

TESTIMONY OF JAMES T. ARENOVSKI
BEFORE THE HOUSE SUBCOMMITTEE ON
FISHERIES, WILDLIFE, OCEANS AND INSULAR AFFAIRS
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My name is James T. Arenovski and I am a businessman who has been running a number of businesses in the Northern Mariana Islands since 1999. I have lived in Micronesia since 1987. My companies in the Northern Marianas employ approximately 45 individuals ranging in age from high school students to those nearing retirement age. I have a company that operates gasoline service stations, a company that provides workplace training to employers and employees, and a company that operates a small restaurant. I have been an active member of the Saipan Chamber of Commerce since 2000, and have served in a variety of capacities at the Chamber including as president in 2008 and 2009. Thank you for inviting me to testify today via teleconference on the status of minimum wage increases in the NMI.

In 2007 the United States enacted Public Law 110-28, which included a provision to incrementally bring the minimum wage in the Northern Marianas into line with the federal minimum wage over the course of a nine-year period. The plan was to increase the minimum wage by fifty cents per hour each year until it matches the federal minimum wage. This yearly increase was not rooted in any methodology nor did it take into account what the increases would do to the costs of doing business and the costs of goods in the NMI. No study was undertaken prior to the implementation of this law, something that I warned about in my previous written testimony as President of the Saipan Chamber of Commerce. And now the concerns we had about this annual minimum wage increase have become reality.

I believe that Congress had the best interests of the people of the NMI in mind when it required us to conform to the US federal minimum wage, but Congress also failed to appreciate some of the harm that this would cause to businesses, economic growth, and ultimately, employment. With no empirical data to support the annual fifty-cent increases, it is appropriate for Congress to now revisit the issue and help the workers and businesses of the NMI so they can remain viable and have sustained employment for the foreseeable future. Public Law 111-244, which delayed by one year the annual increase scheduled for 2011 saved businesses and saved jobs. In light of the current economic condition of the Commonwealth, which is likely to continue for the foreseeable future, I urge Congress to adopt a similar delay for the increase scheduled for 2012, or if that is not possible, then for 2013.

Even with the U.S. economic expansion of the late 1980's and 1990's, increasing the minimum wage in the United States from \$3.10 to \$7.25 took a full 29 years. But Congress charted a path for the NMI, with its well documented challenges, including the loss of the apparel industry, the desertion of Japan Airlines and Continental Airlines, and the federal takeover of immigration, to complete the same task in only nine years. Even if our local economy was booming, this schedule would be a hard one to keep without adverse economic effects. If there was an action that Congress could take that would cost no money to implement and would do much good for the NMI economy, it would be to implement another delay as soon as possible.

The 2010 and 2011 GAO reports on employment and earnings in the Northern Mariana Islands and Samoa highlighted the financial challenges that these increases represent for employers during troubled economic times. In fact, the 2011 report reflected a growing concern among workers that increased wages not come at the expense of jobs or work hours. And as bleak a picture as those reports painted, the underlying studies focused mostly on larger businesses in the NMI. I feel if more time was spent on

examining the effects on small businesses, the GAO would have found the impact was much greater. The reports accurately point out that the increasing minimum wage is just one of many financial pressures being brought to bear on businesses. But it represents a financial pressure that Congress has the means to control, unlike, for example, rising fuel prices, or rising shipping costs.

This testimony will not be popular with most employees in the NMI and I, as well as most of my colleagues, want the very best for our staff, to ensure they are motivated and dedicated to our companies' missions. However, with a shrinking economy and shrinking population base in the NMI, we are at a time where businesses simply do not have enough revenue to increase salaries and maintain our operations, let alone consider any sort of expansions or upgrades. We are at a point where hard decisions have to be made and most of the options include the loss of jobs. Whether through business closure or reduction of services, it means less available employment. In simple terms, the intent of increased wages for employees is laudable, but if lockstep increases mean the loss of overall employment and eventual loss of tax base for our already struggling government, we have to find middle ground.

It is difficult for me to tell my 45 employees on Saipan that I am not supportive of these annual increases according to the current schedule. But I know that more increases will force me to reduce hours and staffing, leaving some employees out of work, or with fewer hours. It simply makes no sense to have an increase in minimum wage that contributes to such a negative effect on overall employment. There is a saying that 50 percent of something is better than 100 percent of nothing. My staff understand that some wage is better than no wage. They also know that I have been in business on Saipan for 13 years and that I want to be in business on Saipan for least another 13 years.

Many businesses are reluctantly preparing for the wage increase in 2012. But the fact remains that population, sales, revenues, and profits have all decreased and continue to fall. Business have battled the local government to not raise costs such as license fees and taxes, but those costs pale in comparison to the cost of doing business that another wage increase will bring. For example, a small restaurant business with four kitchen staff and four waitresses would see an immediate cost increase to the company of \$700 per month or \$8,300 per year. For a small restaurant to earn an additional \$700 each month to pay for the wage increases, it would need to increase monthly sales by approximately \$3000. Consider a hotel with 100 employees and the numbers become staggering.

Extrinsic economic forces weigh greatly on our small island community. With thousands of miles of ocean in all directions, the prices of goods that come in by ship or air are high to begin with, but beyond shipping, the costs of running a business in the NMI are uniquely high. Our utility rates are the highest in the nation. Many businesses in our community do not turn on their lights or air conditioning. Some even unplug their chillers at night. These are actions that in the mainland would run you out of business, but in our islands such actions are becoming more of a necessity to remain in business. If you consider that many companies cannot afford to adequately air condition or light their business, it is not a stretch to imagine that further wage increases are going to be the death knell for some and result in reduced operations for others. Some of you may think it is time for businesses in the NMI to cut expenses and hunker down. Businesses in the NMI have made those cuts over the last five years and there is frankly no further cutting that can be done to eliminate the downward economic effects of another wage increase.

Our economy is also severely strained due the global economic crisis, the earthquake and tsunami in Japan, as well as local governmental issues. Tourism, our main economic driver, is in a downward spiral.

Fewer visitors means less revenues for the hotels, and all those businesses that supply or support the hotels. These effects ripple throughout the business community and ultimately affect the workforce needs of the private sector. In fiscal year 2010, visitor arrivals to the NMI totaled only 386,186, just a little more than half of total visitor arrivals during the industry's peak in 1996. From FY 2006 to 2010, hotel revenues each year dropped at an average of \$2.9 million and the NMI lost approximately \$10.5 million annually in direct on-island expenditures. With a multiplier of 1.5, our business community lost \$33.4 million in economic activity and \$2-million in taxes annually. Additionally, it is estimated that 171 public and 191 private sector jobs were displaced annually.

Often, when a business struggles or fails, it is due to bad decisions or poor management or an inability to adapt to markets and competition, but in the case of the Northern Marianas, most all businesses are affected significantly and negatively by somewhat unique forces beyond our control: our geographical isolation, our declining population, our unique immigration history, and the like. These minimum wage increases are also out of our control, but they are not out of Congress's control.

I recently saw a MSNBC interview with Chairman Fleming recently regarding the taxes and the costs of doing business and the need to have money left at the end of the day to reinvest in your business in order to continue to provide, and to create, jobs. So I know this subcommittee is led by someone who fully appreciates the real-world impact that increased costs have on businesses. And I am sure the Chairman is not the only one on this committee who understands the financial challenges of running a business facing an increase in costs when revenues are flat. When the NMI was granted a one year delay of the fifty cent increase in 2011, it was desperately needed by businesses and I believe it worked to the benefit of retail consumers. And perhaps most importantly for your consideration, it benefitted the overall workforce in the Northern Marianas – the employees who otherwise would have faced reduced work hours or job loss.

Conditions reflected in the 2010 and 2011 GAO reports amply justified the delay in the 2011 wage increase. Current conditions are at least as poor, and probably worse, than when GAO undertook the previous two studies. When the 2012 minimum wage increase is implemented, some people will see their wages go up. Likely, however, even more people will see their work hours decline or they will lose their jobs. There is plenty of justification and time, however, to implement another one-year delay as soon as possible. Of course, if there was a sudden and dramatic economic upturn in the next year, I would happily revisit my analysis. I want to be able to pay my employees more – but I cannot afford to do so when it means that I would jeopardize the overall financial health of the company. I assure you, however, that there is no best-case scenario that would be substantial enough for companies to recover in any meaningful way before the next scheduled increase. A delay of the upcoming increase would mitigate the negative effects of wage increases originally scheduled to be implemented at a historic pace, without consideration of our failing economy, and without consideration of the negative collateral impact on many workers.

More jobs should be the immediate goal in the Northern Marianas. Not only is the NMI wrestling with impact of minimum wage legislation, but also immigration reform which is directly related to labor and costs. The Consolidated Natural Resources Act of 2008 mandates a decreasing dependence of foreign labor. A delay in the ongoing increases would allow businesses to invest money in the hiring and training of United States workers in order to comply with that law.

Helping the Northern Mariana Islands to survive its current economic depression, replace our foreign workforce with United States workers, and to bring our minimum wage into line with the federal minimum wage in a rational manner is the hands of Congress. The goal of increasing worker pay is laudable, but please do not allow it to come about at the ultimate expense of workers, businesses and our economy. I respectfully request that this subcommittee advocate a delay as I have outlined above and that you continue to monitor the situation in the Northern Marianas. This is an issue of critical importance to employees and employers alike. What is of utmost importance is not simply that minimum wage are implemented but rather that they are implemented in the right way.

Thank you for your consideration.