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MEMORANDUM TO MARIANAS FILE

Talked to Ralph Altman today (376-7108); he is Director of Legislative and Legal Affairs, Department of Labor.

He said the Federal Unemployment Tax Act ("FUTA") only applies to "states." Puerto Rico is treated as a state for this purpose and the Virgin Islands has asked to be treated as a state so FUTA will apply to it.

He said FUTA's only purpose is to act as an incentive for states adopting a state unemployment insurance program. Thus, the first question is whether the Marianas wants to adopt its own unemployment insurance program.

He pointed out that for an unemployment system to be viable, there should be a moderate rate of unemployment. Puerto Rico apparently is pushing the limit at 10%. Also, the small size of the Marianas work force means that any slight shift in unemployment would have great effects on the system. Also must consider whether the payroll tax used to finance FUTA would be a burden on the economy.

If FUTA is applicable, its main benefits are (1) federal grants to finance administration of the state system and (2) federal loans if state runs short of funds.

F.D.L.

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