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**The Impact of Minimum Wage Increases on American Samoa
September 23, 2011**

**Continued Minimum Wage Increases Would Destroy
American Samoa's Economy**

Summary - In 2007, the United States enacted legislation that mandated annual \$.50 per hour increases to the minimum wages in American Samoa beginning in July 2007 until it reached parity with the federal minimum wage. To date since 2007, the minimum wages in American Samoa have increased by \$.50 three times. Under current law, the minimum wage for American Samoa's lowest paid workers will reach the federal minimum wage of \$7.25 in 2018. In 2010, the United States enacted a law delaying the scheduled minimum wage increases providing for no increase in 2010 or 2011.

On May 25, 2011, I responded to GAO's draft report (GAO-11-427) on the effects of recent minimum wage increases in American Samoa. I expressed general agreement with the GAO's findings; however, I also expressed fundamental concerns about the draft. These concerns were noted but not seriously addressed in the final GAO report for reasons provided in that report having mainly to do with the limitations of its Congressional mandate.

I remain concerned that this GAO report does not adequately, succinctly or clearly convey the magnitude of the worsening economic disaster in American Samoa. My specific concerns about the GAO report are as follows:

1. It continues to understate American Samoa's employment losses due substantially to the initial increases in the minimum wage.
2. It continues to downplay the minimum wage as only one of several factors influencing the growing economic depression in American Samoa despite the fact that its own data demonstrates that workers and major employers expect economic conditions to worsen primarily as a result of continuing increases in the minimum wage.
3. It ignores the fact that the minimum wage increases have adversely affected the entire economy and not just the canneries.
4. It ignores the fact that the indirect effects of the cannery employment losses have not yet run their course as they often require several years to fully materialize.
5. It downplays the fact that the damage to date is from only three of ten scheduled minimum wage increases.
6. It ignores the evidence that continued increases in the minimum wage make any meaningful economic recovery increasingly unlikely.

7. It is silent on the real possibility that American Samoa could be left substantially without a private sector economic base except for some limited visitor industry and fisheries activities. American Samoa's economic base would then essentially be based solely on federal government expenditures in the territory.

American Samoa is in dire need of relief from the US Congress. At a minimum, the present suspension of the minimum wage increases should be continued indefinitely or until some more satisfactory minimum wage procedures are designed and implemented.

Recent Employment Losses - The employment analysis by GAO in Table 1 underestimates the economic impact of the rising minimum wage in American Samoa. There was no reason to exclude cannery closure employment losses total employment in 2009. The September 30, 2009 cannery closure reduced employment in American Samoa by another 2000 in addition to the decline of 3737. That would bring the percent employment decline to 30 percent rather than 19 percent between 2008 and 2009 as described in Table 1.

Table 1
GAO and American Samoa Employment Estimates

	2008	2009	Jobs Change	Percent Change
GAO total employment estimates	19,171	15,434	3737	-19
ASG total employment estimates	19171	13,434	5737	-30

Source: GAO-11-427 American Samoa and Commonwealth of the Northern Mariana Islands (pages 63-65) <http://www.gao.gov/new.items/d11427.pdf> and American Samoa Government, Department of Commerce.

The importance of combining these numbers for some sense of magnitude outweighs any possible definitional discrepancies. Those 2000 cannery jobs existed before September 30 2009. After that date they no longer existed. They should have been included in some manner in the job loss calculation for 2009. GAO did not compute this total themselves because it thought the data could not be combined since it came from multiple sources (GAO-11-427, Page 129). Our combining the 2009 SSA 3737 employment loss estimate with the 2000 employees who lost their jobs at the canneries in 2009 did not come from multiple sources; they came only from SSA and the closed cannery and did not likely involve any serious distortion in the combination. However, it must be acknowledged that we, out of necessity, often treat employment and jobs as synonymous when they are not. The number of jobs exceeds the number of persons employed because of multiple job holders and the fact that employment is measured differently by different agencies.

This higher level of employment loss represented 30 percent of American Samoa's total employment in 2008. Economies do not recover from losses of that magnitude in the short term. The people who lost those jobs and their families were and are in serious trouble. They have to

begin weighing their options for making a living. Obviously, seeking employment outside American Samoa must be considered a real option.

Later in Table 4 it will be observed that the gravity of the employment decline between 2008 and 2009 wiped out the entire employment gain from years 2000-2008. Table 4 will show that employment in 2009 was lower than it was in 2000! If we deduct the cannery employment loss from the 15,434, the 2009 employment estimate falls below even our 1990 employment level.

Future Employment Losses - The worst is yet to come. The above serious employment losses were the result of just the first three of ten \$.50 annual increases in the minimum wage in American Samoa. Unless the minimum wage law for American Samoa is changed, these \$.50 annual increases in American Samoa's minimum wage will resume in 2012 and continue for the following seven years. Based upon the minimum wage experience of the first three years, another seven years of similar increases will be devastating.

It is difficult to contemplate a scenario for 2018 when American Samoa's minimum wage reaches the US level of \$7.25 per hour or even higher if the US minimum wage is increased over that period. That scenario would likely describe a US territorial economy substantially without a private sector economic base except for some limited visitor industry and fisheries activities. American Samoa's economic base would then essentially be the US federal government expenditures in the territory.

In Table 2, further employment losses are estimated for 2012-13. These are conservative estimates. By then total job losses are anticipated to reach 7993. This estimate assumes no further cannery employment losses from the 2010 estimate of 2256 in the GAO report. It assumes only a further loss of 1000 in non-cannery jobs. It assumes a 1000 job loss due to the 1.5 employment multiplier effects of the cannery closure. Employment losses could be ameliorated slightly with temporary jobs funded by the U.S. Census Bureau, the Recovery Act, and recovery efforts after the 2009 Tsunami. However, these are temporary jobs and will likely end when federal funding ends prior to 2013. Given the magnitude of the 5737 employment losses between 2008 and 2009, it is easy to imagine total job losses of 7993 by 2013. This is especially the case if annual minimum wage increases are resumed in 2012.

Table 2
Estimated Cumulative Employment Losses in American Samoa,
2009 to 2013

Job Losses	2009	2013
Non-Cannery	-3737	-4737
Cannery, Indirect		-1000
Cannery	-2000	-2256
Total	-5737	-7993

Unemployment - In Table 3, the above employment loss estimates are considered in a labor force and employment context in order to estimate unemployment trends. The numbers in Table 3 are primarily illustrative because our most recent labor force data is from the 2000 US Census. In reality, the labor force in 2013 will almost certainly have declined substantially from what is shown in Table 3 due to people no longer seeking work or people leaving American Samoa in pursuit of employment.

Table 3
Labor Force, Employment and Unemployment in American Samoa

	2008	2009	2012-13
Labor force*	20,223	20,223	20,223
Employment	19, 171	13,434	11,178
Unemployment	1051	6789	7993
Percent	5.2	35.7	39.5

Source: *2000 US Census: 19,171/.948 employment rate = 20,223 Labor Force

For example, if 4,000 of the unemployed workers left the territory by 2013, the rate of unemployment would fall from 39.5 percent to 24.6 percent. However, we are still talking about very high rates of unemployment at 25 percent.

Outmigration may not be a convenient option in American Samoa under the best of circumstances because of distance and cost of relocation and, in the case of the US, considerable cultural adjustment. In addition, independent Samoa offers limited employment opportunities. In that regard, the GAO frequently notes in its report that a large percentage of cannery workers are citizens of Samoa. What it fails to point out is that many of these Samoa citizens have resided in American Samoa for decades and have grown children who are US nationals and citizens. Hence, it is not as though these are short term temporary workers who can pick up and return to Samoa on short notice.

Table 4
American Samoa Population and Employment 1980 -2010

	1980	1990	2000	2010
Population	32,297	46,773	57,291	55,519
Employed	8106	13,461	16,718	15,434
Employment as Percent of Population	25.1	28.8	29.2	27.8

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Source: US Bureau of the Census and Social Security Administration, 2009.

We are currently reviewing our 2010 US Census population count. There are some indications of a possible undercount. At the same time there is some evidence of possible heavy outmigration. Table 4 demonstrates that the relationship between population and employment is reasonably stable and has remained so for 30 years. The 2010 GAO employment number fits closely with the long term population/employment relationship with employment at about 28 percent of population in 2010. We are still looking at this. However, the important point is that our population was estimated at over 65,500 in 2005. It is apparent that American Samoa, in the latter part of the decade, suffered serious employment and population declines attributable primarily, although not exclusively, to increases in the minimum wage. The US Census of population count for 2010, 3 percent below the 2000 level, suggests very heavy outmigration late in the decade especially in light of the large natural population increase during the period.

In conclusion, the use of the best available data with reasonable assumptions about 2010 employment suggests that the 2010 US Census population count for American Samoa may not be seriously out of line.

Even if there was some undercount, the data for 2010 in Table 4 strongly suggest that employment trends will eventually force net outmigration levels until the relationship between employment and population is eventually reestablished at a lower population level.

Unfortunately, it gets worse. Not only did GAO's treatment of the data result in a serious underestimation of the economic decline, it ignored an even more serious implication of the SSA employment data. Since the SSA 2009 data did not reflect the cannery closure in 2009, the SSA's 3737 employment decline in 2009 was substantially in industries other than fish canning. This means that the minimum wage increases had serious adverse effects on industries other than the canneries.

In addition, the SSA total of 3737 could not have included much of the cannery closure employment multiplier effect since they require several years to materialize fully. This indicates that the non-cannery sectors of the economy were being seriously affected by the minimum wage increases as well.

Finally, the GAO business and worker survey results suggested clearly the overwhelming cause of American Samoa's declining economy was the rapidly rising minimum wage. It only served to discount the impact of the minimum wage on American Samoa's economy by repeated admonitions that there were other influences at work. Certainly there were, but employer surveys in the draft report (excluded from the final report) showed large employers attributed past employment reductions to the minimum wage increases, and they viewed future impacts of minimum wage increases even more pessimistically.

In other words, American Samoa's economy is in dire straits, and the forces that caused the decline remain intact to prevent an economic recovery. Indeed they remain intact to drive American Samoa deeper into economic depression over the next seven years.

The McPhee Study – The Government of American Samoa had separately commissioned a study on the economic impact if fish canning operations in the territory were to close – the McPhee Study. This study was shared with the US Bureau of Labor Statistics. Although the study was limited to the canning industry, it noted that the serious economic problems in the territory would be worsened by mandated future increases in the minimum wage.

The study also stated that for the canners these increases will compound the problems of declining consumer demand and of cheaper foreign imports which benefit from recent trade negotiations. The mandated minimum wage increases will also hamper the territory in dealing with the loss of the canneries. The study found that the dramatic increase in the minimum wage is a serious threat to the Samoan economy. This underscores the need for a congressional policy, the study says, for economic development in American Samoa.

American Samoa has the lowest per capita income compared to all US states and to the other territories. Its per capita income is one-fifth that of the United States. This study also stated that American Samoa has a poor, undeveloped economy with the added drawbacks of a small size, physical isolation, high transportation costs, and lack of resources.

Recognizing the territory's undeveloped economy, prior law had directed that the minimum wage in American Samoa should reach parity with the states "as rapidly as is economically feasible *without curtailing employment*." Emphasis added. Congress had applied to American Samoa the same statutory procedure that had gradually raised the minimum wage in the Virgin Islands and Puerto Rico to match the regular Federal rate. Pursuant to that prior law, the Secretary of Labor every two years had adjusted the minimum wage rate in American Samoa based on industrial sectors.

The McPhee study remains a story foretold regarding the minimum wage increases. Unfortunately, these warnings went unheeded as the territory's decline continues.

Conclusion and Recommendations – American Samoa is in dire need of relief from the US Congress. At a minimum, the present suspension of the minimum wage increases should be continued indefinitely or until some more satisfactory minimum wage procedures are designed and implemented. Increases in the minimum wage should be terminated immediately in American Samoa.

We recommended to GAO that in its September 2011 report to Congress it address how the minimum wage can be determined without substantially curtailing employment or earning power in American Samoa. This requires a thorough analysis of what caused the minimum wage increases to lead to such adverse economic effects in American Samoa and not in the US.

Accordingly, we recommended that the Federal government explore alternative procedures for setting minimum wage levels in American Samoa. Alternatives include but are not limited to:

1. Considering previous US DOL Special Industry Committee processes or some modification thereof for determining minimum wages in American Samoa.
2. Considering processes used to raise the minimum wage in Puerto Rico and the Virgin Islands which permit some variation in minimum wage rates by industry and gross receipts levels.
3. Considering some form of negotiated minimum wage involving the public and private sectors.
4. Considering amending statutes to specify the conditions to be taken into account in determining the minimum wage in American Samoa.
5. Considering other methods used in state minimum wage programs or those of other countries.

These recommendations should be the subject of follow on studies by the GAO, the US Department of Labor or some other appropriate Federal agency.