

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON 25, D. C.

NOV 25 1958

Mr. Luis A. Ferre
Ponce, Puerto Rico

My dear Mr. Ferre:

We have received your letter of November 7, 1958, concerning the report compiled by the Bureau of the Budget for the House Committee on Interior and Insular Affairs on the flow of Federal funds into, and receipts from the Commonwealth of Puerto Rico. The report was based on data furnished to this office by various Federal agencies using similar criteria. As noted in the report and in our letter to the Committee, certain qualifications and limitations attached to the data. Correct and complete information does not exist in all instances, and estimates based on available material and informed judgment were used.

The figures on public assistance grants were furnished to us by the Department of Health, Education, and Welfare. In calculating the amount which might have been granted to Puerto Rico if it were treated like a State, the Department began with the assumption that the total amount spent on public assistance in the Commonwealth would have been the same in fiscal year 1959 even if Puerto Rico had been treated like a State. The Department then merely recalculated the Federal portion of the total 1959 program on the basis of the State formulas rather than the special formula for Puerto Rico. Under the State formulas, the Federal share of the program would have been \$12.7 million rather than the \$8.5 million maximum authorized under current law.

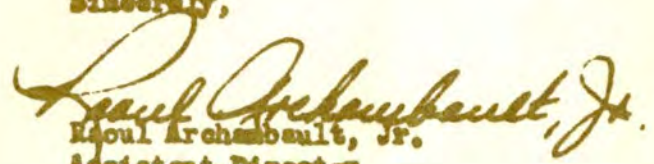
Use of any other basis for recalculating the amounts of public assistance grants would have been most difficult for the Federal Government since such other basis would depend entirely on the degree and manner in which the Commonwealth might decide to alter its program and level of public assistance payments. As you point out, under the formulas applicable to the States the Federal Government would pay \$24 of the first \$30 of monthly payments made by Puerto Rico to qualified recipients of old-age assistance, aid to the blind and aid to the permanently and totally disabled. It would pay \$14 of the first \$17 of monthly payments made to qualified recipients of aid to dependent children. If Puerto Rico were to increase the payments to those levels, and if, as you estimate, the number of recipients of aid to the aged increased to 200,000 and the number of recipients of aid to dependent children increased

to 150,000, Puerto Rico's share of the costs of such a program for the aged and dependent children would amount to about \$19.8 million and the Federal share would increase to about \$82.8 million. Of course, there would be additional funds required of both the United States and Puerto Rico to cover the costs of payments to the blind and the disabled and to cover administrative and medical expenses. However, the degree to which the Commonwealth could or would increase its contributions, or even maintain its current level of contributions, is debatable since, if it were treated like a State, its tax revenues would also be declining drastically at the same time. In view of such unknowns, it appeared more reasonable to base the calculations on the current level of program activity.

The Department of Agriculture informed us that it would be unfeasible to estimate the amount of any payments which might be made in Puerto Rico under the soil bank program. Application of the program in the Commonwealth is discretionary under current law, but to date no need for the extension of the program to Puerto Rico has been determined. We do note, only by way of comparison, that less than 25 million acres of mainland farms are now under contract in the soil bank program. The average Federal payment for such land is about \$10 an acre. Solely on a proportionate farm-area basis and disregarding the element of need, less than 50,000 acres of Puerto Rican farmland might be under contract and payments to the Commonwealth farmers would be under \$500,000 a year.

The corporation taxes which you mention were computed in our report on the presumption that Puerto Rico would be treated exactly like the States. Included were taxes which would be owed by corporations which now have a tax-exempt status under laws applicable to the Commonwealth. No consideration was given to any specific or special conditions which might apply if Puerto Rico actually were a State. On the basis of equal treatment, the taxes were estimated using current levels of income and consumption.

Sincerely,


Paul Archambault, Jr.
Assistant Director