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AMERICAN SAMOA AND
COMMONWEALTH OF THE
NORTHERN MARIANA
ISLANDS

Employment,
Earnings, and Status
of Key Industries
Since Minimum Wage
Increases Began

Statement of David Gootnick, Director
International Affairs and Trade

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Chairman Fleming, Ranking Member Sablan, and Members of the Subcommittee:

Thank you for the opportunity to discuss our recent report¹ on the impact of minimum wage increases in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

In 2007, the United States enacted legislation that incrementally applies the U.S. minimum wage to the U.S. insular areas of American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).² This legislation raised the minimum wage in both territories in a series of \$.50 per hour annual increases, which were to continue until these wages equal the federal minimum wage.³ Enactment of subsequent legislation delayed the scheduled minimum wage increases in both areas, providing for no increase in American Samoa in 2010 or 2011, and no increase in the CNMI in 2011.⁴ Currently, the minimum wage of the lowest paid

¹GAO, *American Samoa and the Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, GAO-11-427 (Washington, D.C.: June 23, 2011).

²U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110–28, § 8103, 121 Stat. 188 (May 25, 2007), as amended by Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010), codified at 29 U.S.C. § 206 note. Under the law, any future changes to the minimum wage enacted under U.S. law for the 50 states, District of Columbia, U.S. Virgin Islands, Guam, and Puerto Rico also will apply to American Samoa and the CNMI. For changes enacted before American Samoa and the CNMI would have reached the current U.S. minimum wage, the minimum wages in the two areas would continue to increase in \$.50 increments until they reach the federal minimum wage, extending beyond the current time frames. After each area reaches the U.S. minimum wage, any additional increase in the U.S. minimum wage would apply to American Samoa and the CNMI on the same schedule as for the 50 U.S. states.

³Pub. L. No. 110–28, § 8103, 121 Stat. 188 (May 25, 2007). The 2007 law required minimum wage increases in May of 2008 and in May each year thereafter, until the American Samoa and CNMI minimum wages converged with the U.S. minimum wage in 2016 and 2015, respectively. However, the Consolidated Appropriations Act, 2010, included a provision delaying the minimum wage increases until September 30th of each year, beginning in 2010. Pub. L. No. 111-117, Div. D, Title V, § 520, 123 Stat. 3034, 3283 (Dec. 16, 2009).

⁴Pub. L. No. 111-244, 124 Stat. 2618 (September 30, 2010). American Samoa's minimum wage increased by \$.50 three times and the CNMI's four times before this legislation delayed the increases.

workers in American Samoa is \$4.18,⁵ and in the CNMI the minimum wage is \$5.05.⁶

Public and private sector officials and workers in both areas have expressed concern about the impact of the federal minimum wage increases on the local economies. Economic indicators in both areas show decline. Both governments have faced budget gaps in most recent years, and they have reduced the work hours of government employees and taken other steps to reduce the shortfalls. In January 2008, the U.S. Department of Labor issued a report on the economic impact of minimum wage increases in both American Samoa and the CNMI; the report noted concern that the scheduled minimum wage increases would lead to the closing of tuna canneries in American Samoa and concluded that it seemed likely the increases would worsen CNMI's existing economic decline.⁷ Also in 2008, studies funded by the U.S. Department of the Interior projected major additional contraction of the two economies.⁸

American Samoa's private sector is largely based on the tuna canning industry, and the closure of one of its two tuna canneries in September 2009 significantly affected the labor market and economy.⁹ Before the

⁵Previously, American Samoa's minimum wage was set for each of 18 industries by the U.S. Department of Labor under biennial reviews, and its minimum wages in 2006 ranged from \$2.68 to \$4.09.

⁶The CNMI had authority to set its own minimum wage under its 1976 Covenant with the United States, and its minimum wage in 2006 was \$3.05.

⁷U.S. Department of Labor, Office of the Assistant Secretary for Policy, *Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands* (January 2008). The report noted that data and time limitations constrained the study.

⁸Malcolm D. McPhee & Associates with Dick Conway and Lewis Wolman, *American Samoa's Economic Future and the Cannery Industry*, prepared for the American Samoa Department of Commerce under a grant award from the U.S. Department of the Interior, Office of Insular Affairs (February 2008); and Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008).

⁹In November 2006, Chicken of the Sea's Samoa Packing operation employed 40 percent (1,906 workers) of the island's fish canning and processing workers. Chicken of the Sea relocated canning facilities to the U.S. state of Georgia while outsourcing the more labor-intensive processes, including cleaning and cooking the tuna loins (a low-tariff U.S. import), to countries with lower labor costs.

first minimum wage increase in 2007, about one-third of workers in American Samoa were employed by the two canneries, and more than three-quarters of cannery employees were foreign workers from neighboring Samoa, an independent country.

Until recently the CNMI private sector relied on the garment industry which had employed close to a third of all workers; however, by early 2009, the last garment factory had closed. Tourism, the major remaining private sector industry, has seen visitor arrivals drop from nearly 727,000 in 1997 to roughly 368,000 in 2010, a decline of almost 50 percent. The CNMI also faces uncertainty due to the application of U.S. immigration law to the commonwealth, ending decades of the CNMI's control over its own immigration system.¹⁰ In 2005, foreign workers represented a majority of the CNMI labor force and outnumbered U.S. citizens in most industries.

GAO is required to report every two years on the impact of minimum wage increases in American Samoa and the CNMI.¹¹ My statement today describes, since the minimum wage increases began, (1) employment and earnings, and (2) the status of key industries.

In preparing our June 2011 report, we reviewed and analyzed existing information from federal sources and from the American Samoa and CNMI governments. To describe employment and earnings, we analyzed earnings data from the Social Security Administration (SSA) for American Samoa and tax data from the CNMI government, and we adjusted the earnings data using Consumer Price Index (CPI) data for each area. For both objectives, we analyzed responses from GAO's questionnaire of large employers in the American Samoa tuna canning and CNMI tourism

¹⁰Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008). U.S. law established federal control of CNMI immigration on November 28, 2009, with provisions affecting employers' access to foreign workers.

¹¹The American Recovery and Reinvestment Act of 2009 required that GAO report annually on the impact of minimum wage increases in American Samoa and the CNMI. Under the Act, GAO was required to report on the minimum wage increases between March 15 and April 15 of 2010 and each year thereafter until the minimum wages reach the U.S. minimum wage. Pub. L. No. 111-5, § 802, 123 Stat. 115, 186 (Feb. 17, 2009). A subsequent law changed the GAO reporting requirement to not later than September 1, 2011; April 1, 2013; and every 2 years thereafter until the minimum wage in the respective territory meets the federal minimum wage. Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010).

industries, and we conducted discussion groups with employers and workers and interviews with public officials during site visits to American Samoa and the CNMI.¹² A limitation of our study is that although our approach yielded information on trends in employment, wages, and earnings in both areas, it is difficult to distinguish between the effects of minimum wage increases and the effects of other factors, including the global recession beginning in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI.

We conducted work on our June 2011 report from September 2010 to June 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for the findings in this product.

Summary

In American Samoa, employment declined 14 percent—from 17,852 to 15,434—between 2006 and 2009, and average inflation-adjusted earnings of those employed fell by 11 percent over the same period. In addition, roughly 2,000 to 3,000 temporary federal jobs will end when funding is no longer available. Employers in the tuna canning industry attributed most of their past and planned actions, including worker layoffs and hiring freezes, to the minimum wage. Cannery officials also expressed concern about American Samoa's loss of competitive advantage in the global tuna canning industry. Workers principally expressed concern over job security. Analysis of alternate models suggests that moving tuna cannery operations from American Samoa to another tariff-free country with lower labor costs would significantly reduce cannery operating costs.

¹²The scope of our study did not include workers in the underground economy in each area, and we did not focus on the extent to which relevant laws were properly enforced or implemented. See appendix I of our report for a detailed explanation of the methods we used and the scope and limitations of our work. See appendix V of the report for the industry questionnaire.

In the CNMI, employment fell 35 percent—from 43,036 to 27,897—between 2006 and 2009, and average inflation-adjusted earnings of those employed remained largely unchanged. Also, fewer than 1,000 temporary federal jobs will end when funding is no longer available. Employers in the tourism industry generally attributed their employment actions to multiple factors, such as immigration law and a decrease in the number of customers, more than to the rising minimum wage. Workers said they would like pay increases to help meet rising prices, but they were concerned about losing jobs and work hours. CNMI hotels have generally absorbed minimum wage costs rather than raise room rates. If this trend continues, scheduled minimum wage increases would increase hotels' operating costs due to payroll from approximately 29 to roughly 34 percent of total operating costs between 2010 and 2016.

American Samoa

Employment and Average Inflation-Adjusted Earnings Declined Between 2006 and 2009

Employment. Social Security Administration (SSA) data show that from 2006 to 2009, employment declined 14 percent from 17,852 to 15,434 with employment having peaked in 2008 at 19,171. From 2008 to 2009, the total number of people employed in American Samoa declined 19 percent. In addition, we estimated that from 2,000 to 3,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available.¹³ Data on total employment from the 2010 Decennial Census are not yet available. Questionnaire responses from the tuna canning industry show that employment of their workers—most of whom are foreign workers from independent Samoa—dropped by 55 percent from 2009 to 2010, reflecting the September 2009 closure of one cannery and layoffs in the remaining cannery.¹⁴

Inflation-adjusted earnings of those employed. Earnings data from SSA and consumer price data show that from 2006 to 2009, average inflation-adjusted earnings of those employed fell by 11 percent. This resulted from a rise in average annual earnings of about 5 percent while

¹³Temporary federal jobs included those funded by the Recovery Act, by the U.S. Census Bureau for the Decennial Census, and by recovery efforts after the 2009 tsunami.

¹⁴If many foreign workers left American Samoa, the impact on the unemployment rate would be smaller than if those workers remained.

local prices rose by about 18 percent. From 2008 to 2009, average inflation-adjusted earnings fell by 5 percent, resulting from a decrease in average earnings of 2 percent and an increase in prices of 3 percent. The inflation-adjusted earnings of minimum wage cannery workers who retained their jobs and work hours rose by about 23 percent for the entire period from 2006 to 2009 and about 8 percent from 2008 to 2009.

Worker views. Some workers said they had looked forward to the 2010 minimum wage increase and were disappointed to see the increase delayed. However, more tuna canning workers expressed concern over job security than favored a minimum wage increase with the potential for subsequent layoffs.

The American Samoa
Tuna Canning
Industry Has
Continued to Lay
Off Workers and Has
Considered
Alternate Locations

Employers in the tuna canning industry reported that they had taken cost-cutting actions, including laying off workers, reducing overtime hours, freezing hiring, decreasing benefits, temporarily closing, reducing operating capacity or services, and raising prices, among other actions. They reported plans to take the same types of cost-cutting actions by early 2012, including laying off additional employees.

Employers attributed most of their past and planned actions largely to the minimum wage increases and did so more often than attributing their actions to other factors, which included the high cost of goods and utilities, transportation and shipping costs, and changes in business taxes and fees.

In addition to the minimum wage increases, cannery officials also expressed concern about American Samoa's dwindling competitive advantage in the global tuna canning industry and said that current operations in American Samoa were not competitive with other models.¹⁵

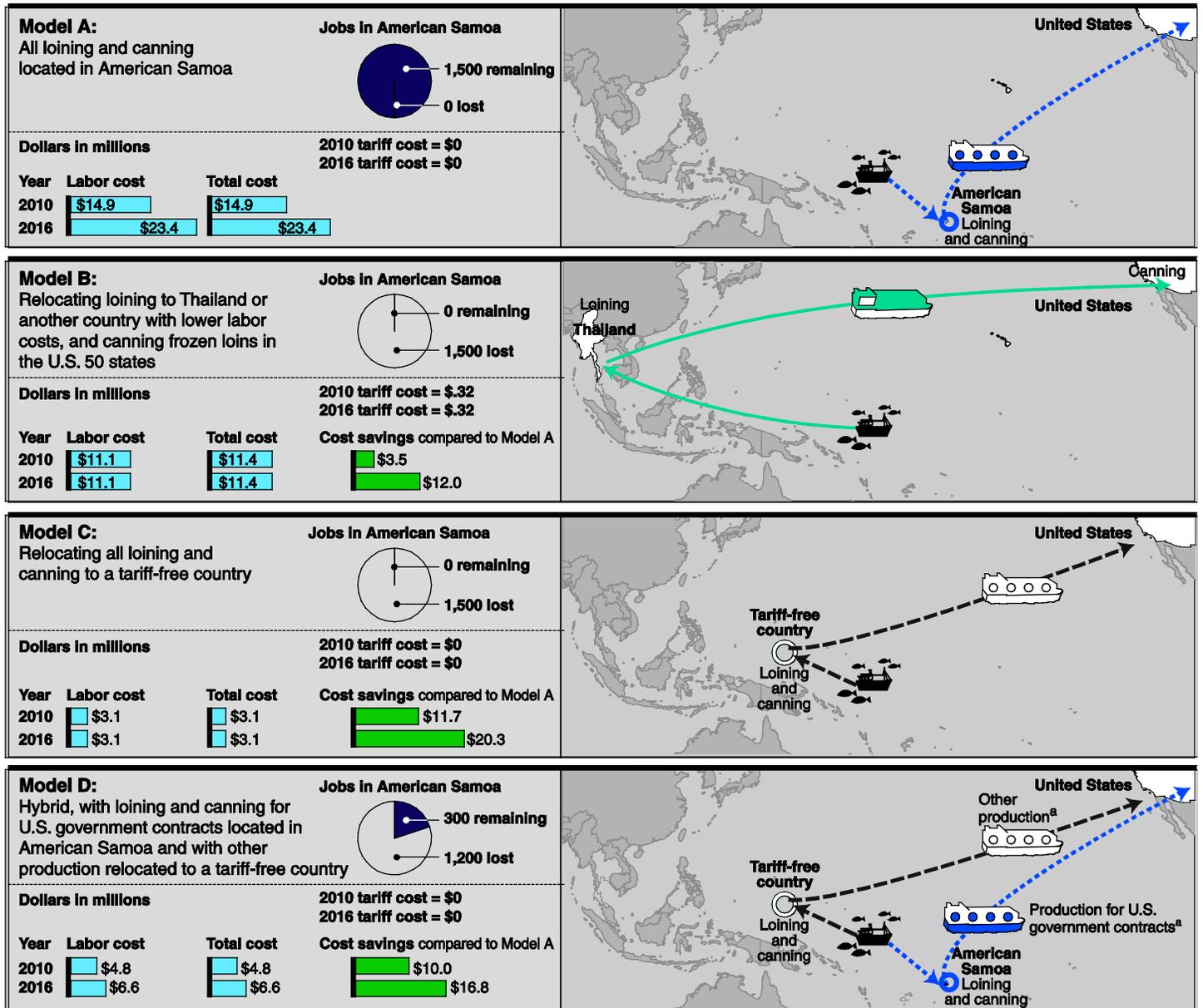
¹⁵From 1997 through 2007, U.S. trade laws and agreements helped American Samoa's tuna canning industry remain viable in spite of competition. As tuna exports from other countries into the U.S. market increased, exports from American Samoa remained constant. In August 2002, tariffs decreased on pouched tuna exported from countries covered by the Andean Trade Preference Act. The authority to extend duty-free treatment to Andean Trade Preference Act beneficiary countries expired on February 12, 2011, and has not been renewed. In January 2008, provisions of the North American Free Trade Agreement lifted tariffs imposed on canned tuna and other tuna products exported from Canada and Mexico. Nevertheless, some of American Samoa's foreign competitors still did not qualify for tariff-free access to the U.S. market.

Analysis of alternate models available to the industry suggests that moving tuna cannery operations—including unloading, loining (cleaning, cooking, and cutting), and canning fish—from American Samoa to another tariff-free country with lower labor costs would significantly reduce cannery operating costs. However, given that tuna facilities in American Samoa are among the few in the United States that can meet the requirements of U.S. government contracts, many of which require U.S.-sourced and processed fish, maintaining some operations in American Samoa would allow the facility to continue to compete for these contracts. Figure 1 compares estimated wage and tariff costs for tuna canneries using four alternative business models:

- Model A: All loining and canning located in American Samoa
- Model B: Relocating loining to Thailand or another country with lower labor costs, and canning frozen loins in the U.S. 50 states¹⁶
- Model C: Relocating all loining and canning to a tariff-free country
- Model D: Hybrid, with loining and canning for U.S. government contracts located in American Samoa and with other production relocated to a tariff-free country

¹⁶The frozen fish carries a tariff of \$11 per metric ton.

Figure 1: Comparison of Estimated Wage and Tariff Costs for Tuna Canneries Using Alternate Business Models



Boat for fishing
 Boat transporting loined, frozen fish to the United States to be canned
 Boat exporting tariff-free canned fish to the United States from a tariff-free country
 Boat exporting tariff-free canned fish to the United States from American Samoa

Sources: GAO analysis of information from tuna industry data and U.S. tariff law; Art Explosion (clip art); Map Resources (map).

Notes: Calculations for 2016 assume constant level of production and assume minimum wages in Thailand and the tariff-free country remain at 2010 levels. They assume an average hourly wage in Thailand of \$.75, in the U.S. state of Georgia of \$14.00, and in the tariff-free country of \$1. American Samoa hourly wages are based on the minimum wage increases as scheduled.

Despite the advantages of moving some operations to other countries, the remaining cannery's lease obligation through 2013 and the cost of building new facilities elsewhere may pose obstacles to near-term relocation. In addition, since October 2010 a new tuna facility operator¹⁷ has hired a small number of workers formerly employed by the cannery that closed, but it is unclear how many additional workers they will hire.

See appendix III of our June 2011 report for detailed findings and tables on American Samoa.

Commonwealth of the Northern Mariana Islands

CNMI Employment
Fell Substantially
from 2006-2009, and
Average Inflation-
Adjusted Earnings
Have Remained
Largely Unchanged

Employment. For the period from 2006 to 2009, the number employed fell 35 percent from 43,036 to 27,897 according to CNMI government tax data. The decrease largely reflected the closure of the CNMI's last remaining garment factories, ending in 2009, which employed many foreign workers.¹⁸ From 2008 to 2009, the total number of people employed fell by about 13 percent. In addition, we estimated that fewer than 1,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available.¹⁹ Because CNMI tax data are not available for 2010, we are unable to report on the overall level of employment for the year. In the tourism industry, employment among GAO questionnaire respondents fell by 14 percent from 2007 to 2010 and fell 8 percent from 2009 to 2010.

¹⁷The new operator is Samoa Tuna Processors, Inc., part of Tri Marine International, which acquired the former Chicken of the Sea tuna cannery in American Samoa. The firm's local tax exemption certificate requires that the company invest a minimum of \$5 million and employ 600 people within 5 years in order to retain local tax benefits.

¹⁸If many foreign workers left the CNMI, the impact on the unemployment rate would be smaller than if those workers remained.

¹⁹Temporary federal jobs included those funded by the Recovery Act and by the U.S. Census Bureau for the Decennial Census.

Inflation-adjusted earnings of those employed. Over the entire period from 2006 to 2009, based on CNMI government tax data and consumer price data, average inflation-adjusted earnings of those employed remained largely unchanged. This resulted from a 19 percent increase in average earnings and a 19.5 percent increase in prices. From 2008 to 2009, average inflation-adjusted earnings rose by 3 percent. This resulted from a 7 percent increase in average earnings, with a 3.5 percent increase in prices. The inflation-adjusted earnings of minimum wage workers who retained their jobs and work hours rose by about 25 percent for the entire period from 2006 to 2009, and by about 9 percent from 2008 to 2009.

Worker views. Workers in our discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours. Participants said they wanted to receive the pay increases to help meet rising prices, including for utilities and consumer goods. However, they said they had observed that while some workers received pay increases, others lost jobs or work hours.

As Visitor Arrivals Decline, Hotels Have Taken Cost-Cutting Actions and Have Absorbed Minimum Wage Increases Rather than Raising Room Rates

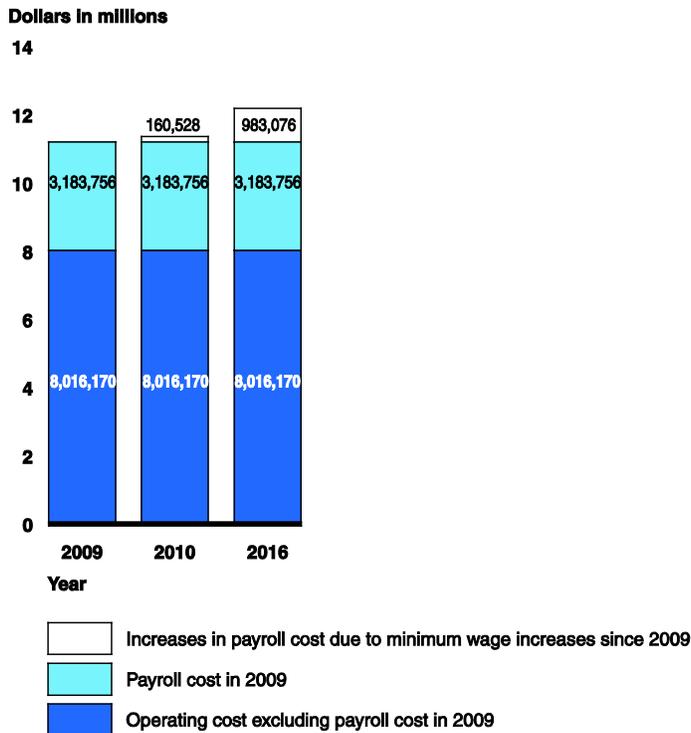
In response to the decline in visitor arrivals, hotel and other employers in the CNMI tourism industry reported having taken cost-cutting actions including reducing hours, freezing hiring, decreasing benefits, and raising prices of goods or services, and these employers reported plans to lay off workers. Employers generally stated that other factors, including changes in immigration law and a decrease in the number of customers, contributed to their actions more than the rising minimum wage. In discussion groups, some hotel and other tourism employers and managers expressed concern about the minimum wage increases, but others said the minimum wage increases were needed and manageable and that the primary difficulty was the CNMI tourism industry's general decline.

CNMI hotels have generally absorbed minimum wage costs rather than raise room rates. Industry data show that since 2006 the hotel occupancy rate had not changed significantly, remaining between 58 and 64 percent, while inflation-adjusted room rates declined by about 12 percent from 2006 to 2009. If observed trends continue, scheduled minimum wage increases will increase the share of hotels' total operating costs attributable to payroll from approximately 29 percent of operating costs in 2010 (with minimum wage increases representing about 1 percent of total

operating costs) to 34 percent in 2016 (with minimum wage increases representing about 8 percent of the total). See figure 2.

See appendix IV of our June 2011 report for detailed findings and tables on the CNMI.

Figure 2: Estimated Average Impact of Minimum Wage Increases on CNMI Hotels' Payroll Costs in 2010 and 2016, Relative to Average Payroll and Other Costs in 2009



Source: GAO analysis of wage and other data provided in responses to GAO CNMI tourism industry questionnaire.

Notes: Our estimates of hotels' average costs in 2010 and 2016 are based on hotels' responses to our 2010 industry questionnaire. Estimates of hotels' average costs are for 2009 levels. Minimum wage costs only include workers directly affected by the future minimum wages. The impact of minimum wage increases on required employer contributions to Social Security and Medicare under the Federal Insurance Contributions Act (FICA) are excluded from this analysis. Including such elements as part of minimum wage costs would increase the estimated impact of minimum wage increases. However, if other operating costs excluding payroll were to increase, the minimum wage increases would have a smaller effect on overall operating costs.

"Operating cost excluding payroll cost in 2009" includes Social Security and Medicare contributions under FICA, payments for employee benefits, and other operating expenses. "Payroll cost in 2009" includes payroll before deductions for taxes and benefits. "Increases in payroll cost due to minimum wage increases since 2009" is the annual cost of payroll increases that would be required to comply with the minimum wages since 2010, based on the 2010 distribution of wages.

Costs shown are unweighted average costs for CNMI hotels that responded to our questionnaire. To determine the costs of the minimum wage increases, we assumed that all workers employed by questionnaire respondents were legally required to receive the minimum wage. If some are not covered or are exempt, the minimum wage increases would affect fewer workers, and cost increases would be lower.

Agency Comments and Our Evaluation

We shared our June 2011 report with relevant federal agencies and the governments of American Samoa and the CNMI. Agencies agreed with our report or chose not to provide comments. In its written comments, the American Samoa government generally agreed with our findings but stated that employment losses and other aspects of economic decline in American Samoa are greater than the report suggests. In its written comments, the CNMI government said the draft report fairly characterized current conditions in the CNMI. Appendix VII of our report provides our detailed evaluation of the American Samoa government's letter and our response, and appendix VIII of the report provides our detailed evaluation of the CNMI government's letter and our response.

Chairman Fleming, Ranking Member Sablan, and Members of the Subcommittee, this completes my prepared statement. I would be happy to respond to any questions you may have at this time.

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