

Puerto Rico and the Distribution of Federal Government Expenditures

Although it is often alleged that Puerto Rico is treated “generously” by the federal government—and is sometimes called “welfare island”—the reality is rather different.

The U.S. government spent some \$3.3 trillion in 2010 on everything from Social Security payments to weapons procurement, from support for public schools and health programs to agricultural subsidies and the salaries of government workers. While these expenditures are directed towards particular needs, they also provide economic stimulus, both to the country as a whole and to the particular regions where the money is spent. Of course determination of the location of the expenditures is not simply a technical budgetary matter, but is also a political process, a process from which Puerto Rico is excluded.

Both overall and in several particular ways, Puerto Rico is treated relatively poorly in terms of the dispersal of federal funds. Consider the data in Table 1. In fiscal year 2010 Puerto Rico received \$5,307 per capita from the federal government, less than any state or the District of Columbia (DC). In that year, the average per capita funds going to the states, DC and Puerto Rico was \$10,612—i.e., in per capita terms, Puerto Rico received 50% of the average.

The only area of federal government funds in which Puerto Rico rises from its position below all of the states and DC is in the “grants” category, which includes several programs that are explicitly designed—either by formula or discretionary policy—to support low-income areas. In terms of grants per capita, Puerto Rico, which has a level of per capita income far below that of any state or DC, ranks 49th. Categories of federal funds dispersal where

Puerto Rico’s receipts are especially low compared to the states are procurement (15.7% of the average) and salaries and wages (19.3% of the average).

Regardless of the fact that procurements and federal employment (salaries and wages) have their particular purposes, it is well known that the location of such activity is often designed to alleviate poverty and unemployment. Probably more important, the location of federal procurement and employment is highly influenced in the political process, whereby congressional representatives and senators bring about the location of this activity in their districts or states. As a territory, Puerto Rico has no congressional representatives or senators, only a non-voting “resident commissioner.”

If the dispersal of federal funds is viewed in relation to the per capita personal income of the states, DC and Puerto Rico, the situation might be subject to a different interpretation. After all, in 2010, per capita personal income in Puerto Rico was only 37% of per capita personal income in the states (and DC)—\$15,180 as compared to \$40,584. Yet, Table 2 shows that in 2010 in relation to personal income per capita, Puerto Rico—with federal funds amounting to 35% of per capita person income—ranked below six states and DC in terms of the funds it received from Washington; each of those states and DC had a level of per capita personal income more than twice as high as does Puerto Rico. Of course, in some of these states, and especially DC, wages and salaries and procurement play an especially large role. But, again, federal

· The six states were, in order (after DC which was first), Alaska (40%), New Mexico (40%), Kentucky 40%), Virginia (38%), Hawaii (37%), and West Virginia (36%). For the states and DC as a whole, the figure was 26%.

wages and salaries and procurement expenditures are used to support jobs and incomes (though DC and perhaps Virginia are special cases).

There is, however, little rationale behind the idea that states and Puerto Rico should receive less federal funds if they have low levels of personal income per capita. Federal payments are designed to serve multiple functions, ranging from providing income and employment in relatively low-income regions to building infrastructure (e.g., highways) to establishing military bases and purchasing military equipment. Because of an implicit federal commitment to support regional income convergence, it is to be expected that low-income regions would have relatively large receipts. Yet Puerto Rico, with a level of income far lower than any of the states, still receives an allotment in relation to income well below several states.

It might be argued that Puerto Rico should receive less funds from Washington than do the states because Puerto Ricans do not pay the federal income tax. Yet, Puerto Ricans do pay Social Security and Medicare taxes to Washington (as well as some other payments), and when Puerto Rico, DC and the states are ranked by net receipts per capita from the federal government—that is, receipts from the federal government less federal taxes—Puerto Rico is far from the top of the list. In 2010, net federal receipts to Puerto Rico were \$4,697 per capita, while seventeen states and DC received larger amounts of net federal receipts per capita, as shown in Table 3. Even when net federal receipts are computed in relation to personal income per capita, Puerto Rico does not move to the top of the list. With net federal receipts per

capita amounting to 29% of Puerto Rican per capita personal income, this 29% level is still below that for New Mexico (and DC). Moreover, for seven other states, net federal receipts per capita amounted to more than 20% of per capita personal income. (The figures are similar for earlier years.)

In any case, as with the relation between the distribution of federal funds and per capita personal income (of Table 2), there is no rationale behind the idea that federal funds should be dispersed to the states in connection with payments (taxes) by the states to the federal authorities. Again, federal fund disbursements are designed to serve multiple functions, and there is no reason that the expenditures in a state or region should equal the tax payments from that state or region. It is to be expected that low-income regions, which make relatively low payments to the federal government, would have relatively large receipts from the federal government.

A level playing field would mean, at least to a large extent, that states (and Puerto Rico) would receive funds from Washington in response to their needs—or at least in response to an equitable distribution of political influence. Quite clearly, Puerto Rico is not treated fairly. Fairness is not only important in itself, but fair treatment would both improve the economic conditions of Puerto Rican families and provide a major boost to the island's economy. Yet, without effective (i.e., voting) power in Washington, Puerto Rico does not play on a level field.

Table 1
Federal Government Payments to Puerto Rico Per Capita; Rank of Puerto Rico Among States, DC, and Puerto Rico; and Payments to Puerto Rico as a Percentage of Average to States, DC and Puerto Rico. Fiscal Year 2010

Category of Payments	Amount per Capita	Rank	Percent of Average
Retirement, Disability & Medicare	\$1,998	52	67.4
Other Direct Payments ^a	1,247	52	47.0
Grants ^b	1,587	49	71.7
Salaries and Wages	214	52	19.3
Procurement	262	52	15.7
Total	\$5,307	52	50.0

Source: *Consolidated Federal Funds Report for Fiscal Year 2010, State and County Areas*, U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, Issued September 2011; and *Statistical Abstract of the United States 2011* for population data.

Notes:

^a Other Direct Payments consist primarily of direct payments for individuals other than retirement, disability and Medicare. Major categories of such payments include unemployment compensation, "food stamp" payments, federal employees' life and health insurance, and agricultural assistance.

^b Grants include both Formula Grants (allocation of money to states and subdivisions according to a distribution formula prescribed by law and not related to a specific program) and Project Grants (funding of either specific projects or the delivery of specific products and services). Principal funders include the departments of Health and Human Services, Transportation, HUD, Education and Agriculture.

Table 2
Federal Government Payments to Puerto Rico Per Capita as a Percentage of Per Capita Personal Income; Rank of Puerto Rico Among States, DC, and Puerto Rico; and Payments to Puerto Rico as a Percentage of Average to States, DC and Puerto Rico. Fiscal Year 2010

Category of Payments	Percent of per capita personal income	Rank	Percent of Average
Retirement, Disability & Medicare	13.2	1	180.3
Other Direct Payments	8.2	11	125.7
Grants	10.5	3	191.6
Salaries and Wages	1.4	47	51.5
Procurement	1.7	48	4 1.3
Total	35.0	8	133.7

Source: See Table 1 sources; and for personal income for the states *Statistical Abstract of the United States 201*, and for Puerto Rico Junta de Planificación de Puerto Rico, Apéndice Estadístico, www.jp.gobierno.pr.

Notes: See Table 1 notes.

Table 3: Net Federal Expenditures Per Capita (Expenditures Minus Taxes), States, DC, and Puerto Rico, 2010

	Net Fed Ex	Rank		Net Fed Ex	Rank
District of Columbia	72,292.40	1	Utah	3,618.10	27
Alaska	11,123.10	2	Kansas	3,575.04	28
Hawaii	10,732.90	3	Iowa	3,545.22	29
New Mexico	9,906.86	4	North Carolina	3,481.73	30
Virginia	9,761.25	5	Pennsylvania	3,463.92	31
Maryland	8,417.70	6	Oregon	3,367.20	32
West Virginia	8,364.84	7	Connecticut	3,357.49	33
Kentucky	7,812.20	8	Georgia	3,292.85	34
Alabama	7,657.33	9	Washington	3,271.60	35
Mississippi	7,515.26	10	Wisconsin	2,936.53	36
Montana	6,872.75	11	Nevada	2,555.03	37
Vermont	6,712.04	12	Indiana	2,359.73	38
Maine	6,549.42	13	New Hampshire	2,202.86	39
North Dakota	6,541.87	14	Colorado	2,067.92	40
South Dakota	6,386.79	15	Massachusetts	1,695.27	41
South Carolina	6,313.02	16	California	1,621.30	42
Idaho	5,167.19	17	Texas	1,455.53	43
Arizona	5,115.76	18	Rhode Island	1,235.08	44
Puerto Rico	4,696.73	19	Arkansas	240.06	45
Wyoming	4,258.14	20	New York	108.37	46
Louisiana	4,102.91	21	Ohio	-8.67	47
Missouri	4,057.49	22	Illinois	-77.94	48
Oklahoma	4,025.22	23	Nebraska	-602.30	49
Florida	4,005.04	24	New Jersey	-4,310.79	50
Tennessee	3,829.12	25	Minnesota	-4,449.54	51
Michigan	3,753.68	26	Delaware	-8,018.41	52

Source: Source: *Consolidated Federal Funds Report for Fiscal Year 2010, State and County Areas*, U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, Issued September 2011; and for personal income for the states *Statistical Abstract of the United States 201*, and for Puerto Rico Junta de Planificación de Puerto Rico, Apéndice Estadístico, www.jp.gobierno.pr. Tax revenue from *Internal Revenue Service Data Book, 2010*, Department of the Treasury, IRS, <http://www.irs.gov/pub/irs-soi/10databk.pdf>.