

**STATEMENT
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BEFORE THE

**SUBCOMMITTEE ON FISHERIES, WILDLIFE, OCEANS AND INSULAR AFFAIRS
COMMITTEE ON NATURAL RESOURCES
HOUSE OF REPRESENTATIVES**

REGARDING

**MINIMUM WAGE
IN
AMERICAN SAMOA
AND
THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

September 23, 2011

Mr. Chairman and members of the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs, thank you for the opportunity to discuss minimum wage issues relating to American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

In 2007, legislation that ultimately was enacted as Public Law 110-28 raised the Federal minimum wage to \$7.25 per hour also included a provision raising minimum wage rates in American Samoa and the CNMI in 50-cent annual increments until the minimum wage rates in the two territories equal that of the Federal minimum wage rate. Since enactment of that law, Congress has postponed the 50-cent increases for American Samoa in 2010 and 2011 and for the CNMI in 2011.

THE GAO REPORT

Subsequent law requires that the United States Government Accountability Office (GAO) produce a report on the affect of the minimum wage in American Samoa and the CNMI. The GAO's latest report, GAO-11-427, was released in June 2011. Salient points from that report regarding American Samoa include—

- employment fell 19 percent from 2008 to 2009, due largely to the closure of one tuna cannery, which caused a 55 percent decrease in tuna canning employment, and a 14 percent employment decline from 2006 to 2009;
- average inflation-adjusted earnings fell by 5 percent from 2008 to 2009, but for those minimum wage cannery workers who remained employed their wages increased more than inflation;
- current law will increase future minimum wages for 99 percent of the employees in the tuna canning industry;
- some workers were disappointed in the 2010 minimum wage increase delay while more workers expressed concern over job security;
- private sector employers reported cost-cutting through lay-offs and hiring freezes; and

- private sector employers were also concerned that American Samoa was becoming less competitive in the increasingly competitive world tuna market.

Regarding the CNMI, the report noted that—

- employment fell 13 percent from 2008 to 2009, and 35 percent from 2006 to 2009;
- average inflation-adjusted earnings rose by 3 percent from 2008 to 2009;
- current law will increase future minimum wages for 95 percent of the employees in the tourism industry;
- tourism workers expressed mixed views: they would like minimum wage pay increases but were concerned about losing jobs and work hours;
- tourism employers reported that future planned actions included laying off workers; and
- some tourism employers expressed concern about minimum wage increases, but others said the primary difficulty was the decline of the CNMI's tourism industry.

THE ECONOMIES

It is instructive to further examine the economies of American Samoa and the CNMI. Beginning in fiscal year 2009, the Office of Insular Affairs has provided funding for the Bureau of Economic Analysis (BEA) in the Department of Commerce to develop the gross domestic product (GDP) statistics for the United States territories. The territories now receive these annual GDP statistics, which are of a quality comparable to those developed for the 50 states and the District of Columbia. The first set of these statistics became available in May 2010 and covered the period of 2002 to 2007; estimates for 2008 and 2009 were released this past summer.

American Samoa

The current set of GDP statistics on American Samoa by BEA are for 2002 through 2009, and are as follows:

| | American Samoa Gross Domestic Product (Millions of Dollars) | | | | | | | |
|--|---|------------|------------|------------|------------|------------|------------|------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Real GDP (Millions of Chained 2005 Dollars) | 539 | 542 | 545 | 548 | 531 | 540 | 529 | 504 |
| Population (000) | 60.8 | 62.6 | 64.1 | 65.5 | 66.9 | 68.2 | 69.2 | 70.1 |
| Per Capita Real GDP (\$) | 8,865 | 8,658 | 8,502 | 8,366 | 7,937 | 7,918 | 7,645 | 7,190 |
| Source: BEA | | | | | | | | |

Adjusted for inflation, American Samoa's GDP declined in both 2009 and 2008 from 2007 levels and remained below the average for the 2002-2009 period. Stagnant and declining real GDP is caused by stagnant commodity prices for processed fish and stagnant public sector receipts in the form of Federal grants and other revenue flowing to the American Samoa Government.

One of the two canneries that had operated in American Samoa since the 1950s, Chicken of the Sea, closed in September 2009. The economic and financial impact of the closure is evident in the 2009 GDP data and will also add to GDP losses for 2010.

Long a part of the American Samoa landscape, the cannery closure has caused both economic and financial dislocation. In October 2010 the global fish processing and marketing firm, Tri Marine, indicated that it would purchase and rebuild the physical assets of the closed cannery and reopen as a new enterprise focused on high quality fish products for which it claims it is known. According to local media reports, however, Tri Marine's plans have been delayed, with no tangible progress evident at this time.

CNMI

As with American Samoa, the CNMI's most recent GDP data cover the years 2002 through 2009, and include:

| | CNMI Gross Domestic Product (Millions of Dollars) | | | | | | | |
|--|---|--------------|--------------|------------|------------|------------|------------|------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Real GDP (Millions of Chained 2005 Dollars) | 1,175 | 1,189 | 1,146 | 982 | 919 | 848 | 746 | 598 |
| Population (000) | 74.4 | 76.6 | 78.9 | 70.6 | 60.7 | 58.6 | 55.2 | 51.5 |
| Per Capita Real GDP (\$) | 15,793 | 15,522 | 14,525 | 13,909 | 15,140 | 14,471 | 13,514 | 11,612 |
| Source: BEA | | | | | | | | |

The dramatic decline in the economy of the CNMI is due to extraordinary circumstances. New global trade rules embraced by the United States took effect in 2005 and set in motion forces that would wipe out the CNMI's biggest industry, making brand name garments for American retailers. For reasons unrelated to global trade, CNMI tourism began its decline in 2006 when Japan Air Lines withdrew from the market altogether for financial reasons. With significant losses in both of the CNMI's major industries, a devastating economic contraction was set in motion. The CNMI's real GDP dropped 39.1 percent from 2005 to 2009, when the last three garment factories closed. Just as with American Samoa, the impact of these events – in this case the garment shutdown – may show up in the 2010 GDP data, which will likely reflect the trend of the last several years.

The CNMI's tourism showed slight improvement in 2010 as arrivals in each of the first three quarters of the year exceeded levels from the same period in 2009. There were similar improvements in business receipts in the first half of 2010 as compared to 2009. However, following the earthquake and tsunami in Japan earlier this year, a new slowdown has occurred.

To summarize, economic prospects for American Samoa and the CNMI have fallen precipitously over recent years and remain bleak.

WHAT TO DO

The postponement of the 50-cent minimum wage increases enacted by Congress last year will certainly help on the minimum wage front. Once the postponements lapse, three policy positions are available: (1) do nothing and the 50-cent increases will continue, beginning in 2012, (2) continue the postponements of the 50-cent increases, or (3) reinstitute the industry committee process for American Samoa and extend it to the CNMI.

With the economic prospects for American Samoa and the CNMI bleak for the foreseeable future, Congress may find it desirable to take additional action to postpone increases or re-establish the industry committee process. Postponements over a long period of time may not be sufficiently nuanced to meet current goals, which envision moving toward the Federal minimum wage without substantially curtailing employment. Employees would receive no increase, even though economic conditions may have improved. If, on the other hand, these territorial economies do not improve in the near future, the scheduled 50-cent increases may translate into new company closures and employee lay-offs.

In addition, we have heard from the Governor of American Samoa, who recommends that the Congress re-institute the industry committee process. Re-instituting the industry committee process would free the Congress from having to hold hearings and take action every time a postponement appears desirable. In addition, the industry committee process was designed to move a territory's minimum wage rate to the Federal minimum wage rate as quickly as possible without substantially curtailing employment. Each committee member is provided background research on economic conditions in the territory, and this, with testimony from labor, business, government and the public in a local setting allow for subtle and nuanced minimum wage decisions. At such time as the economies of American Samoa and the CNMI recover their footings, the Congress can return to the issue and re-establish the periodic increases until the Federal minimum wage is achieved in the respective territory. The Administration would not be opposed to re-instituting the industry committee process in American Samoa and extending it to the CNMI.

Mr. Chairman, we appreciate the interest of the subcommittee in an issue affecting the quality of so many lives in American Samoa and the Commonwealth of the Northern Mariana Islands.