Inc.	-	-	-	-	-	423	318
Escuela de Medicina San Juan Bautista	-	-	-	-	-	156	171
Ponce School of Medicine	-	-	-	-	-	150	179
Fordham University	-	-	-	-	-	121	208
Puerto Rico Institute of Psychiatry	-	-	-	-	-	22	23

1/ Total included in the total for the University of Puerto Rico.

2/ Conservatory of Music, Institute of Puerto Rican Culture, Technological College for the Community, Technological Institute for the Community.

3/ Became University College in 1980-81.

a/ This Institute ceased operations in Puerto Rico.

b/ Became Technological University College.

APPENDIX VI

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TABLE XV
INDUSTRIAL GROUP EMPLOYMENT IN PUERTO RICO: CALENDAR YEARS 1976 to 1982 (In Thousands)

Industrial Group	1976	1977	1978	1979	1980	1981	1982
All Industries	690	700	730	745	760	742	704
Agriculture, Forestry, Fishery	44	39	36	37	41	37	35
Construction	44	40	44	43	45	41	32
Manufacture	129	139	147	143	141	140	132
Commerce	132	137	140	140	141	141	137
Transportation, Communications and Public Utilities	45	46	46	47	48	48	46
Services	119	122	128	133	136	135	129
Public Administration	158	157	170	181	185	177	172
Other Industries 1/	19	20	20	21	23	23	21

1/ Includes Mining, Finance, Insurance and Real Estate.

Note: The amounts do not totaled due to rounding out.

Source: Puerto Rico Department of Labor and Human Resources, Statistics Division

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APPENDIX VI

Corrections

1. page 9. "Treaty of Peace" should be "Treaty of Paris".

2. page 17. Before 1952 and after 1952, Puerto Rico's residents have debated political status with the United States.

3. page 48-49 Jones Act. On October 30, 1984, the President signed into law, H.R. 89, which allows foreign-flag vessels to operate in the U.S.-Puerto Rico passenger trade, provided U.S. flag service is not available.

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TERRITORY OF GUAM
OFFICE OF THE GOVERNOR
AGAÑA, GUAM 96910
U.S.A.

RICARDO J. BORDALLO
GOVERNOR

December 20, 1984

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Sir:

This letter is in response to your transmittal of October 11, 1984, of a draft report on "Issues affecting U.S. Territory and Insular Policy."

I have no detailed suggestions on the draft report, but wish to comment in general that the crux of improving federal-territorial relations is the need for a flexible response by Washington to each individual territory's distinctive and separate needs for self-determination. There is no need at this time for Congress to establish "an ultimate status for the territories" as implied on page 24 of the draft report. For Guam, what is needed specifically is positive support by all federal executive agencies and by the Congress of the "Guam Commonwealth Act," which will be submitted in 1984 for Congressional action. The creation of Commonwealth status for Guam by that act will resolve for us many of the issues addressed in the draft GAO report while safeguarding U.S. national interests in the Pacific.

I appreciate greatly GAO's efforts to alert Congress to the need for greater attention to territorial needs.

Sincerely yours,

RICARDO J. BORDALLO

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APPENDIX VIII

DESCRIPTION OF U.S. TERRITORIES AND INSULAR AREAS

The following describes the geographic location, size, population, and certain economic indices of the five principal U.S. territories discussed in this report and the Trust Territory of the Pacific Islands. In addition, descriptions of the smaller island possessions are provided.

AMERICAN SAMOA

American Samoa's seven islands have a land area of 76 square miles and are about 4,100 miles from the U.S. mainland. Over 96 percent of the land is owned communally. American Samoa's population is about 34,000. In 1982, 38 percent of the work force was employed by the local government. The largest private sector activity, tuna canneries, comprised 22 percent of total employment. In 1982, the unemployment rate was 12 percent.

GUAM

Guam lies about 6,000 miles southwest of San Francisco. It has an area of 209 square miles and a population of about 105,000. Over 20 percent of the population is comprised of military personnel, federal employees and their dependents. Guam's economy is highly dependent on government activities. In 1981, 46 percent of the civilian work force was engaged in public sector employment. Most private sector activities are services catering to the needs of tourists, the military, or local government. Per capita income in 1982 was $7,010. In 1981, 9 percent of the civilian work force were unemployed.

NORTHERN MARIANA ISLANDS

The Northern Mariana Islands (NMI) consists of 21 islands, with a land area of approximately 185 square miles. Only 6 of the islands are inhabited. The NMI is approximately 6,000 miles from the mainland U.S. The population is estimated at 17,000 with the majority living on the largest island, Saipan. The NMI had a per capita income estimated to be at least $2,700 in 1979. The economy mostly depends on government employment. More than 30 percent of its work force of 6,000 was engaged in public sector activities in 1979.

PUERTO RICO

Puerto Rico is the largest, most populous U.S. territory. Its land area is about 3,500 square miles. The island is located 885 miles southeast of Florida and has about 3.3 million residents. Manufacturing and trade are important parts of the

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local economy, comprising about 52 percent of the territory's gross national product in 1983. Puerto Rico is heavily dependent, however, on government employment. About 24 percent of the work force was employed by the government in 1983. Per capita income was $3,900 in 1983 and in 1983 the unemployment rate was 23 percent.

U.S. VIRGIN ISLANDS

The Virgin Islands, which are located in the eastern Caribbean, are 1,400 miles from New York. The principal islands, St. Thomas, St. Croix, and St. John, have a combined land area of 130 square miles. The population of the islands is about 100,000 and the per capita income in 1982 was $7,078. The local economy depends heavily on government employment and tourism. In 1982, public sector employment accounted for 37 percent of the total work force. Unemployment was 7.8 percent in 1982.

TRUST TERRITORY OF THE PACIFIC ISLANDS

The Trust Territory of the Pacific Islands lies in an expanse of the Western Pacific Ocean equal in size to the continental United States. The land area, however, is about one-half the size of Rhode Island. The far western boundary of the area is 500 miles from the Philippines; Hawaii is about 1,800 miles from the eastern border. The Trust Territory's three constitutional governments--the Federated States of Micronesia, the Marshall Islands, and the Republic of Palau--have a combined population of about 116,000. All three Micronesian states have large public sector work forces, ranging from 40 to 57 percent.

SMALLER INSULAR POSSESSIONS

Baker, Howland, and Jarvis

Baker, Howland, and Jarvis are all uninhabited Pacific islands. These islands are located about 1,600 miles southwest of Hawaii. Each was placed under the Secretary of the Interior's jurisdiction in 1936, and are administered by the Fish and Wildlife Service.

JOHNSTON ATOLL

Johnston Atoll, which is located about 700 miles southwest of Hawaii, was annexed by the U.S. in 1858. In 1934, Johnston was placed under the Department of the Navy's jurisdiction. Operational control was transferred to the U.S. Air Force in 1948. Presently, the Defense Nuclear Agency administers the island. Approximately 325 U.S. military and civilian personnel are stationed on Johnston. The island has no indigenous population.

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KINGMAN REEF

Kingman Reef is uninhabited and located about 920 miles south of Hawaii. It was annexed by the U.S. in 1922. In 1934, Kingman Reef was placed under the Department of the Navy's jurisdiction where it remains today. At this time, the Navy is not expending any money to maintain the 10 mile long island.

MIDWAY ISLANDS

Midway Island, an Atoll located about 1,200 miles northwest of Hawaii, was annexed by the U.S. in 1867. Midway is administered by the Department of the Navy and has no native population. Currently, Midway is inhabited by a small number of military and civilian personnel.

NAVASSA ISLAND

Navassa Island is located about 30 miles off the west coast of Haiti. The U.S. has claimed and exercised jurisdiction over the island since 1858. The U.S. Coast Guard is responsible for maintaining the navigational light on this small island.

PALMYRA ISLAND

Palmyra Island, consisting of more that 50 islets, lies about 1,000 miles south of Hawaii. It was annexed to the U.S. with Hawaii in 1898. Palmyra is uninhabited and privately owned.

WAKE ISLAND

Wake Island is located approximately 2,300 miles west of Hawaii and 1,500 miles northeast of Guam. Wake's total land area is about 2.5 square miles. The island is the site of a U.S. Air Force air field and houses a small number of military and civilian personnel. In 1972, Wake Island's civil administration was transferred to the Air Force, although Interior formally retains jurisdiction.

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SELECTED REPORTS AND STUDIES ADDRESSING THE U.S. TERRITORIES AND THE TRUST TERRITORY OF THE PACIFIC ISLANDS

The following is a listing of selected reports and studies on the territories prepared by GAO and other federal agencies. These reports provide detailed analyses of many of the policy issues surrounding United States-territorial relations addressed in this report.

GAO REPORTS	Date
Ways to Reduce the Cost of Medical Referral Programs in Micronesia and American Samoa (NSIAD-84-139)	08/09/84
Followup of Guam's Administration of Its Income Tax Program (GGD-84-11)	10/26/83
U.S. Customs Service's Collection of Duties on Imports to the Virgin Islands (GGD-84-26)	10/25/83
The Challenge of Enhancing Micronesian Self-Sufficiency (ID-83-28)	01/25/83
Navy's Transfer of Power System to Financially Troubled Guam Power Authority Has Been Delayed (ID-83-1)	07/02/82
The Federal Audit Function in the Territories Should Be Strengthened (AFMD-82-23)	03/25/83
Limited Progress Made in Consolidating Grants to Insular Areas (GGD-81-61)	07/10/81
Puerto Rico's Political Future: A Divisive Issue with Many Dimensions (GGD-81-48)	03/02/81
Experiences of Past Territories Can Assist Puerto Rico Status Deliberations (GGD-80-26)	03/07/80
Problems with New Responsibilities of Self-Government in the Northern Mariana Islands (ID-80-20)	03/07/80
The Government of Guam's Administration of Its Income Tax Program (GGD-80-3)	10/03/79

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American Samoa Needs Effective Aid to Improve Government Operations and Become a Self-Supporting Territory (CED-78-154)	09/22/78
Technical Assistance: A Way to Promote Better Management of Guam's Resources and to Increase Its Self-Reliance (GGD-77-80)	09/13/77
Proposed Financial Management System for the Central Government of the Trust Territory of the Pacific Islands (FGMSD-77-27)	04/18/77
Financial Management of Virgin Islands Government Needs Substantial Improvements (B-114808)	03/02/71

AGENCY STUDIES AND REPORTS

U.S. Department of Commerce, Economic Study of Puerto Rico, December 1979.

U.S. Department of the Interior, The Economy of the Virgin Islands, June 20, 1979.

U.S. Department of the Interior, Report on Infrastructure Needs of Guam 1980 through 1990, June 25, 1979.

Department of the Treasury, The Operation and Effect of the Possessions Corporation System of Taxation, Annual Report.

Department of the Treasury, Territorial Income Tax Systems, October 1979.

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