STATEMENT
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BEFORE THE
HOUSE COMMITTEE ON NATURAL RESOURCES
SUB-COMMITTEE ON INSULAR AFFAIRS

REGARDING
THE ECONOMIC EFFECTS OF THE RECENTLY INCREASED MINIMUM WAGE

AMERICAN SAMOA

February 22, 2008

Madam Chairwoman and members of the Subcommittee on Insular Affairs, thank you for the opportunity to testify on the economic effects of the recently increased minimum wage in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

Enactment of Public Law 110-28 last May not only raised the Federal minimum wage rate in the 50 states, but, for the first time, the Congress took direct action to increase the minimum wage rates in American Samoa and CNMI by 50 cents per hour on July 24 and 25, 2007, respectively. The law also scheduled additional annual 50-cent increases until the two territories reach the Federal minimum wage, and required that the U.S. Department of Labor (DOL) report on the effects of the minimum wage increases. Under this new law, American Samoa will reach $7.25 per hour across all industries in 2014, and the CNMI will reach $7.25 in 2015.

The new minimum wage law precipitated the following actions:

(1) In December 2007, American Samoa Governor Togiola T.A. Tulafono proposed amending Public Law 110-28 so that (1) the annual 50-cent increases be amended to make them biennial and (2) any scheduled minimum wage increase be postponed for two years if the DOL Bureau of Labor Statistics determines that such an increase would "substantially curtail employment in" American Samoa.

(2) In January 2008, the U.S. Department of Labor issued its report on the minimum wage increases in American Samoa and the CNMI describing potential adverse economic effects of the increases.

(3) On January 29, 2008, Congressman Eni F.H. Faleomavaega introduced H.R. 5154, which would condition future increases in minimum wage rates in American Samoa or the CNMI on a determination by the Secretary of Labor that an increase will "not have an adverse impact on the economy of" the respective territory.

History

In 1938, when the Fair Labor Standards Act (FLSA) first established a United States minimum wage, special industry committees were established to phase in the minimum wage in those places when a minimum wage hike would substantially curtail employment. It was the intent of Congress that the minimum wage in such areas be raised in increments that would not destroy industries and jobs.

But after World War II, the industry committee system continued to set local minimum wage rates only in Puerto Rico, the U.S. Virgin Islands, and American Samoa. In 1989, the Congress determined that the full application of the Federal minimum wage rate to the U.S. Virgin Islands and Puerto Rico could be accomplished without significant harm to continued economic growth and development. Both territories have been subject to the Federal minimum wage ever since.

Before enactment of Public Law 110-28, a special industry committee, appointed by the Secretary of Labor, determined the minimum wage rates in American Samoa under authority of the FLSA. Composed of members representing industry and labor as well as disinterested persons representing the public, the committee reviewed minimum wage rates in the various local industries every two years. The committee recommended changes based on input from the community and an analysis of the extent to which the economy could support increases in the minimum wage without substantially curtailing employment. Minimum wage increases required a majority vote of industry committee members, and the committee's recommendations were binding. The most important aspect of the committee process was that it took into account the economic reality and the unique circumstances of this small island economy.

The covenant that created the CNMI "in political union with and under the sovereignty of the United States of America" became law in 1978. The covenant establishing the Commonwealth provided potential exemption or relaxation of some U.S. legal requirements affecting employment and immigration law, including the FLSA minimum wage provisions. The minimum wage in the CNMI was set by Public Law 9-73 at $3.05 per hour in 1996 when the U.S. minimum wage was $4.75 per hour.

In enacting Public Law 110-28, Congress declined to continue the special industry committee for American Samoa, but nevertheless was concerned about whether the mandatory increases in minimum wage would cause serious and irreversible economic and financial harm to the CNMI and American Samoa. To provide needed information about this possibility, the statute mandated the Department of Labor to report on the impact of the minimum wage increases on living standards, employment and the economy in the two territories within 8 months of enactment of the Act.

DOL Study

DOL released its much anticipated report, titled "*Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands*" late last month. The report notes that it was not possible to analyze the actual impact of the minimum wage increase, given the short (eight-month) prescribed timeframe for the report and absence of timely labor market data for American Samoa and the CNMI. Nevertheless it raises concerns that future increases in the minimum wage rate in American Samoa and the CNMI will likely cause significant economic and financial harm to the territories.

An economy's capacity to create jobs and wealth should be one of the primary factors taken into account when minimum wage rates are adjusted. While the mainland U.S. economy had the strength and flexibility to adjust to a minimum wage increase, the economic situations of the CNMI and American Samoa are very different from the U.S. mainland. These territories face unique challenges in attracting private sector businesses because of their geographic isolation and location in a part of the world where most neighboring economies have much lower minimum wages and living standards. Given the structure and tempo of these economies, doubling of the minimum wage over a 10 year period, as would happen in American Samoa and the CNMI under Public Law 110-28, would present significant challenges to each territory.

The largest sources of employment in the American Samoa economy are the tuna cannery operations and the American Samoa Government (ASG). The DOL report notes the likelihood that both the canneries and the ASG would be significantly affected by future increases in minimum wage rates. The DOL report says:

> At present, the tuna canneries continue in operation, but there is concern that they will be closed prior to the escalation of the minimum wage to $7.25 per hour in 2014 and that production will be shifted to facilities outside U.S. jurisdiction where labor costs are significantly lower.
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> 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 (in American Samoa)– including both direct effects (5,538 jobs) and indirect effects (2,580 jobs).

The canneries, which have shipped processed tuna to the United States for more than 50 years, have noted that in the future, they may leave the territory and take their production to other countries where labor costs would be much lower, such as 60 cents to 70 cents per hour in Thailand and the Philippines. The canneries are extremely important to the American Samoa economy as a result of their export of tuna products and the support of secondary trade and services businesses.

The canneries are not only the most critical component of the private sector, they also make up a significant part of the tax base supporting ASG operations. Without the canneries as an anchor for the private sector tax base, cutbacks in local government operations and services would likely be necessary.

ASG is the territory's single largest employer. In 2006, the 5,894 ASG employees represented 33.9 percent of total employment in the territory. ASG is a unitary system of government, with no local or municipal governmental layers and it performs not only the usual governmental functions, it also manages public utilities. If ASG's minimum wage increases continue as mandated in Public Law 110-28, the DOL report says: "Paying for the increases in government worker minimum wages will present a significant challenge to ASG." Numerically, if the minimum wage rate rises to $7.25 in 2015, as scheduled, ASG's increase in wage costs could be at least $5.2 million in 2015, according to the DOL report.

The DOL report also addresses the minimum wage issue with regard to the CNMI. The DOL report notes that the effect of the minimum wage increase in the CNMI, would be like raising the Federal minimum wage to $16.50 per hour in the 50 states. The report states that job losses in the CNMI will result in the return of foreign workers to their home countries and the migration of United States citizen workers to other United States jurisdictions.

The DOL report suggests that scheduled minimum wage increases could cause the canneries in American Samoa to relocate to lower cost countries long before they are forced to pay $7.25 per hour, and that more garment factories in the CNMI may close sooner than otherwise expected. The shuttering of industries in American Samoa and the CNMI could cause the respective economies to suffer prolonged and wrenching contractions.

Conclusion

In light of the risks to the American Samoa and CNMI economies that are identified in this statement and in the DOL report, the Administration suggests that Congress give strong consideration to amending P.L. 110-28 in order to avoid increases in the minimum wage that could result in significant job loss and harm the economies of the two territories. We offer some suggestions regarding the factors that should be kept in mind in evaluating any potential legislative revision.

First, regarding proposals for a determination by the Secretary of Labor that would stop the implementation of an increase in the minimum wage, we would draw Congress's attention to the difficulty inherent in making any objective determination about the impacts of a proposed minimum wage increase before it goes into effect. Increases in the minimum wage have numerous, complex impacts on an economy and, generally speaking, create some positive and some negative economic impacts. Broad language that would postpone an increase in minimum wage based on a finding of any adverse impact on the respective economies of the CNMI or American Samoa might have the effect of preventing all progress towards a higher minimum wage. Narrower language requiring a determination that the increase will not substantially curtail employment allows more flexibility, but the difficulties for the Secretary of Labor of obtaining reliable information upon which to base any determination will be significant.

Another model that Congress might consider is the special industry committee that set the minimum wage rates biennially in certain areas of the United States and American Samoa for over 60 years. The advantage of the committee structure is that it ensures that the people who determine the minimum wage increases share first-hand knowledge of island economies, while representing different stakeholder groups within those economies as well as the public interest. When compared with proposals to vest the decision making authority in the Secretary of Labor, this model offers the advantage of ensuring that local knowledge is fully incorporated and that stakeholders in the territorial economies are able to play significant roles.

Thank you for considering the Administration’s views.