# Written Statement
# Of the Honorable Togiola T.A. Tulafono
# Governor of American Samoa
# To the House Subcommittee on Insular Affairs
# American Samoa Field Hearing
# American Samoa Community College
# February 22, 2008

Talofa and greetings Chairwoman Christensen and honorable members of the Committee. I greatly appreciate this opportunity to testify before the Committee on the urgent need for remedial legislation addressing the minimum wage increases that Congress has mandated for American Samoa.

## Current Economic Conditions in American Samoa.

In its January 25, 2008 report to Congress, the Department of Labor states that the economy of American Samoa is small and developing. Similarly, in hearings before the Senate Committee on Energy and Natural Resources on March 1, 2006, Deputy Assistant Secretary David Cohen of the Department of Interior stated, "American Samoa has the narrowest economic base" of the four territories. To document this point, Secretary Cohen noted that the per capita domestic product (GDP) in American Samoa ranks far below the other territories.

Further evidencing the urgent need for economic development: (1) American Samoa has a per capita income that is only one-fifth that of the rest of the United States. (2) The territory has a large number of subsistence workers who cannot find paid employment. (3) 88 percent of all farms in the territory operate on a subsistence basis. (4) Despite a large out-migration of American Samoans to the United States, the territory still has a young, rapidly growing population. (5) The territory's income primarily comes from two fish canning operations and from the Federal Government's operational and capital grants. (6) Recent employment gains in the territory have occurred mainly in low wage sectors. Even in the low-wage sectors, however, the territory is at a competitive disadvantage to the Philippines and Thailand where wages are a fraction of the mandated federal minimum wage in American Samoa.

To compensate for the territory's wage disadvantage, its remote location, limited resources, and small internal market, the Federal Government previously had provided trade and tax incentives for economic development in American Samoa. Specifically, preferential quota allocations, particularly for canned fish, as well as favorable tariff treatment and federal tax credits had allowed American Samoa to develop a seafood canning industry. As a recent Department of Interior-funded study has reported, the fish canning industry is the mainstay of the territory's economy. The two canners in American Samoa are responsible for the employment of well over half of the territory's entire workforce directly and indirectly.

Such a heavy reliance on two canneries is not economically sound, and the Government of American Samoa with assistance from the Department of Interior has pursued every opportunity to diversify the territory's economy. The territorial government has actively promoted business investment opportunities for agriculture, fisheries, tourism, call centers, and electronic information processing. If American call centers can operate in India and Guatemala, they should certainly be able to operate in American Samoa.

Recognizing that the territory's economic level is far below that of the 50 states, Congress had previously decided to establish the federal minimum wage rate in American Samoa proportionate to economic development. Under a procedure that had been applied to Puerto Rico and the Virgin Islands, Congress adjusted the minimum wage in American Samoa administratively every two years so as to reflect the territory's progress. Such adjustments therefore were economically sustainable. The biennial adjustments over time would raise the territorial minimum wage to parity with the regular federal rate.

As part of Public Law 110-28, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007, however, Congress increased the regular federal rate nationwide. Congress also mandated an immediate 50 cent increase in the hourly minimum wage rate for American Samoa as of July 24, 2007 with an additional 50-cent increase every year thereafter until the minimum wage in the territory matched the new federal rate of $7.25. This minimum wage hike for American Samoa, similar to the tariff and tax changes, was inserted in the rush to enact the larger legislation without assessing the impact on the territory.

That legislation did call for an after-the-fact review of the consequences. The Department of Labor has now submitted that report to Congress and the report predicts bitter results for the people of American Samoa. For the level of economic development in the territory the Department illustrates the impact in a telling way. The Department states that the mandated wage increase is equivalent to raising the federal minimum wage to $16.50 an hour in the states. The economic and political fall-out of such a drastic hike for the United States' economy is obvious. The territory must now contend with these very consequences.

<u>Minimum Wage Legislation.</u>

The regular federal rate reflects the United States' advanced industrialized economy. American Samoa needs to undergo major economic development to match the United States' economic level. The Department of Interior reports that per capita GDP in American Samoa amounts to $9,041 which is equal to 34.4% of per capita GDP in the lowest of the states and 22.8% of the national average. This also compares to a higher $13,350 per capita GDP in the Commonwealth of the Northern Mariana Islands, $22,661 on Guam, and $25,815 in the Virgin Islands.

Our per capita income is the lowest of the territories and only one-fifth that of the United States. Can the new minimum federal wage rate which reflects a developed, industrialized economy be sustainable in American Samoa? To this question, the Department of Labor reports that the mandated increase is not sustainable in American Samoa. The report noted that 77.8 percent of workers in the territory currently earn less than the federally mandated hourly minimum wage. Raising hourly wages to $7.25 an hour, the report says, will

> result in an increased wage bill of $40 million per year across all American Samoa industry sectors. Based on the $120 million annual payroll across all American Samoa industries reported by the 2002 Economic Census, this would represent a 33 percent increase in wage costs. General economic experience suggests that it is not likely that such an increase in wages could be absorbed through increased productivity, reduced profits, or higher prices passed along to consumers.

An earlier Department of Interior-financed study of the minimum wage impact on the fish canning industry predicted the closure of the two canneries in the territory. From this economic analysis, the Department of Labor concludes that losing the canneries would eliminate 44 percent of all jobs in American Samoa. The economic contraction would increase costs for the remaining sectors. Moreover, the remnants of the territory's economy would depend almost exclusively on Federal Government funds to survive.

In view of the Department's stark assessment, I request expedited enactment of remedial legislation so as to make future increases of the minimum wage in American Samoa contingent on the Secretary of Labor's determination (through the Bureau of Labor Statistics' analysis) that such increase is economically feasible and will not substantially curtail employment in the territory. For the Bureau of Labor Statistics to conduct a substantive analysis, future increases should occur every two years. This position is along the same lines that you Madam Chairwoman had outlined with honorable Senators Inouye, Bingaman, Akaka and our Delegate in a letter on May 18, 2007 to congressional leaders.

Legislative inadvertence is partly due to the fact that the Bureau of Labor Statistics and the Census Bureau do not collect timely economic data on American Samoa. Regular data collection provides Congress with ample details on labor market conditions, employers, and households in the 50 states, Puerto Rico, and the Virgin Islands. But the lack of such data for American Samoa leaves Congress and the federal Departments unaware of the economic consequences to this very distant part of the country. The remedial legislation should also require such data collection.

<u>Territorial Operational Costs.</u>

Increased business development in American Samoa depends on attracting investments from the United States. Following the recommendations of the American Samoa Economic Advisory Commission, the Government Accountability Office, and the Intergovernmental Group on Insular Areas, the American Samoa Government has worked on an economic development program. This program is similar to the initiatives various U.S. states have adopted to promote business development.  Basically, these state programs offer economic incentives to businesses that commit to investments, hiring, and long-term operations in the respective state.

The Government of American Samoa is absolutely committed to developing the territory's economy so as to raise people's standard of living.  In addition to federal initiatives, the territory must create a local development program just as the states have.  Following the best examples of state development initiatives, American Samoa is crafting its own local program. Resources for this and other territorial initiatives, however, have been diverted to cope with the problems produced by the mandated minimum wage increase.

The Department of Labor's assessment of the impact of the minimum wage increase states: "General experience in the U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be ... offset to some degree by an expanding economy that is generating net employment growth.  In a declining economy, any adverse effects on employment will not be offset."   Let me note that the territorial economy at present is anemic and that the territorial government must cope with falling tax revenues.

The Labor report also projects that the minimum wage increase for territorial government workers alone will increase operating costs for the Government of American Samoa by $7.2 million a year.  The report concludes: "Paying for the increases in government worker minimum wages will present a significant challenge to ASG [the American Samoan Government].... These increases may force ASG to make difficult choices between reducing government payrolls, reducing available hours of paid work, raising taxes, or cutting non-wage expenditures."   I would point out that the first 50 cent mandated increase has already imposed added operational costs on the territorial government as will the second increase coming in May. As a result the territory must request supplemental budget authorization and appropriations to cover the additional operational costs imposed by recent federal legislation and also to implement its local development initiatives.

## CONCLUSION.

Madame Chairwoman, this Committee is acutely sensitive to the economic situation in American Samoa and has been very supportive.  In particular, you and the Delegate sought to modify the 2007 minimum wage legislation to reflect actual economic conditions in the territory. On behalf of the people of American Samoa, I wish to publicly express appreciation for your attempt to ward off this well-meaning but disastrous legislative mandate.

Now that the Department of Labor has documented the dire impact of the 2007 legislative change on American Samoa, I urgently request this Committee and Congress to enact timely remedial legislation.  Committee support for the pursuit and enactment of tax and appropriation measures to correct the unintended but very real consequences of past actions is also needed and would be greatly appreciated.  We in American Samoa are proud to be Americans and we have served our country with valor and devotion.  Remedial legislation will help us to develop our economy so that we can stand with the other territories and the 50 states as one nation.