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BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

OVERSIGHT HEARING ON
THE IMPACT OF INCREASED MINIMUM WAGES ON THE ECONOMIES OF
AMERICAN SAMOA
AND THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

THURSDAY, FEBRUARY 28, 2008
ENERGY COMMITTEE HEARING ROOM
SD-366

Chairman Bingaman and members of the Committee: Thank you for the invitation to present testimony regarding the findings of our recently completed study of the economic impact of minimum wage increases recently implemented and scheduled to be implemented that affect American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

Our report entitled “Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands” was prepared by the U.S. Department of Labor in response to the requirement of Public Law 110-28, the U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. That law stated that the Secretary of Labor shall report to Congress the findings of a study assessing and projecting the impacts of increases in the minimum wages applicable to the territories of American Samoa and the CNMI under the Fair Labor Standards Act (FLSA).

Pursuant to P.L. 110-28, the minimum wages applicable to American Samoa and the CNMI were increased fifty cents per hour on July 24 and July 25, 2007, respectively. In addition, the minimum wages applicable to these territories will further increase annually hereafter by fifty cents per year until parity with the projected U.S. minimum wage of \$7.25 per hour is reached. For the CNMI, the minimum wage was increased fifty cents per hour to \$3.55 on July 25, 2007 and will rise to \$7.25 per hour by 2015. For American Samoa, current minimum wages vary by industry, with the most significant being the minimum wage for the tuna canning industry, which is currently \$3.76 per hour, reflecting the initial fifty-cent increase on July 24, 2007. The minimum wage for American Samoa will increase across the board to \$7.25 per hour by 2014.

The report that we constructed on the minimum wage increase in American Samoa and CNMI is limited to addressing the two questions contained in the Congressional mandate. First, what has been the impact on living standards and employment to the present date of the fifty-cent-per-hour increase in the minimum wages of each territory that became effective July 2007? Second, what are the projected impacts of the future increases scheduled under the Act?

The sections below will lay out how we went about conducting the study, the challenges we faced in providing Congress with a comprehensive report, and what was observed during the study.

Background on Conducting the Study

We conducted extensive interviews with persons knowledgeable regarding the economies of American Samoa and CNMI. In total, 26 interviews were conducted regarding the recent economic trends, current conditions and available data sources. The DOL research team also reviewed the extensive academic research literature regarding the economic impact of minimum wage regulations in the United States to identify information that could be applicable to consideration of the economic impact of minimum wage increases scheduled for American Samoa and the Commonwealth of the Northern Mariana Islands.

Additionally, the biennial surveys conducted by the U.S. Department of Labor’s Wage and Hour Division which have looked at the economy in relation to industry wage rates applicable in American Samoa under the Fair Labor Standards Act (FLSA) were a good

source of information on the American Samoan economy and labor market. These surveys were conducted in support of the biennial special industry committee process that previously made recommendations to set and adjust industry-specific minimum wages in American Samoa. Passage of P.L. 110-28 in 2007 replaced the minimum wage industry committee process with a fixed schedule of increases that will bring the minimum wages across all industries into uniformity and conformity with the U.S. minimum wage of \$7.25 per hour. Consequently, the biennial labor market surveys will no longer be conducted.

Challenges Faced in Conducting the Study

The Department's research was limited by the lack of timely labor market data available pertaining to American Samoa and the CNMI, in addition to the relatively short time frame that we had to conduct the study.

The reporting time-frame specified in the legislation – no later than 8 months from the date of enactment (May 25, 2007) – did not provide sufficient time to observe actual effects of the minimum wage increases. The initial increases of fifty cents per hour went into effect on July 24, 2007 in American Samoa and July 25, 2007 in the CNMI. The specified delivery date for this report was January 25, 2008. The period following the initial increase was too short for significant observable effects to materialize. Adjustments of employment arrangements and of patterns of living standards typically do not occur instantaneously following a change in a key economic parameter. Also, immediate changes may be too small in scale to observe, and it may require the passage of many months before cumulative effects become large enough to observe. In particular, a lack of significant observed adverse employment effects in the months since the initial increase is not indicative that such effects will not emerge in the future – especially as subsequent increases are implemented over time.

The lack of such data for the territories significantly impaired our efforts to measure or to project the impacts of scheduled minimum wage increases. There is no monthly or quarterly data describing labor market conditions in either American Samoa or CNMI, and it was very difficult to compare what we observed to historical data for the territories. American Samoa and CNMI are not included in the U.S. Census Bureau's annual American Community Survey (ACS) nor are they included in the monthly Current Population Survey (CPS). In terms of employment data tracked by the U.S. Bureau of Labor Statistics (BLS), the territories aren't included in the Current Employment Statistics (CES) program monthly surveys, nor is there an unemployment insurance system which further limits the availability of timely information on conditions and changing trends affecting the labor market.

Additionally, it was not feasible to conduct field investigations in connection with this study. Had there been time and resources to conduct survey data collection in the field, travel by the research team to the islands could have been useful. However, meaningful field observations would have required data collection from both employers and households over many successive months in order to discern effects of the initial and subsequently scheduled minimum wage increases. In addition, a systematic data collection effort would have required approval of a survey under the terms of the Paperwork Reduction Act. Given the short reporting timeframe, design and implementation of field surveys were not practical.

Conclusion Drawn from Available Data

Despite the lack of the preferred data described previously, we made an effort to compile and examine such data and information as was available. The U.S. Department of

Interior, Office of Insular Affairs, provided generous and valuable assistance to facilitate the identification, compilation and interpretation of relevant data sources. The staff of the Government Accountability Office provided useful suggestions regarding information sources based on their contemporaneous research regarding other economic issues affecting CNMI. The Honorable Benigno R. Fitial, Governor of the Commonwealth of the Northern Mariana Islands, and the Honorable Togiola T.A. Tulafono, Governor of American Samoa, generously directed their staffs to provide available information and access to knowledgeable sources to fulfill the information needs of the DOL research team. The Honorable Eni F.H. Faleomavaega, American Samoa's Delegate in the U.S. House of Representatives, and his staff also provided valuable assistance. Extensive interviews were conducted with persons knowledgeable regarding the economies of CNMI and American Samoa. In total, 26 interviews were conducted regarding the recent economic trends, current conditions and available data sources. The DOL research team also reviewed the extensive academic research literature regarding the economic impact of minimum wage regulations in the United States to identify information that could be applicable to consideration of the economic impact of minimum wage increases scheduled for American Samoa and the Commonwealth of the Northern Mariana Islands. While the data that was obtained did not reach the level of timeliness and detail that was described above as being needed to arrive at a definitive assessment of economic impact (particularly with respect to the incremental effects of individual fifty-cent step increases), the information available was useful to arrive at some broad conclusions about the potential direction and magnitude of impacts in the context of the ultimate rise to \$7.25 per hour.

American Samoa

American Samoa has a small developing economy, dependent on two primary externally funded income sources: the American Samoa Government (ASG), which receives significant operational and capital grants from the Federal government (\$117 million of \$182 million total government revenue in FY 2005¹), and the Star Kist and Chicken of the Sea tuna canneries. Tuna exports in 2006 totaled 20.7 million cases (about 147 thousand tons) valued at \$431.5 million.² Taxes and fees paid by the tuna canneries are another significant source of revenue for the government. These two primary income sources support a third economic sector, a services sector that derives from and complements the first two. The services segment of the economy is mostly trade, both wholesale and retail.

In 2006, total employment in American Samoa was 17,395, and the American Samoa Government accounted for 5,894 workers, or 33.9 percent of total employment, followed by the two canneries with 4,757 workers, or 27.3 percent, and the rest of the economy with 6,744 workers, or 38.8 percent of total employment. The current minimum wages vary by industry, with the most significant being the minimum wage for the tuna canning industry, which is currently \$3.76 per hour, reflecting the initial fifty-cent increase on July 24, 2007. The average wage in 2006 for all workers in American Samoa covered by the Fair Labor Standards Act (FLSA) was \$5.26 per hour, and nearly 80 percent of workers covered by the FLSA earned under \$7.25 per hour. By comparison, if the U.S. minimum wage were increased to the level of the 75th percentile of hourly-paid U.S. workers, that adjusted,

¹ American Samoa Department of Commerce, Statistical Yearbook 2006, p. 135.

² Information provided by American Samoa Department of Commerce.

mandatory wage rate would be \$16.50 per hour. As required by P.L. 110-28, the minimum wage in American Samoa will increase across the board to \$7.25 per hour by 2014.

While the tuna industry has proved to be a major source of revenue in American Samoa, the industry throughout the Pacific is in flux and its future in American Samoa is widely believed to depend on a continued mix of duty-free status, special tax benefits, and other credits and a viable wage rate, as well as on continued use of the harbor by fishing vessels taking their catches in other parts of the ocean. Changing requirements for landing of catch by other Pacific island-states could mean fewer fish for the American Samoan canneries. Regional and global trade rules involving the United States also have the potential effect of altering the financial arrangements under which the canneries operate. Moreover, low labor costs in most of Central America and Asia make for serious pressure from foreign competition.

In terms of the cost of producing tuna, labor ranges from 7 percent to 14 percent and industry representatives claim that the increase of the minimum wage from the current hourly rates to the \$7.25 per hour rate would more than double current labor costs for their facility (where most workers are now paid at the existing minimum wage rate) and would more than erase the current profit margin. When asked how quickly a decision could be implemented to transfer production to tuna canning facilities elsewhere, one industry spokesman replied, "Minutes." It was explained that his and other companies already outsource significant production to Thailand and to South American countries (both for the U. S. market and for other countries). The industry representative stated that there are forty canneries in Thailand, and that nothing would have to be built or moved. To implement a production transfer, the companies would simply place more orders with existing plants. Reference was made to the fact that there is excess processing capacity worldwide in the tuna canning industry.³ It has been reported that world tuna processing has an excess of production capacity on the order of 20 to 40 percent.⁴

Additionally, research reports have highlighted the vulnerability for the past decade of the American Samoa tuna processing industry to competition from Thailand, South American countries, New Guinea and other low cost producers.⁵ Under the North American Free Trade Agreement, tuna canned in Mexico has tariff-free access to the U.S. market as of January 1, 2008. The shorter transportation route and lower labor costs expected from Mexico will further challenge the viability of the American Samoa tuna processing industry.

As of today, the two tuna canneries in American Samoa continue in operation. Neither plant has reduced output or working hours in immediate response to the first fifty-cent increase in the minimum wage, although both companies have stated that they may do so in the future.⁶ In response to questions regarding whether the initial fifty-cent increase in the minimum wage had contributed to any change in absenteeism or turnover costs, industry representatives presented absenteeism records showing no change in absenteeism from a year ago. Despite the lack of immediate effects, there appears to be genuine cause for

³ Based on interviews conducted with industry representatives for this report.

⁴ See statement at http://www.house.gov/list/press/as00_faleomavaega/eniwtcstatement.html which cites a 40 percent excess capacity. Interviews with company representatives mentioned a 20 to 40 percent excess.

⁵ Michael Hamnet and William Pintz, "The Contribution of Tuna Fishing and Transshipment to the Economies of American Samoa, the Commonwealth of the Northern Mariana Islands and Guam," University of Hawaii Institute for Marine and Atmospheric Research, Pelagic Fisheries Research Program, 1996, p. 3.

⁶ Based on interviews conducted with industry representatives for this report.

concern that, at some point before the escalation to \$7.25 per hour in 2014, production will be shifted to facilities outside U.S. jurisdiction where labor costs are significantly lower. An input-output model analysis commissioned by the government of American Samoa (conducted by McPhee and Associates) has estimated that closure of the tuna canneries will cause a total loss of 8,118 jobs – 45.6 percent of total employment – including both direct effects (5,538 jobs) and indirect effects (2,580 jobs).

If the canneries were to go out of business, the remaining economy would depend almost exclusively on transfers from the U.S. Federal government to provide basic sector infusion of purchasing power to the economy.⁷

Commonwealth of the Northern Mariana Islands

The economy in the Commonwealth of the Northern Mariana Islands (CNMI) developed rapidly in the 1990s, based on tourism and a garment industry in which labor supply was comprised largely of foreign temporary workers; however, it has experienced a period of decline over the past few years. In 2000, the population reached 69,221 and non-citizens accounted for 88.8 percent of private sector employment. By 2003, the population had declined to 63,419 and evidence suggests that the population decline is continuing.

In the past, the CNMI economy benefited from tariff-free, unrestricted access to U.S. markets, compared to competitors in Asia and elsewhere who benefited from lower wages but faced U.S. tariffs and import quotas. However, both the tourism and the garment industries in the CNMI are now in decline. The garment industry has been shrinking since 2000 in the face of increasing global competition, and especially since the lifting of import quotas and resulting liberalization of textile and garment trade into the U.S. in 2005. The tourist industry has suffered sporadic decline since the mid-1990s.

As a result of the declining economy in CNMI, the wages there have remained relatively stagnant. The minimum wage in CNMI was set at \$3.05 per hour in 1996 when the U.S. minimum wage was increased to \$4.75 per hour.⁸ P.L. 110-28 specified an increase in the CNMI minimum wage to \$3.55 per hour effective July 25, 2007 and scheduled further increases of fifty cents per year to take effect May 26 of each subsequent year until parity with the U.S. minimum wage is reached.⁹ The schedule will result in the CNMI minimum wage rising to \$7.25 per hour on May 26, 2015. While the minimum wage in CNMI was (and still is today) lower than the U.S. minimum wage, it's higher than comparable wages in China, the Philippines, Vietnam, and other Asian countries.

With both of its major industries declining simultaneously, the CNMI economy is in overall decline, and its current economic situation makes it especially vulnerable to additional shocks. Future minimum wage increases for the CNMI may add further challenges to this, and could potentially exacerbate an already declining economy. General experience in the

⁷ The full report by McPhee and Associates is expected to be published in late February 2008.

⁸ CNMI Public Law 9-73 increased the minimum wage to \$3.05 effective July 1, 1996. The Minimum Wage Increase Act of 1996 (Section 2104 of the Small Business Job Protection Act of 1996) raised the FLSA minimum wage from \$4.25 per hour to \$4.75 per hour effective October 1, 1996 and \$5.15 per hour effective September 1, 1997.

⁹ The implementation dates for CNMI and American Samoa vary by one day because of their location with respect to the International Date Line. Thus, the July 24, 2007 wage increase in American Samoa was effective July 25 in CNMI, and the future May 25 wage increases in American Samoa will be effective May 26 in CNMI.

U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be masked or offset to some degree by an expanding economy that is generating net employment growth. In a declining economy, however, any adverse effects on employment will not be offset.

One indicator of the potential labor market impact of increases in the minimum wage is the proportion of employees affected. Data from the CNMI 2004 household and expenditure survey show that 68.2 percent of wage earners in the CNMI earned no more than \$4.99 per hour and that 79.5 percent earned no more than \$7.99 per hour. Therefore, the scheduled increase in the minimum wage to \$7.25 (by 2015) will likely affect at least 75 percent of wage and salary workers in the CNMI. By comparison, in the mainland U.S. the 75th percentile mark is \$16.50 for wage and salary workers who are paid hourly rates.

Because the CNMI has such a large proportion of temporary, non-citizen workers in its labor force, it is likely that future job losses will cause non-citizen temporary workers who lose their jobs to return to their countries of origin or look for work elsewhere. This would contribute to the trend of declining population that has been evident since 2000. Because citizens of CNMI are U.S. citizens, they have access to the U.S. labor markets, including Guam, Hawaii and the U.S. mainland. It is possible that movements of workers from the CNMI into these U.S. labor market areas may increase as the minimum wage schedule for the CNMI is implemented. This could lead to additional population and economic declines in the CNMI.