

**THE IMPACT OF MINIMUM WAGE
INCREASES IN AMERICAN SAMOA
AND THE COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON FISHERIES, WILDLIFE,
OCEANS AND INSULAR AFFAIRS

OF THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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**OVERSIGHT HEARING ON “THE IMPACT OF
MINIMUM WAGE INCREASES IN AMERICAN
SAMOA AND THE COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS.”**

**Friday, September 23, 2011
U.S. House of Representatives
Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs
Committee on Natural Resources
Washington, D.C.**

The Subcommittee met, pursuant to call, at 9:00 a.m., in Room 1334, Longworth House Office Building, Hon. John Fleming [Chairman of the Subcommittee] presiding.

Present: Representatives Fleming, Sablan, Faleomavaega, Duncan, Bordallo, and Harris.

STATEMENT OF THE HON. JOHN FLEMING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Dr. FLEMING. The Subcommittee will come to order. The Chairman notes the presence of a quorum.

Good morning. The Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs will conduct an oversight hearing on “The Impact of Minimum Wage Increases in the Territories of American Samoa and the Northern Mariana Islands.”

Under Committee Rule 4(f), opening statements are limited to the Chairman and Ranking Member of the Subcommittee so that we can hear from our witnesses more quickly. However, I ask unanimous consent to include any other Members’ opening statements in the hearing record if submitted to the Clerk by close of business today.

Hearing no objection, so ordered.

The Fair Labor Standards Act was enacted in 1938. The law applied to all States and U.S. Territories. However, during the history of the law, Congress amended it to allow certain Territories to use special industry committees to determine local wage rates or pass separate legislation to allow a territory to retain authority over setting wages for local industries.

The practice of allowing wage rate flexibility in American Samoa and the Northern Mariana Islands ended in 2007. The 110th Democrat-led Congress required the application of the Federal minimum wage in American Samoa and the Northern Mariana Islands through annual 50-cent-per-hour increases until the Federal wage was met of \$7.25. To date, three minimum wage increases have occurred in American Samoa and four minimum wage increases have occurred in the Northern Marianas.

Congress required the Department of Labor and the Government Accountability Office to report on how minimum wage increases were affecting living standards and employment in the Territories.

The reports detailed the vulnerability of the two Territories to outside factors influencing their economies, including the global recession, foreign competition and Federal actions which have led to declines in their economies over the last decade. The requirement to increase local minimum wages to Federal levels further exacerbated economic conditions in the Territories, leading to the loss of a cannery in American Samoa and the loss of the garment industry in the Northern Mariana Islands.

In 2009, to alleviate the effects of the minimum wage increases in the two Territories, Congress passed legislation to delay the annual 50-cent-per-hour increase in American Samoa for 2 years and allowed an increase in 2010, but no increase in 2011 for the Northern Mariana Islands. We will hear testimony today regarding the on-the-ground effects of minimum wage increases in the two Territories. I am interested to hear from today's witnesses on how mandatory minimum wage increases affected the economies in the Territories and hurt revenue sources on the islands.

I now recognize our Ranking Member, Mr. Sablan, for any statement he would like to make.

[The prepared statement of Dr. Fleming follows:]

**Statement of The Honorable John Fleming, Chairman,
Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs**

Good morning, the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs will conduct an oversight hearing on the impact of minimum wage increases in the territories of American Samoa and the Commonwealth of the Northern Mariana Islands.

Under Committee Rule 4(f), opening statements are limited to the Chairman and Ranking Member of the Subcommittee so that we can hear from our witnesses more quickly. However, I ask unanimous consent to include any other Members' opening statements in the hearing record if submitted to the Clerk by close of business today. Hearing no objection, so ordered.

The Fair Labor Standards Act was enacted in 1938. The law applied to all states and U.S. territories. However during the history of the law, Congress amended it to allow certain territories to use special industry committees to determine local wage rates or passed separate legislation to allow a territory to retain authority over setting wages for local industries.

The decades-long practice of allowing wage rate flexibility in American Samoa and the Northern Mariana Islands ended in 2007. The 110th Democratic-led Congress required the application of the federal minimum wage in American Samoa and the Northern Mariana Islands, through annual 50-cent-per-hour increases until the federal wage of \$7.25 is met. To date, three minimum wage increases have occurred in American Samoa, and four minimum wage increases have occurred in the Northern Mariana Islands.

Congress required the Department of Labor and the Government Accountability Office to report on how minimum wage increases were affecting living standards and employment in the territories. The reports detailed the vulnerability of the two territories to outside factors influencing their economies including the global recession, foreign competition and federal actions which have led to declines in their economies over the last decade. The requirement to increase local minimum wages to federal levels further exacerbated economic conditions in the territories leading to the loss of a cannery in American Samoa and the loss of the garment industry in the Northern Mariana Islands.

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We will hear testimony today regarding the on-the-ground effects of minimum wage increases in the two territories. I am interested to hear from today's witnesses on how mandatory minimum wage increases affected the economies in the territories and hurt revenue sources on the islands.

**STATEMENT OF THE HON. GREGORIO KILILI CAMACHO
SABLAN, A DELEGATE IN CONGRESS FROM THE COMMON-
WEALTH OF THE NORTHERN MARIANA ISLANDS**

Mr. SABLAN. Well, thank you very much, Mr. Chairman, and thank you for agreeing to this morning's hearing on the impact of raising the minimum wage in American Samoa and the Northern Mariana Islands, and thank you once again for permitting testimony from the Northern Mariana Islands by video conference. This is a smart use of technology to lower the cost of government and let Congress hear directly from our constituents.

One of the most quoted passages in the covenant between the United States and the Northern Mariana Islands is the promise to help the people of the Northern Mariana Islands achieve a progressively higher standard of living as part of the American economic community. Raising the minimum wage is one way to accomplish that goal. Working men and women in the Marianas pay more for gas, more for utilities, more for food than their brothers and sisters almost anywhere else in the United States. It only makes sense that they get a minimum wage at least as high as the rest of our country.

In 2006, family breadwinners were working for \$3.05 in the Northern Mariana Islands. Can you just imagine that? \$6,344 in a year before taxes. Today, because of the minimum wage law that Congress passed, some of those same people earn at least \$5.05. It is still not enough, it is not what I call a dignified wage, but it has already made a difference, bringing people into the workforce, people who had not bothered to work for \$3.05.

We are struggling in this country with the problem of unemployment. Let me tell you, one way to solve unemployment is to pay people a decent wage. I have seen this in my community. The more the wage goes up, the more people will go to work.

I want the minimum wage in the Marianas to rise to the U.S. level. I will say that again. I want the minimum wage in the Marianas to rise to the U.S. level. But I am also not blind to the economic reality. The Bureau of Economic Analysis reported in July that GDP in the Marianas advanced almost 20 percent in 2009. The Recovery Act has provided jobs and kept some people working temporarily, and Recovery Act funds improve fuel efficiency in the local utilities and paid for new appliances in people's homes, which helped with power bills.

But the fact is that the economy is spiraling downward. Business is holding on by its teeth, and when businesses close, workers earn nothing. GAO says we are looking at a perfect storm of negative factors in the Marianas right now—uncertainty over labor supply because of immigration, increases in crime and poverty, lack of air service, very high shipping costs and utilities that are through the roof. But the businesses GAO interviewed said this, that minimum wage is not their biggest concern. It is the shrinking economy that is the real problem.

Minimum wage policies need to be addressed here in Congress, however. We need to be sure that in our effort to give workers a better wage, we do no harm. And, Dr. Fleming, I understand that principle, do no harm.

So it is extremely important that we keep our finger on the pulses of the economy. We have to keep monitoring the situation, adjust if necessary, as we did this year, by skipping the wage increase. That is why we are requiring GAO to report to us every 2 years on the impact of the minimum wage increases. That is why we are holding this oversight hearing today.

We are going to hear from Governor Tulafono, we are going to hear from Assistant Secretary Babauta, who is responsible for Federal policies in the islands, and from Mr. David Gootnick from GAO. We are going to hear from Mr. Arenovski, who is a small business owner and past President of the Saipan Chamber of Commerce.

Welcome, gentlemen.

We are going to keep listening and watching as time goes by so we achieve the goal of keeping people working while making sure they earn a decent, fair and dignified wage to support themselves and their families.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Sablan follows:]

Statement of The Honorable Gregorio Kili Camacho Sablan, Ranking Member, Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs

Thank you, Mr. Chairman:

Thank you for agreeing to this morning's hearing on the impact of raising the minimum wage in American Samoa and the Northern Mariana Islands.

And thank you for once again permitting testimony from the Northern Mariana Islands by video conference. This is a smart use of technology to lower the cost of government and let Congress hear directly from our constituents.

One of the most quoted passages in the Covenant between the United States and the Northern Mariana Islands is the promise to help the people of the Marianas "achieve a progressively higher standard of living. . . as part of the American economic community."

Raising the minimum wage is one way to accomplish that goal.

Working men and women in the Marianas pay more for gas, more for utilities, more for food than their brothers and sisters almost anywhere else in the U.S.

It only makes sense that they get a minimum wage at least as high as the rest of our country.

In 2006 family breadwinners were working for three dollars and five cents an hour in the Marianas. Can you imagine? \$6,344 in a year—before taxes!

Today, because of the minimum wage law Congress passed, those same people earn at least five dollars and five cents.

It is still not enough. It is not what I call a dignified wage.

But it has already made a difference bringing people into the workforce, people who would not bother to work for three-o-five.

We are struggling in this country with the problem of unemployment.

Let me tell you: one way to solve unemployment is to pay people a decent wage.

I've seen this in my community. The more the wage goes up, the more people will go to work.

I want the minimum wage in the Marianas to rise to the U.S. level.

But I am not blind to economic reality.

The Bureau of Economic Analysis reported in July that GDP in the Marianas plunged 20% in 2009.

The Recovery Act has provided jobs and kept some people working—temporarily. And Recovery Act funds improved fuel efficiency at the local utility and paid for new appliances in people's home, which helped with power bills.

But the fact is the economy is spirally downward. Business is holding on by its teeth. And when businesses close, workers earn nothing.

GAO says we're looking at a "perfect storm" of negative factors in the Marianas right now:

- uncertainty over labor supply because of immigration,
- increases in crime and poverty,
- lack of air service,

- high shipping costs, and
- utilities that are through the roof.

But the businesses GAO interviewed said that minimum wage is not their biggest concern. It's the shrinking economy that is the real problem.

Minimum wage policy needs to be our concern here in Congress, however. We need to be sure that in our zeal to give workers a better wage we "do no harm." I know Dr. Fleming understands that principle. "Do no harm."

So, it is extremely important that we keep our finger on the pulse of the economy. We have to keep monitoring the situation. Adjust if necessary, as we did this year, by skipping the wage increase.

That's why we are requiring GAO to report to us every two years on the impact of the minimum wage increases.

That's why we are holding this oversight hearing today.

We are going to hear from Governor Tulafono. We are going to hear from Assistant Secretary Babauta, who is responsible for federal policy in the islands, and from Mr. Gootnick from GAO. We are going to hear from Mr. Arenovski, who is a small business owner and past president of the Saipan Chamber of Commerce. Welcome, gentlemen.

And we are going to keep listening and watching, as time goes by, so we achieve our goal of keeping people working—while making sure they earn a decent, fair, and dignified wage to support themselves and their families.

Thank you, Mr. Chairman.

Dr. FLEMING. I thank the gentleman, the Ranking Member, for his statement.

Now we will hear from our witnesses. Like all witnesses, your written testimony will appear in full in the hearing record, so I ask that you keep your oral statements to five minutes, as outlined in our invitation letter to you and under Committee Rule 4(a).

Our microphones are not automatic, so please press the button when you are ready to begin.

Mr. FALEOMAVAEGA. Mr. Chairman, might I make a statement?

Dr. FLEMING. Yes, sir. I will recognize you in just a moment. A word about the microphones. You kind of have to lean into them or bring them closer. So just a word of caution on that. Oftentimes we don't key into the sensitivity or lack of on these microphones.

Also I will explain the timing lights. You have five minutes. As I said, you will be under green light for 4 minutes. Then it will turn yellow for a minute. Then when it turns red, we ask that you go ahead and wrap up your testimony as soon as possible.

With that, I would like to recognize the gentleman from American Samoa, Mr. Faleomavaega, with an introduction.

Mr. FALEOMAVAEGA. Mr. Chairman, thank you very much. Certainly it is always a welcome sight to see Secretary Babauta and also Dr. Gootnick here from GAO. But more especially, Mr. Chairman, I am very honored to introduce also the presence of our Governor of American Samoa, Governor Tulafono, and his dear wife, Mary, who is with us this morning.

I might also note that the gentleman accompanying our Governor is a retired Command Sergeant Major in the Marine Corps. We are very, very proud of our men and women who serve honorably in the military services of our country, Mr. Filipino Ilaoa, who is here with us.

Again, traveling such a long distance, I really, really appreciate the Governor accepting your invitation to come and testify before this Committee and offer us some insights of what we need to do to resolve this very important issue now confronted by the Northern Mariana Islands as well as American Samoa.

Again, Mr. Chairman, thank you.

Dr. FLEMING. I thank the gentleman.

I would like to welcome today's guests. I will go through the panel here. First let me say that it is a joy to be Chairman of this Committee. I love everything about it except for one thing, and that is pronouncing names. So I will struggle through that as best I can. So bear with me.

First, we have The Honorable Anthony Babauta, Assistant Secretary of the Interior for Insular Affairs; The Honorable Togiola Tulafono, Governor of American Samoa; Mr. David Gootnick, Director, International Affairs and Trade, U.S. Government Accountability Office; and Mr. James Arenovski, President, Delta Management Corporation, Saipan.

So, Assistant Secretary Babauta, you are recognized for your five-minute testimony, sir.

STATEMENT OF THE HON. ANTHONY BABAUTA, ASSISTANT SECRETARY OF THE INTERIOR FOR INSULAR AREAS, U.S. DEPARTMENT OF THE INTERIOR

Mr. BABAUTA. Thank you very much, and good morning, Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to discuss the minimum wage issues relating to American Samoa and the Commonwealth of the Northern Mariana Islands.

In 2007, Public Law 110-28 raised the Federal minimum wage to \$7.25. It also included a provision raising minimum wage rates in American Samoa and the CNMI in 50-cent annual increments until the minimum wage rates in the two Territories equaled that of the Federal minimum wage rate. Later, the Congress postponed the 50-cent increases for American Samoa in 2010 and 2011 and for the CNMI in 2011.

Additionally, the GAO's latest report on the effect of the minimum wage in American Samoa and the CNMI was released this past June. Salient points from that report regarding American Samoa include that employment fell 19 percent from 2008 to 2009, due largely to the closure of the Chicken of the Sea tuna cannery, which caused a 55 percent decrease in tuna canning employment. Private sector employers reported cost cuttings or layoffs and hiring freezes, and private sector employers were also concerned that American Samoa was becoming less competitive in the increasingly competitive world tuna market.

Regarding the CNMI, the report noted that employment fell 13 percent from 2008 to 2009 and 35 percent from 2006 through 2009, and that tourism employers reported that future planned actions included laying off workers.

The GAO noted declines in both economies and confirmed in GDP statistics developed by the Bureau of Economic Analysis in the Department of Commerce.

To summarize, economic prospects for American Samoa and the CNMI have fallen precipitously over recent years and remain bleak for the foreseeable future. The postponement of the 50-cent minimum wage increases enacted by Congress last year will certainly help on the minimum wage front. Congress may find it desirable

to take additional action to postpone increases or reestablish the industry committee process.

Postponements over a long period of time may not be sufficiently nuanced to meet current national minimum wage goals, which envision moving toward the Federal minimum wage without substantially curtailing employment. Employees would receive no increase, even though economic conditions may have improved.

On the other hand, if the scheduled 50-cent increases continue and these territorial economies do not improve, the 50-cent increases may translate into new company closures and employee layoffs.

In addition, we will be hearing from the Governor of American Samoa, who recommends that Congress reinstitute the industry committee process. Reinstating the industry committee process would free the Congress from having to hold hearings and take action every time a postponement appears desirable.

In addition, the industry committee process was designed to move a Territory's minimum wage rate to the Federal minimum wage rate as quickly as possible without substantially curtailing employment. Each Committee member is provided background research on economic conditions in the Territory, and this, along with testimony from labor, business, government and the public in a local setting, allows for subtle and nuanced minimum wage decisions.

At such time as the economies of American Samoa and the CNMI recover their footings, the Congress can return to the issue and reestablish the periodic increases until the Federal minimum wage is achieved in the respective Territory. The Administration would not be opposed to reinstating the industry committee process in American Samoa and also extending it to the CNMI.

Mr. Chairman, we appreciate the interest of the Subcommittee in an issue affecting the quality of so many lives in American Samoa and the Northern Mariana Islands.

Thank you very much.

[The prepared statement of Mr. Babauta follows:]

**Statement of Anthony M. Babauta, Assistant Secretary of the Interior
for Insular Areas, U.S. Department of the Interior**

Mr. Chairman and members of the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs, thank you for the opportunity to discuss minimum wage issues relating to American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

In 2007, legislation that ultimately was enacted as Public Law 110-28 raised the Federal minimum wage to \$7.25 per hour also included a provision raising minimum wage rates in American Samoa and the CNMI in 50-cent annual increments until the minimum wage rates in the two territories equal that of the Federal minimum wage rate. Since enactment of that law, Congress has postponed the 50-cent increases for American Samoa in 2010 and 2011 and for the CNMI in 2011.

THE GAO REPORT

Subsequent law requires that the United States Government Accountability Office (GAO) produce a report on the affect of the minimum wage in American Samoa and the CNMI. The GAO's latest report, GAO-11-427, was released in June 2011. Salient points from that report regarding American Samoa include—

- employment fell 19 percent from 2008 to 2009, due largely to the closure of one tuna cannery, which caused a 55 percent decrease in tuna canning employment, and a 14 percent employment decline from 2006 to 2009;

- average inflation-adjusted earnings fell by 5 percent from 2008 to 2009, but for those minimum wage cannery workers who remained employed their wages increased more than inflation;
- current law will increase future minimum wages for 99 percent of the employees in the tuna canning industry;
- some workers were disappointed in the 2010 minimum wage increase delay while more workers expressed concern over job security;
- private sector employers reported cost-cutting through lay-offs and hiring freezes; and
- private sector employers were also concerned that American Samoa was becoming less competitive in the increasingly competitive world tuna market.

Regarding the CNMI, the report noted that—

- employment fell 13 percent from 2008 to 2009, and 35 percent from 2006 to 2009;
- average inflation-adjusted earnings rose by 3 percent from 2008 to 2009;
- current law will increase future minimum wages for 95 percent of the employees in the tourism industry;
- tourism workers expressed mixed views: they would like minimum wage pay increases but were concerned about losing jobs and work hours;
- tourism employers reported that future planned actions included laying off workers; and
- some tourism employers expressed concern about minimum wage increases, but others said the primary difficulty was the decline of the CNMI's tourism industry.

THE ECONOMIES

It is instructive to further examine the economies of American Samoa and the CNMI. Beginning in fiscal year 2009, the Office of Insular Affairs has provided funding for the Bureau of Economic Analysis (BEA) in the Department of Commerce to develop the gross domestic product (GDP) statistics for the United States territories. The territories now receive these annual GDP statistics, which are of a quality comparable to those developed for the 50 states and the District of Columbia. The first set of these statistics became available in May 2010 and covered the period of 2002 to 2007; estimates for 2008 and 2009 were released this past summer.

American Samoa

The current set of GDP statistics on American Samoa by BEA are for 2002 through 2009, and are as follows:

| | American Samoa Gross Domestic Product (Millions of Dollars) | | | | | | | |
|---|---|-------|-------|-------|-------|-------|-------|-------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Real GDP (Millions of Chained 2005 Dollars) | 539 | 542 | 545 | 548 | 531 | 540 | 529 | 504 |
| Population (000) | 60.8 | 62.6 | 64.1 | 65.5 | 66.9 | 68.2 | 69.2 | 70.1 |
| Per Capita Real GDP (\$) | 8,865 | 8,658 | 8,502 | 8,366 | 7,937 | 7,918 | 7,645 | 7,190 |
| Source: BEA | | | | | | | | |

Adjusted for inflation, American Samoa's GDP declined in both 2009 and 2008 from 2007 levels and remained below the average for the 2002–2009 period. Stagnant and declining real GDP is caused by stagnant commodity prices for processed fish and stagnant public sector receipts in the form of Federal grants and other revenue flowing to the American Samoa Government.

One of the two canneries that had operated in American Samoa since the 1950s, Chicken of the Sea, closed in September 2009. The economic and financial impact of the closure is evident in the 2009 GDP data and will also add to GDP losses for 2010.

Long a part of the American Samoa landscape, the cannery closure has caused both economic and financial dislocation. In October 2010 the global fish processing and marketing firm, Tri Marine, indicated that it would purchase and rebuild the physical assets of the closed cannery and reopen as a new enterprise focused on high quality fish products for which it claims it is known. According to local media reports, however, Tri Marine's plans have been delayed, with no tangible progress evident at this time.

CNMI

As with American Samoa, the CNMI's most recent GDP data cover the years 2002 through 2009, and include:

| | CNMI Gross Domestic Product (Millions of Dollars) | | | | | | | | |
|---|---|--------|--------|--------|--------|--------|--------|--------|--|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| Real GDP (Millions of Chained 2005 Dollars) | 1,175 | 1,189 | 1,146 | 982 | 919 | 848 | 746 | 598 | |
| Population (000) | 74.4 | 76.6 | 78.9 | 70.6 | 60.7 | 58.6 | 55.2 | 51.5 | |
| Per Capita Real GDP (\$) | 15,793 | 15,522 | 14,525 | 13,909 | 15,140 | 14,471 | 13,514 | 11,612 | |
| Source: BEA | | | | | | | | | |

The dramatic decline in the economy of the CNMI is due to extraordinary circumstances. New global trade rules embraced by the United States took effect in 2005 and set in motion forces that would wipe out the CNMI's biggest industry, making brand name garments for American retailers. For reasons unrelated to global trade, CNMI tourism began its decline in 2006 when Japan Air Lines withdrew from the market altogether for financial reasons. With significant losses in both of the CNMI's major industries, a devastating economic contraction was set in motion. The CNMI's real GDP dropped 39.1 percent from 2005 to 2009, when the last three garment factories closed. Just as with American Samoa, the impact of these events—in this case the garment shutdown—may show up in the 2010 GDP data, which will likely reflect the trend of the last several years.

The CNMI's tourism showed slight improvement in 2010 as arrivals in each of the first three quarters of the year exceeded levels from the same period in 2009. There were similar improvements in business receipts in the first half of 2010 as compared to 2009. However, following the earthquake and tsunami in Japan earlier this year, a new slowdown has occurred.

To summarize, economic prospects for American Samoa and the CNMI have fallen precipitously over recent years and remain bleak.

WHAT TO DO

The postponement of the 50-cent minimum wage increases enacted by Congress last year will certainly help on the minimum wage front. Once the postponements lapse, three policy positions are available: (1) do nothing and the 50-cent increases will continue, beginning in 2012, (2) continue the postponements of the 50-cent increases, or (3) reinstitute the industry committee process for American Samoa and extend it to the CNMI.

With the economic prospects for American Samoa and the CNMI bleak for the foreseeable future, Congress may find it desirable to take additional action to postpone increases or re-establish the industry committee process. Postponements over a long period of time may not be sufficiently nuanced to meet current goals, which envision moving toward the Federal minimum wage without substantially curtailing employment. Employees would receive no increase, even though economic conditions may have improved. If, on the other hand, these territorial economies do not improve in the near future, the scheduled 50-cent increases may translate into new company closures and employee lay-offs.

In addition, we have heard from the Governor of American Samoa, who recommends that the Congress re-institute the industry committee process. Re-instituting the industry committee process would free the Congress from having to hold hearings and take action every time a postponement appears desirable. In addition, the industry committee process was designed to move a territory's minimum wage rate to the Federal minimum wage rate as quickly as possible without substantially curtailing employment. Each committee member is provided background research on economic conditions in the territory, and this, with testimony from labor, business, government and the public in a local setting allow for subtle and nuanced minimum wage decisions. At such time as the economies of American Samoa and the CNMI recover their footings, the Congress can return to the issue and re-establish the periodic increases until the Federal minimum wage is achieved in the respective territory. The Administration would not be opposed to re-instituting the industry committee process in American Samoa and extending it to the CNMI.

Mr. Chairman, we appreciate the interest of the subcommittee in an issue affecting the quality of so many lives in American Samoa and the Commonwealth of the Northern Mariana Islands.

Dr. FLEMING. OK, thank you, Mr. Secretary.

Next we have Governor Tulafono. You are recognized, sir, for five minutes.

**STATEMENT OF THE HON. TOGIOLA T.A. TULAFONO,
GOVERNOR OF AMERICAN SAMOA**

Governor TULAFONO. Mr. Chairman and honorable members of your Subcommittee, thank you for your invitation to testify in this hearing today. I am honored to be here and pleased to testify on a matter of grave importance to American Samoa.

As you might all appreciate, it is very difficult for us in American Samoa to pick up and come all the way to Washington, D.C. to present a five-minute testimony, but the opportunity to demonstrate to the U.S. Congress how serious this issue is for us cannot be dismissed because of the cost and distance. It is an opportunity that we cannot afford to ignore. I have submitted detailed written testimony in support of my five-minute presentation here with the understanding and expectation that this opportunity to address this very important issue before this Subcommittee cannot end with just this detailed report.

This Territory of the United States, American Samoa, needs some advice from this Subcommittee and from this Congress. We are watching our economy burn down. We know what to do to stop it. We need to bring the aggressive wage costs decreed by the Federal Government under control, but we are ordered not to interfere. Our job market is being torched. Our businesses are being depressed. Our hope for growth has been driven away. We are still ordered not to interfere. Our people live in the middle of the South Pacific Ocean with no place to seek refuge in any economy other than our own.

Our question is this: How much does our government expect us to suffer until we have to stand up for our survival? At what point does it expect us to strike out to preserve our well-being, because we need to live. We are in a far off place. We need to know. And if silence follows now, we have our answer.

Having said that, let me quickly summarize where we are today. After three increments of 50-cent increases to minimum wages in American Samoa, a cannery that once employed over 2,000 people closed, thousands of jobs have been lost at all levels of employment in American Samoa, and the economic conditions in the Territory continue to decline. That is basically why to me a five-minute opportunity is priceless to demonstrate to you how critical this situation is and how important it is for American Samoa to have permanent and enduring solutions to these issues.

So while I respect very much the professional work of GAO and the limitations upon their authority to investigate these matters, I would be remiss if I did not continue to emphasize the concerns I have had conveyed to them regarding what I felt should have been addressed in the report before you, and as long as they have not been addressed, I feel the report is incomplete and requires more work.

In my communication of May 25, 2011, to GAO with respect to the draft report 11-427 on the effects of the first three of 10 minimum wage increases in American Samoa, I expressed general agreement with the GAO's findings. However, I also cited some fundamental concerns where I felt the report fell short. GAO did note these concerns in its final report, but for the most part they were not addressed in the final GAO report for reasons having

mainly to do with limitations of its congressional mandate in requesting the report. I would say the mandate should have been expanded and have a fuller report and more complete presentation.

I remain concerned, however, that this GAO report does not adequately, succinctly or clearly convey the magnitude of the worst economic disaster in American Samoa that has resulted primarily from the imposition of the 2007 United States minimum wage mandate. Please allow me to restate briefly some of those things.

One, it continues to understate American Samoa's employment losses due substantially to the initial increases in the minimum wage. The omission of the loss of 2,000 jobs from the cannery after the closure makes that report incomplete. It needs to be taken into consideration in this analysis.

Two, it continues to downplay the minimum wage as only one of the several factors influencing the growing economic depression in American Samoa. This is despite the fact that its own data demonstrates that workers and major employers fault the minimum wage for adverse economic effects to date and expect economic conditions to worsen primarily as a result of continuing increases in the minimum wage.

I have listed the rest of those seven reasons, Mr. Chairman and the honorable members of your Committee.

We have been put into this situation where it may end up with American Samoa being totally reliant only on Federal grants if we lose all our industry. This is clearly not the economic future American Samoa wants or seeks. We want to have a strong economic base supported by industry and manufacturing jobs. We want wages in American Samoa to grow with sustainable economic growth that continues to support existing as well as new jobs created by such economic growth. We need to design a system that will permit us to do that, and that is why we recommend the re-institution of the special Committee, and we need your wise advice to do it.

Even with this temporary suspension of the increases, the uncertainty of what will happen and the likelihood of further increases under the present law is damaging enough because we are losing opportunities that could have been cultivated or harnessed if we were certain that there is an appropriate solution in the making.

No one is willing to invest in this kind of business climate. That is why I am asking for immediate positive action to stop any further escalation of the minimum wage in American Samoa, with proposed provisions for a proper study of how to accomplish our desired goals toward rebuilding a sustainable economy for American Samoa that will make it less dependent only on Federal grants.

I truly hope that my next appearance before this honorable Committee or another congressional Committee will be to testify in support of such legislation that will install for us a system for determining appropriate minimum wages that will support our economy and create jobs for our people.

Thank you again for my priceless five minutes.

[The prepared statement of Governor Tulafono follows:]

**Statement of The Honorable Togiola T.A. Tulafono,
Governor of American Samoa, American Samoa Government**

**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 U.S. 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 U.S. level of \$7.25 per hour or even higher if the U.S. minimum wage is increased over that period. That scenario would likely describe a U.S. 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 U.S. 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 U.S. 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 U.S. 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 |

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

We are currently reviewing our 2010 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. Department of Labor or some other appropriate Federal agency.

Dr. FLEMING. Thank you. I thank you, Governor.
Next, Mr. Gootnick. You have five minutes, sir.

STATEMENT OF DAVID GOOTNICK, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. GOOTNICK. Thank you, Mr. Chairman.

Mr. Chairman and members of the Subcommittee, thank you for asking GAO to participate in this hearing. GAO has reported twice on the impact of the rising minimum wage in American Samoa and the CNMI. A key reason that we were directed to do this work is that unemployment and other important monthly data collected by Labor and Census do not exist for these two locations. Lacking this data, we did four key things.

First, we ran a detailed survey which covered more than 50 employers.

Second, we analyzed Social Security and local tax data to report trends in employment and earnings.

Third, we conducted structured discussion groups with employers and workers in both locations.

Fourth, we modeled the impact of minimum wage increases on the tuna and tourism industries.

In brief, five key findings. First, between 2006 and 2009, unemployment dropped in both locations—down 14 percent in American Samoa and 35 percent in the CNMI. In 2009 alone, employment in American Samoa dropped by 19 percent; and we acknowledge that these numbers do not fully capture job loss from the cannery closure in September of that year, as 2010 Social Security data were not available for our report. We did make an effort, however, to portray the narrative of job losses in the cannery industry.

In the CNMI, the numbers reflect the end of the garment factories and stagnation in the tourism industry. Many foreign workers in the CNMI have simply left and both the population and the economy have shrunk significantly as the BEA GDP data shows.

Second, from 2006 to 2009, average inflation adjusted earnings dropped by 11 percent in American Samoa and remained unchanged in the CNMI, reflecting rising food, fuel and other costs.

Third, in addition to laying off workers, employers in both locations cut costs through measures such as reduced worker hours, de-

creased benefits and rising prices. In American Samoa, employers attributed most of these actions directly to the minimum wage hikes. In the CNMI, employers generally cited other factors, including immigration reform and a shrinking customer base as the cause of their actions.

Fourth, on key industries. As wages rise in American Samoa, the tuna industry loses its ability to compete with lower wage locations in Asia and elsewhere. Its only remaining advantage may be in U.S. Government contracts for tuna, many of which have buy-America provisions. In the CNMI, hotels thus far appear to have absorbed the minimum wage hikes without raising room rates, and many hotels have postponed capital investments needed to attract tourists.

Finally, worker views. In American Samoa, workers were most concerned about losing jobs. They were acutely aware of the connection between a rising minimum wage and the closure of the first cannery. In the CNMI, workers were most concerned about uncertainty over immigration and rising prices for basic goods. They believe that the rising minimum wage was simply offset by their cost of living increases.

In closing, a year ago Congress used the GAO report in part to support its decision to suspend minimum wage increases. Looking ahead, future minimum wage hikes are scheduled to occur under very difficult economic circumstances. Quite aside from global economic uncertainty, both areas face the inherent challenges associated with small island economies.

In American Samoa, wage hikes are directly tied to the closure of the first cannery, and the second cannery reports that its current operations there are not competitive with business models in other locations. In the CNMI, wage hikes are just one factor in an economy where the workforce is in flux, its immigration reform moves forward, and tourism struggles to turn around after a number of very lean years.

Mr. Chairman, this completes my prepared remarks. I look forward to your questions.

[The prepared statement of Mr. Gootnick follows:]

**Statement of David Gootnick, Director, International Affairs and Trade,
United States Government Accountability Office (GAO)**

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 min-

¹ GAO, *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).

² U.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

Continued

imum 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 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 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.

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.

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.

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.

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 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.

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.

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).

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.

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 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 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:

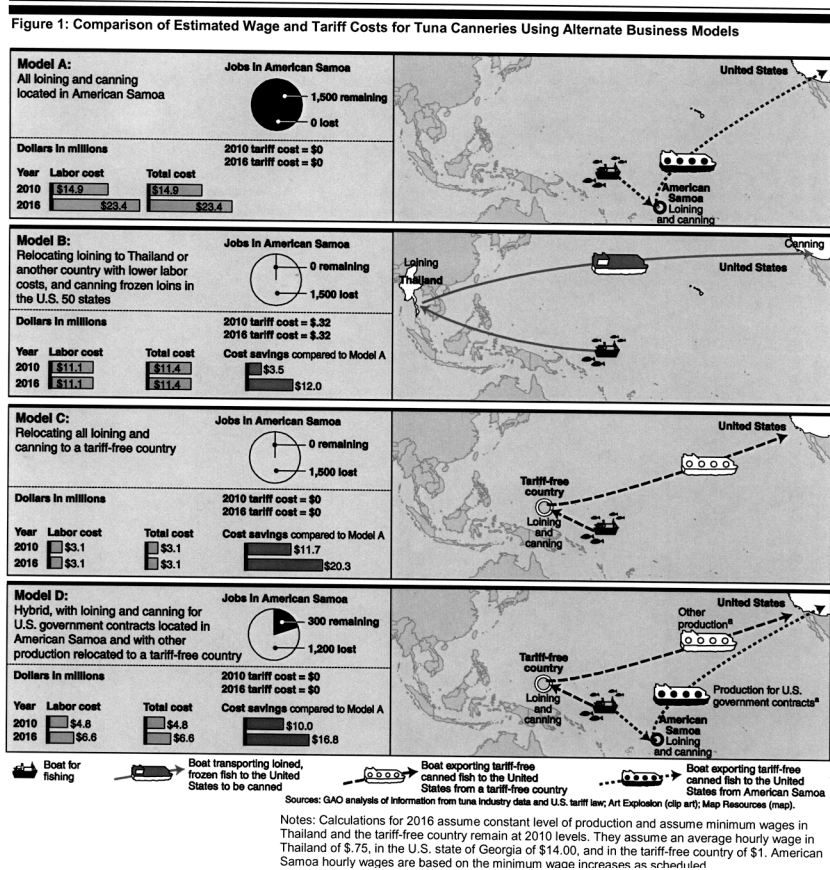
- Model A: All loining and canning located in American Samoa

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.

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.

- 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



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.

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

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.

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.

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.

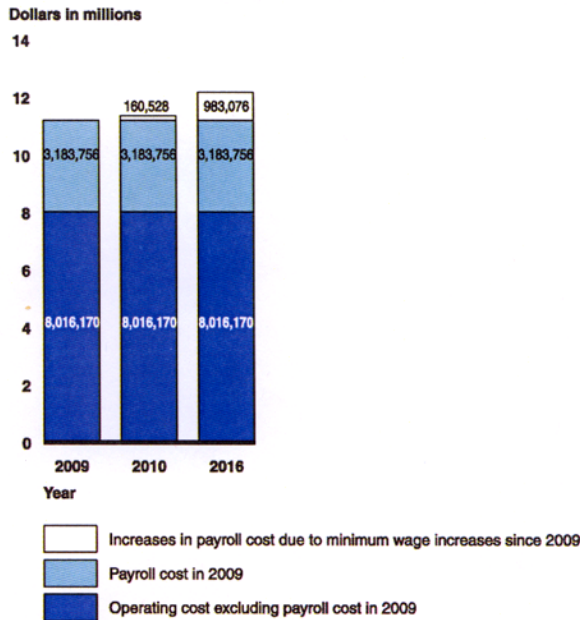
CNMI hotels have generally absorbed minimum wage costs rather than raise room rates. Industry data show that since 2006 the hotel occupancy rate had not changed significantly, remaining between 58 and 64 percent, while inflation-adjusted room rates declined by about 12 percent from 2006 to 2009. If observed 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.

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.

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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Dr. FLEMING. Thank you, Mr. Gootnick.
Mr. Arenovski, I will now recognize you, sir, for five minutes.

**STATEMENT OF JAMES T. ARENOVSKI, PRESIDENT,
DELTA MANAGEMENT CORPORATION—SAIPAN**

Mr. ARENOVSKI. Thank you, Mr. Chairman, for inviting me to testify today.

In 2007, the United States enacted Public Law 110-28, which included a provision to incrementally bring the minimum wage in the Northern Mariana Islands into line with Federal minimum wage over the course of a 9-year period, with 50-cent-per-hour increases each year until it matches the Federal minimum wage. It is important to note this yearly increase is not rooted in any methodology nor did it take into account any of what the increases would do to the cost of doing business or cost of goods in the NMI.

I believe that Congress had the best interests of the people of the NMI when it required us to conform to the U.S. Federal minimum wage, but Congress also failed to appreciate some of the harm that this would cause businesses, economic growth and ultimately employment, with no empirical data to support the annual 50-cent increases. It is appropriate for Congress to now revisit the issue and help workers and businesses in the NMI so they can remain viable and have sustainable employment for the foreseeable future.

Public Law 111-244, which delayed by 1 year the annual increase scheduled for 2011, saved businesses and jobs. In light of the current economic conditions in the Commonwealth, which is likely to continue for the foreseeable future, I urge Congress to adopt a

similar delay for the increase scheduled in 2012, and, if not possible, then for 2013.

Even with its economic expansion in the late eighties and 1990s, increasing the minimum wage in the United States from \$3.10 to \$7.25 took a full 29 years. But Congress charted a path in the NMI with its well-documented challenges to complete the same task in only 9 years.

Even if our local economy was booming this schedule would be a hard one to keep without adverse economic effects.

In 2010 and 2011, GAO reports on employment and earnings in the Northern Marianas and Samoa accurately point out that the increased minimum wage is just one of many financial pressures being brought to bear upon our businesses, but it represents a financial pressure that Congress has the means to control.

With the shrinking economy in the NMI, we are at a time where businesses simply do not have enough revenue to increase salaries and maintain our current operations. In simple terms, the intent of increased wages for employees is laudable, but if these yearly increases as they stand now mean the loss of overall employment, we have to find middle ground.

It is difficult for me to tell my 45 employees that I am not supportive of these annual increases according to the current schedule, but I know that more increases will leave these dedicated employees with fewer hours and others out of work.

Prices and goods that come in by ship and by air are high to begin with, but beyond shipping, the cost of running a business in the NMI is 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 during operations. These are actions that in the mainland would run you out of business, but in our island 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 end for some and reduced operations for the others.

Our economy is also severely strained due to global economic crises, the earthquake in Japan, as well as local government issues. Tourism, our main economic driver, is in a downward spiral. Fewer visitors mean less revenues for hotels and for those businesses who supply and support the hotels. These effects ripple through our business community and ultimately affect the workforce needs of our private sector.

Often when a business struggles or fails, it is due to bad decisions, poor management or the inability to adapt to markets or competition. But in the case of the Northern Mariana Islands, almost all businesses are affected significantly and negatively by somewhat unique forces beyond our control. Similarly, these minimum wage increases are out of our control, but they are not out of Congress' control.

Helping the Northern Mariana Islands to survive its current economic depression and bring us into line with the Federal minimum wage in a rational manner is in the hands of Congress. The goal of increasing worker pay is commendable, but please do not allow

this to come about at the ultimate expense of workers, businesses and our economy.

I respectfully request that this Subcommittee advocate delay and you continue to monitor the situation in the Northern Mariana Islands. This is an issue of critical importance to the employees and employers alike. What is of utmost importance is not simply that the minimum wage is implemented, but rather that it is implemented in the right way, with long-term sustainable economic growth in mind.

Thank you for your consideration.

[The prepared statement of Mr. Arenovski follows:]

**Statement of James T. Arenovski, President,
Delta Management Corporation—Saipan**

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 U.S. 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.

Dr. FLEMING. Thank you, Mr. Arenovski. That completes the testimony of our witnesses.

At this point we will begin Member questions of the witnesses. To allow all Members to participate and to ensure we can hear from all our witnesses today, Members are limited to five minutes for their questions. However, if Members have additional questions, we can have more than one round of questioning. I now recognize myself for five minutes.

Specifically Governor Tulafono and Mr. Arenovski, statistical data is fairly clear with respect to minimum wage increases also effectively raising unemployment rates. We have seen this every time we study this. It seems when we get a bump in the minimum wage, we get also a bump in unemployment among young people, which then comes down over time as the economy expands, inflation and so forth. So there seems to be a very direct correlation in general when we look at statistics between raising the minimum wage and employment levels.

These two Territories are showing the accuracy of the statistical data. Many rural areas of the country, including areas in Lou-

isiana, are also feeling the effects of minimum wage laws. As the Department of Labor noted in its report, the general experience in the U.S. has shown that potential adverse employment effects due to minimum wage increases can be masked or offset to some degree by an expanding economy that is generating net employment growth. For areas that are in economic decline, no such offsets can be expected.

Now, it is interesting. Particularly American Samoa appears to me to be a microcosm of this debate about minimum wage which has gone on in Congress for many years. In a complex economy, a large economy like the United States, so many factors play into the consideration of employment that it sometimes becomes very difficult to tease that out. In American Samoa, it is a much more straightforward situation. It is obvious that raising the minimum wage rates has a direct impact on employment there and on commerce in general.

Here is the point I would make: It is true that there are those who would say, well, you can't raise a family on minimum wage, and that is probably true in most cases. However, we know that minimum wage is an entry level for employees and that over time, as people who are in management positions move on, as other opportunities come along, they get promotions, they become a supervisor, they move up to management or whatever. So it certainly is the beginning of moving up that commercial ladder toward higher and higher wages which one can then feed a family. And in most cases people who get a minimum wage job, often it is their first job and they are young people, probably still living at home.

Now, on the other hand, if minimum wage is raised so high as to close down a business or an entire industry, as we are seeing possibly here, those growth opportunities go away. You might say, well, we should force that anyway. Well, we need to recognize that today we have a worldwide economy. It is steady state. Whatever happens in one country affects the other in terms of competition and commerce. So it seems to me that we can't just artificially force in a specific economy a certain pay rate without it really having in many cases devastating effects, as what we are seeing here.

We will always begin to see types of industries, companies, moving to areas in the world where they can keep their labor costs low, where they have a strong workforce, where they can use mechanization, transport, distribution, and all those other things. So these are things to consider going forward.

I may be able to squeeze in one question here in my time allotted. Does the panel agree that minimum wage increases do not work in declining economies and that it doesn't just apply to the Territories?

I will open that question up to everyone on the panel.

Governor TULAFONO. Mr. Chairman, I believe you have described exactly what has happened in American Samoa. It is ironic that even if you look at our Nation, most of the companies that moved to other countries do not move there because of the high cost of doing business. It is basically because they can capitalize on lower wage rates. The United States is among those of the lowest cost of doing business, except for wages, and I believe we are seeing that in our country. If you look at our recent census and the out-migra-

tion we have detected because of the losses of jobs, it is very substantial and it is very concerning to us, and most of those are young people.

I have just returned from New Caledonia, where the minimum wage there is the equivalent of about \$11 United States. I can tell you that within 500 yards of each other, you see \$1 million mansions and then you see shacks right next door to them, because that part of the population just could not get jobs because there are no jobs. This is why we are so very concerned with this issue.

Dr. FLEMING. Yes. Thank you. Anyone else that would like to comment on this issue?

Mr. BABAUTA. I think I just would like to say that I agree with the Governor that you aptly and correctly described the situation in both American Samoa and the CNMI with respect to their economies. I don't know that they are the only factor, the minimum wage increase is the only factor in the troubled economy. There are other factors that affect these areas where policy needs to change, transportation, cost of fuel, the resulting cost of goods. All of these are higher in all the Territories, which have a very constraining effect on your purchasing power as a consumer or on families and also just the development of the economy itself. Their location as well is a factor, where it is difficult to bring in new capital.

As you pointed out, Mr. Chairman, this is an issue between a rising minimum wage and increasing high employment or decreasing unemployment, and it is something that has been debated by Congress for years. But there are other factors to be considered within the scope of this issue.

Dr. FLEMING. Mr. Gootnick?

Mr. GOOTNICK. Well, I think the 2008 Department of Labor report on this subject made your very point as well, agreeing with you that in a shrinking economy, a rising minimum wage will tend to result in job loss; that in a growing economy there may be other options, including reducing profits, passing on costs, increasing productivity and the like.

It may be germane in this discussion that in American Samoa there is a considerable wage compression, in both jurisdictions there is a wage compression, more pronounced in American Samoa, such that the next minimum wage increase will affect approximately 70 percent of the cannery workers, and by the time the minimum wage hike merges with the Federal minimum wage, 99 percent of the cannery workers will receive a minimum wage increase. So considerable wage compression. Similarly, in the CNMI 95 percent will be affected by the minimum wage by the time it reaches \$7.25.

Dr. FLEMING. Well, I am over my time. Again, I think that this is instructive to what our situation is here. You are quite right, there are many other factors. But as we isolate and understand factors, I think we can, going forward, make better decisions about an economy which as you know today we are in a worldwide recession, and I think these are important lessons for us in policy that comes out of Washington.

I now recognize the Ranking Member for questions. You have five minutes, sir.

Mr. SABLAN. Thank you very much, Mr. Chairman, and good morning everyone. Actually, good evening, Jim.

Let me start with Mr. Arenovski. I thank you again for agreeing to serve as a witness, especially since you have to stay up so late. But you described in your statement, accurately I might say, our conditions facing our economy and businesses in the CNMI. And I appreciate your continued support for your employees. I am also very pleased with the service they provide to me when I stop by in one of your places, as well as your willingness to continue to do what you can to remain and conduct business in the Commonwealth. We would like for you to stay for another 13 years, like you said.

But that being said, what is your opinion of GAO's conclusion that it is difficult to distinguish between the effects of the Federal minimum wage increases in the Northern Marianas and the effects of other factors, including the global recession that began in 2009, the high energy prices, globalization, and obviously the one that is hitting us today, the Federalization of immigration?

Mr. ARENOVSKI. Thank you, Congressman. I think the simple answer is what can we control. We cannot control many of the factors that you mentioned, but we can control the minimum wage. We can study more, we can delay, we can adjust. There is no methodology that says that in 9 years that 50 cents a year is the answer.

Mr. SABLAN. I don't disagree with you, Jim, which is why we have the adjustment that we are doing in 2010 and 2011. Congress is cognizant of the situation in the Marianas. But let me get one thing very clear here. What we are saying here then is that because we can't control the shipping costs, we can't control utilities, we can't control global recession, we can't control that our government in the Northern Mariana Islands refuses to deal with the tourism slump so the only thing we can control is wages for our employees.

Again, I am very happy with the services you have. You have excellent employees, Jim. So we will tag them with the problem, because it is the only thing we have to control. That is not what you are saying, are you?

Mr. ARENOVSKI. Certainly not. Would you like me to elaborate?

Mr. SABLAN. Yes, sir, please.

Mr. ARENOVSKI. I think it is important to understand that right now if we had employees, say household employees that had four wage earners in the house, and we continue on at this pace of increase, what happens is that over time, maybe those four people make the first cut of 50 cents. But the next time they have a 50-cent increase, what happens is one of those household earners loses their job completely. Let's say it is \$5.05 an hour. Four people at \$5.05 an hour is going to be roughly \$40,000. When we lose that one job, that household maybe by increasing the minimum wage will get up to \$43,000, \$45,000. But when that person loses their job, they lose \$7,000 worth of income to that family. Even though we have a minimum wage increase, what happens, the net effect to that family is a loss of \$7,000.

So the fact we are talking about increasing the minimum wage may in turn hurt the actual family unit here in the Northern Mar-

iana Islands. And I guess we should say we do have multi-generational families living in one household.

Mr. SABLAN. Jim, because I am limited in my time, but I will talk to you about this some more.

Mr. Secretary, thank you for taking the time, sir, also. We know that the full Federal minimum wage applies in Guam and the U.S. Virgin Islands and has for many years, whereas it did not apply in the Northern Mariana Islands and American Samoa before 2007. But what is it about the economies of Guam as compared to the economy of the Northern Mariana Islands that in your opinion permitted the full application of the U.S. minimum wage?

Mr. BABAUTA. Well, the application of the minimum wage for Guam was always there when the first minimum wage was applied in the United States. Guam has never had an exemption. It is a different scenario for the U.S. Virgin Islands and Puerto Rico, which the full minimum wage was extended in the 1990s.

For Guam's economy, as you know, it is more complex, I guess, than the CNMI. They have more legs to stand on; two very strong legs as a matter of fact, tourism and probably a multi-billion dollar defense infrastructure that brings jobs and other Federal funding to the Territory.

For the Virgin Islands, we know from statistics that have been collected from the past years from BEA, they have a very strong export industry with rum, which helps to support jobs and keeps wages high. And it could have been for some of those reasons that the Congress in the 1990s decided to just fully extend the minimum wage at that time to the Virgin Islands and to Puerto Rico.

Mr. SABLAN. Thank you.

Mr. Chairman, I agree with the Governor. Five minutes is very precious. So I yield my time and hope for a second round.

Dr. FLEMING. Thank you, Mr. Sablan.

I now recognize Dr. Harris, the gentleman from Maryland, for five minutes.

Dr. HARRIS. Thank you very much, Mr. Chairman, and thank you for holding the hearing, because it is troubling that in an attempt to fix things, once again the American government kind of got it wrong, and in an attempt to do well what we ended up doing is it seems to be destroying jobs.

Mr. Assistant Secretary, let me ask you a question, and I am sorry I did not hear your verbal testimony. But your written testimony says that "The Administration would not be opposed to re-instituting the industry committee process in American Samoa and extending it to the CNMI."

Is that the same thing as saying it supports it? It is an important question, because if we choose it go that route, it would be nice to know that the Administration was a partner in going back to a formula that seemed to work and abandoning the formula that seemed to be destroying jobs. It just seems carefully worded. It says the Administration would not oppose. Is that the same as support, or is there a subtle difference there?

Mr. BABAUTA. There was no intended subtle difference.

Dr. HARRIS. So you believe the Administration would, in fact, support if we decided to go back to the industry committee process?

Mr. BABAUTA. Correct.

Dr. HARRIS. Do you know if the Chairman of the Council of Economic Advisers agrees? Because he was written works that insists that the minimum wage does not destroy jobs. Now I come from the State of Maryland. We have inner cities where I am convinced that minimum wage does destroy jobs in fragile economic situations. But the new Chairman of the Council of Economic Advisers apparently disagrees with that.

So are you certain that given the feelings of the new Chairman of the Council of Economic Advisers the President appointed that you would support abandoning the minimum wage?

Mr. BABAUTA. I think when we are speaking about the economies of American Samoa and the CNMI and trying to be mindful and prudent of where they are in their development and the wages that they currently have and their prospects for future expanding their economy, I think that we would agree that it is a prudent thing to institute a special industry committee.

Dr. HARRIS. Great, thank you. I am glad to hear that.

Governor, thank you for being here today. In your written testimony it does state as part of the response to the increase in unemployment, you actually had to increase the payroll tax, is that right, on the workers who still had jobs? Is that one of the means you had for funding the shortfall?

Governor TULAFONO. Yes. It is a short-term increase to make up some of the deficiency that was lost because of the loss of wage taxes from the closure of the cannery and the loss of the other sectors.

Dr. HARRIS. One of the results was that in fact the people that got those minimum wage increases actually had to turn around and pay some of it back in increased taxes because they were fortunate to still have a job.

Governor TULAFONO. True.

Dr. HARRIS. So in essence what you end up with, your belief I guess is that what we did was we put some people out of work and really didn't have the intended effect on the people who remained in work because we ended up having to tax them more to pay for the needs of the citizens who now don't have jobs.

Governor TULAFONO. Essentially that is what it was.

Dr. HARRIS. That is what I thought.

Thank you again very much for everyone here. I apologize I have to leave, because I am going to chair a Committee meeting in about 6 minutes. But I thank you very much for bringing this to our attention and coming to testify.

Thank you, Mr. Chairman. I yield back the balance of my time.

Dr. FLEMING. I thank the gentleman for his questions.

I now recognize Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. For the sake of time, I would like to ask unanimous consent that the full text of my statement be made part of the record.

Dr. FLEMING. Without objection, so ordered.

[The prepared statement of Mr. Faleomavaega follows:]

**Statement of The Honorable Eni F.H. Faleomavaega,
a Delegate in Congress from American Samoa**

Mr. Chairman, Ranking Member:

The history of minimum wage in American Samoa is not pretty. It is a complex matter that is deserving of this hearing, and I thank you for honoring my request to hold a hearing on the GAO's 2011 report entitled "Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began in American Samoa and the Commonwealth of the Northern Mariana Islands" and for inviting the Governors of both territories to testify.

For more than 50-years, American Samoa's private sector economy had been nearly 80% dependent, either directly or indirectly, on two of the three major brands—StarKist and Chicken of the Sea—which until recently employed more than 74 percent of our private sector workforce.

On September 30, 2009, one day after American Samoa was struck by a powerful earthquake which set off a tsunami that left untold damage and loss from which the Territory has not recovered, Chicken of the Sea closed down its operations in American Samoa, leaving more than 2,000 workers without jobs.

Chicken of the Sea left without the courtesy of discussing its departure either with myself or the Governor of American Samoa, although Samoan workers made Chicken of the Sea one of the most profitable brands of canned tuna in the U.S. Chicken of the Sea left for Lyons, Georgia where it now employs a skeletal crew of about 200 workers. Chicken of the Sea pays its workers in Lyons, Georgia some \$7.25 per hour, almost twice as much per hour as it ever paid Samoan workers.

Why does this matter? It matters because from 1954 forward, when Chicken of the Sea's then parent company, Van Camp, first arrived on American Samoa's shores, the company set about to suppress the wages of Samoan workers by demeaning their worth and work. In 1956, the company testified before the U.S. Senate Committee on Labor and Public Welfare, urging consideration of legislation for the exemption of American Samoa from the wage and hour provisions of the Fair Labor Standards Act of 1938.

Commenting on his company's desire to pay Samoan workers 27 cents per hour as opposed to the prevailing minimum wage rate of the time at \$1 per hour, Chicken of the Sea's then parent company said:

"The Samoans are Polynesians. They are not American citizens."

About the women of American Samoa, the company said:

"[We] now employ 300 Samoans, mostly women. . . . [W]ages range from 27 cents per hour for the women who clean the fish to \$1 per hour for 1 employee, who is a technician. . . . The difference in labor costs is attributed to the lower production output in Pago Pago, where we have found that it takes from 3 to 5 Samoans to produce what 1 stateside employee can produce."

Mr. Collins, legal counsel for Van Camp, put it this way:

"The company has found that it takes from 3 to 5 Samoan workers to perform what 1 continental worker in the United States will do. It is therefore felt that this justifies a lower rate for Samoans."

Forgive me for pausing here but what company, in good conscience, would suppress wages in a U.S. Territory on the claim that the more than 300 Samoan women cleaning fish in American Samoa for 27 cents an hour were somehow inferior to the stateside employees being paid \$1 per hour?

While some in American Samoa may not think this history matters, it does, especially when 55 years later, Chicken of the Sea shut its doors in American Samoa and immediately paid stateside workers in Lyons, Georgia twice as much as they were currently paying our women and men in American Samoa. Different year, same Chicken of the Sea.

This is the kind of prejudice and racism and gender inequality that workers in American Samoa have been dealing with for 55 years. And over the years, local government leaders were always being pressured not to increase the wages of cannery workers, or else the companies would leave the territory. This is why when there were occasional wage increases they were as small as 2 cents or 3 cents per hour, even though since 1938 the Fair Labor Standards Act (FLSA) has applied to American Samoa.

After enactment of the FLSA, Industry Committees were established for American Samoa and other U.S. Territories for purposes of phasing low-wage industries in to the minimum statutory wage because the U.S. Congress believed that application of mainland minimum wage rates to territorial island industries would "*cause serious dislocation in some insular industries and curtail employment opportunities.*"

While Industry Committees were phased out in other U.S. Territories which eventually paid their workers in accordance with mainland wages, from 1956–2006 minimum wage rates in American Samoa continued to be determined by Special Indus-

try Committees, and ASG is on record voting to accept whatever the management and lawyers for these canneries felt wages for our cannery workers and other low-wage earners should be.

I am on record as voting to increase the wages of our lowest-paid workers because I believe that a Samoan is entitled to the same pay from the same corporation if he/she does the same work as any other man or woman born in any other part of America. Senator Borah of Idaho said it best in the heat of the 1937 Fair Labor Standards debate. He said it was his view that *"whether North or South, East or West, there [is] a standard of American living, and we ought to recognize that and fix a minimum wage upon that basis."*

Regrettably, ASG is on record, at least with the United Nations, in suggesting that the U.S. federal government over-stepped by increasing minimum wage in American Samoa. This is not the case. American Samoa was exempted from mainstream increases for a period of about 50 years. But when minimum wage was raised all across America in 2006, Congress determined that it was time to raise minimum wage in American Samoa and CNMI which were the only two remaining U.S. Territories which were not up to federal minimum wage standards.

For American Samoa, I supported a one-time increase of \$0.50 cents per hour because our lowest paid workers were barely making above \$3.00 per hour at the time. But because our cost of living is as high or higher than the mainland, minimum wage was increased by \$0.50 cents per hour for a period of three years until the U.S. Congress, at my request, stopped further increases until additional study could be undertaken, given that there were never any comprehensive reports issued regarding the overall economy of the territory. I ask that a summary of my work on this issue be included for the record (see attachments).

Regarding minimum wage's impact on the tuna industry in American Samoa, I would refer the Subcommittee to a 2010 report issued by the U.S. Government Accountability Office (GAO) which clearly showed that before minimum wage ever went into effect, tuna canneries operating in American Samoa were already operating at about a \$7.5 million loss per year when compared to canneries, like Bumble Bee.

This is because Bumble Bee adopted a business model of outsourcing tuna preparation to cheap foreign labor and then bringing the almost finished product into small U.S. operations for final packaging. Chicken of the Sea followed suit by outsourcing Samoan jobs to Thailand where workers are paid about \$0.75 cents per hour. StarKist, which is the only remaining cannery that cleans whole fish in America, can no longer effectively compete against canneries like Bumble Bee and Chicken of the Sea which outsource American jobs.

On another point, when the South Pacific Tuna Treaty was first negotiated in 1987 it was negotiated for purposes of providing U.S. foreign assistance to the Pacific Island Parties while also providing a tangible benefit to the U.S. By the time the Treaty was renewed in 2002 until now, the U.S. provided the Pacific Island Parties about \$18 million annually in exchange for our U.S. tuna boats to fish in the Treaty area. The U.S. tuna boats also paid a collective, not individual, fixed rate of about \$3 million per year, and above that amount depending on the amount of fish caught and the value of it.

When the Treaty first went into effect, all three major brands of canned tuna in the U.S., including StarKist, Chicken of the Sea and Bumble Bee, purchased their tuna from U.S. tuna boats authorized to fish in the Treaty Area. These boats were 100% U.S. owned and the majority of U.S. boats also off-loaded their fish in American Samoa, i.e. a U.S. port. The fish was then cleaned in the U.S., including American Samoa which was home to the largest cannery in the world because of our close proximity to the fishing grounds.

Today, however, the majority of tuna boats (which are now 51% U.S.-49% Taiwan owned, like those of the South Pacific Tuna Corporation that includes investors from Bumble Bee and Chicken of the Sea) trans-ship the fish they catch in the Treaty Area to Thailand. Thailand then buys the tuna that comes out of the South Pacific Tuna Treaty Area and puts our workers out of jobs because Thailand's fish cleaners directly compete against workers in the U.S. who are paid in accordance with federal minimum wage laws.

So contrary to critics' assertions, the primary factor for the collapse of American Samoa's economy is not our wage rates but the wage rates of foreign countries as well as the shift in the way Bumble Bee and Chicken of the Sea and new tuna boats are doing business. Other factors that also impacted our tuna industry include higher fish costs, higher shipping costs, higher fuel costs, better local tax incentives offered by Lyons, Georgia and Thailand, and the global economic recession.

It should also be noted that a new cannery, Tri-Marine, one of the world's largest fish trading companies, chose to invest in our Territory knowing that American Sa-

moa's wage rates have been increased by \$1.50 per hour which undercuts ASG's argument that minimum wage increases have collapsed our tuna industry or led to ASG's fiscal failure.

In its 2011 report, the GAO openly admits that *'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.'* The GAO also reiterated that *'American Samoa had lower income and higher poverty rates than the mainland US'* and found that the *"average earnings of workers who maintained employment rose from 2006 to 2009, but available data show that the increase was not sufficient to overcome the increases in prices.'*

ASG remained largely unaffected by minimum wage increases because most of its employees earned more than \$1.50 above the local minimum wage set for government workers in 2007, as the GAO stated.

American Samoa's Current Economic Status

As for the current economic status of the American Samoa Government (ASG), the GAO reported that *'local government spending exceeded revenues each year from 2005 to 2009.'* The GAO also showed that more than \$240.8 million has been made available for ASG by the U.S. Congress through the American Recovery and Reinvestment Act and that only \$61.6 million had been disbursed at the time of the report.

The GAO also noted that American Samoa has been designated as a *'high-risk grantee'* by the U.S. Department of the Interior as recommended by the Department's Inspector General and GAO. The GAO further noted that *'the office will remove this high-risk designation once the American Samoa Government demonstrates its compliance with certain fiscal and internal accounting requirements.'*

In private discussion groups, the GAO said *'private sector employees said they were concerned about the fiscal status of the local government and the possibility of harmful tax increases.'* Private sector employees also *'generally opposed additional minimum wage increases but said that a number of other factors made it difficult to do business in American Samoa. For example, they said increased in prices of utilities, shipping, and raw materials; an outdated tax structure; low levels of investment; and business licensing problems also make it difficult to establish and do business in American Samoa.'*

Clearly, the issues facing American Samoa's economy are complex and neither minimum wage nor the U.S. federal government is the driving cause of ASG's trouble. More importantly, the U.S. is doing its part to help American Samoa, and the amount of federal funding and technical assistance to the Territory from the U.S. underscores this point. In fact, American Samoa continues to be the only State government that continues to receive funding from the U.S. Treasury for the operations of its local government.

Conclusion

Nevertheless, I have pledged to do everything I can to halt further minimum wage increases in order to provide ASG with the time it needs to put an action plan in place. I remain hopeful that ASG will base its plans on the recommendations of the American Samoa Economic Advisory Commission which released its report since 2002, well before the tuna industry was under the threat it is today and long before minimum wage hikes took place in the Territory.

To be clear, in 1999, former U.S. Secretary of the Interior Bruce Babbitt approved my request for \$600,000 to establish the American Samoa Economic Development Study Commission. This was the first time during our Territory's 106-year relationship with the U.S. that a Commission of this nature was established. John Waihee, former Governor of Hawaii, served as the Commission's Chair and the U.S. Department of the Interior was the federal agency responsible for the Commission's oversight.

What made this Commission unique is that its findings were not based on the views of outsiders but rather the research emanated from local input. ASG and community leaders participated in this undertaking and the American Samoa Community College surveyed the public to identify the attitudes, aspirations and long-range goals of our community. Lieutenant Governor Togiola, at the time, served as a Commission member and I served as an ex-officio member.

This historic study took two years to complete and, in FY 2000, the Commission submitted its report to the Secretary of the Interior and to the responsible Committees in Congress including the House Resources Committee and the Senate Committee on Energy and Natural Resources. Congress still awaits ASG's recommendations.

No doubt it has been difficult for ASG to diversify its economy due to American Samoa's remote location, limited land, and infrequent air and shipping services. Coupled with Chicken of the Sea's closure and StarKist layoffs, American Samoa also has not been able to absorb the rapid minimum wage increases mandated by federal law.

As noted earlier, we are aware that American Samoa cannot indefinitely compete against companies like Bumble Bee and Chicken of the Sea which outsource American jobs and exploit cheap labor in foreign countries to clean and cook their fish. In fact, the GAO notes that American Samoa's competitive advantage is 'dwindling' because *'current operations in American Samoa were not competitive with other models. Analysis of alternate models available to the industry suggests that moving tuna canning 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, American Samoa does have an advantage when it comes to U.S. government contracts which require tuna to be processed in the U.S. Because StarKist cooks and cleans the bulks of its fish in the U.S. Territory of American Samoa, it qualifies for U.S. government contracting. Bumble Bee and Chicken of the Sea do not qualify because their canned tuna is not American made. However, at some point, this advantage in U.S. government contracting will not be enough.

This is why I am pleased that the U.S. Department of Labor provided a disaster National Emergency Grant (NEG) of \$24 million that could have been expanded to include job re-training for our tuna cannery workers. I continue to be supportive of our tuna cannery workers being re-trained to become nurses, teachers, or whatever else they might want to be because I believe in their future and the future of American Samoa.

On behalf of the people of American Samoa, I thank Chairman Doc Hastings of the Natural Resources Committee and also Chairman John Kline and Ranking Member George Miller of the Education and Workforce Committee as well as Senate Majority Leader Harry Reid, Senator Jim DeMint, Senator John McCain, Senator Daniel Inouye, Senator Tom Coburn, Congressman Jeff Flake, Speaker John Boehner, former Majority Leader Steny Hoyer and others for working so closely with my office during the last Congress to halt minimum wage increases for 2010 and 2011.

I am appreciative of what the U.S. Congress has done, and continues to do, for us and, once more, I ask for your support to halt further increases for 2012. To determine further increases, I recommend that we establish a modified version of Special Industry Committees unlike the previous Committees administered by the U.S. Department of Labor that predetermined wage rates before the hearings began. It is also my recommendation that we establish one minimum wage rate for American Samoa, rather than the 18 different industry rates to which we are needlessly subjected.

In 2006, after taking control of both chambers of Congress, the Democrats promised to increase the federal minimum wage to \$7.25 per hour in the "first 100 hours" on the Floor. Following is a history of how American Samoa came to be included in the national debate, and the Honorable Eni F.H. Faleomavaega's record on minimum wage.

- 1.10.07 On January 10, 2007, the House passes H.R. 2, the Fair Minimum Wage Act of 2007, by a vote of 315–116. CNMI is included in the bill and subject to annual wage increases until the Territory reaches a rate of \$7.25 per hour. American Samoa is excluded from the bill because, unlike CNMI, minimum wage increases for American Samoa are determined by Special Industry Committees administered by the U.S. Department of Labor. In response to American Samoa's exclusion, reports suggest that Speaker of the House Nancy Pelosi excluded American Samoa from H.R. 2 because Del Monte, then StarKist's parent company operating in American Samoa, is a major contributor to Speaker Pelosi's campaign. Reports are proved to be false. False reports also imply that the Fair Labor Standards Act (FLSA) does not apply to American Samoa.
- 1.16.07 Faleomavaega responds by informing the press and Members of Congress that the FLSA has applied to American Samoa since 1938 and that since 1956, under Section 5 and 8 of the FLSA, Special Industry Committees administered by the Wage and Hour Division of the U.S. Department of Labor have determined wage rates in American Samoa. Faleomavaega asks for Special Industry Committees to continue and for CNMI to be brought under the Special Industry umbrella.

- 1.16.07 EF writes to U.S. Senator Daniel Inouye
- 1.16.07 EF writes to U.S. Senator Daniel Akaka
- 1.16.07 EF writes to U.S. Senator Lamar Alexander, Senate Committee on Health, Education, Labor & Pensions (HELP)
- 1.16.07 EF writes to U.S. Senator Wayne Allard, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Jeff Bingaman, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Sherrod Brown, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Richard Burr, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Hillary Clinton, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Tom Coburn, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Chris Dodd, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Michael B. Enzi, Ranking Member, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Judd Gregg, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Tom Harkin, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Orrin Hatch, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Johnny Isakson, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Edward M. Kennedy, Chairman, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Barbara Mikulski, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Lisa Murkowski, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Patty Murray, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Barack Obama, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Jack Reed, Senate Committee on HELP
- 1.16.07 EF writes to Senate Majority Leader Harry Reid
- 1.16.07 EF writes to U.S. Senator Pat Roberts, Senate Committee on HELP
- 1.16.07 EF writes to U.S. Senator Bernie Sanders, Senate Committee on HELP
- 1.16.07 EF writes to Congressman George Miller, Chairman, House Committee on Education and the Workforce
- 1.16.07 EF writes to Congressman Howard Buck McKeon, Ranking Member, House Committee on Education and the Workforce
- 1.16.07 EF writes to Speaker of the House Nancy Pelosi
- 1.18.07 EF speaks out on the House floor
- 1.19.07 EF speaks out on the House floor
- 1.22.07 EF & U.S. Senator Daniel K. Inouye write to U.S. Senator Edward Kennedy, Chairman, Senate Committee on HELP, in support of using Special Industry Committees to determine wage rates for American Samoa and CNMI
- 1.24.07 In an attempt to make a stink about Democrats' minimum-wage and territorial voting proposals, House Republicans take to the Floor wearing white stickers on their suit jackets of StarKist's Charlie the Tuna with a caption stating "Something's Fishy!"—implying that Speaker Pelosi is showing favoritism by excluding American Samoa from the Fair Minimum Wage Act of 2007.
- 1.24.07 EF writes to U.S. Secretary of the Interior Dirk Kempthorne
- 1.24.07 StarKist & COS write to EF
- 1.30.07 Senate passes wage bill
- 2.05.07 EF writes to conferees, including U.S. Senator Edward "Ted" Kennedy, Chairman of Senate HELP Committee, in support of strengthening Special Industry Committees
- 2.05.07 EF writes to U.S. Senator Michael B. Enzi, Ranking Member of Senate HELP Committee and conferee
- 2.05.07 EF writes to Congressman Howard "Buck" McKeon, Ranking Member of the House Committee on Education and the Workforce and conferee
- 2.05.07 EF writes to Congressman George Miller, Chairman of the House Committee on Education and the Workforce and conferee
- 3.12.07 EF writes to Congressman George Miller, Chairman of the House Committee on Education and the Workforce

- 3.15.07 Minimum wage bill is attached to Emergency Iraq War Supplemental bill and Republican Mark Kirk offers an amendment to extend federal minimum wage rates to American Samoa by \$0.50 cents per hour every year until the Territory reaches the mainland rate of \$7.25 per hour. Amendment is accepted by House Appropriations Committee.
- 3.15.07 EF writes to Congressman David Obey, Chairman of the House Committee on Appropriations in opposition to the Kirk amendment. Obey promises that the issue will be resolved during conference.
- 5.11.07 EF writes to Chairman George Miller of the House Committee on Education and the Workforce offering compromise amendment to the Kirk proposal in which workers would be provided a one-time increase of \$0.50 cents per hour and the U.S. Department of Labor would be empowered to determine future increases, though Special Industry Committees would be abolished
- 5.11.07 EF writes to Speaker of the House Nancy Pelosi
- 5.11.07 EF writes to Senate Majority Leader Harry Reid
- 5.11.07 EF writes to U.S. Senator Daniel Inouye
- 5.11.07 EF writes to U.S. Senator Daniel Akaka
- 5.11.07 EF writes to U.S. Senator Jeff Bingaman, Chairman of the Senate Committee on Energy and Natural Resources
- 5.11.07 EF writes to Del Monte CEO Richard Wolford, forwarding copy of letter and amendment to House and Senate
- 5.11.07 EF writes to Chicken of the Sea CEO John Signorino
- 5.11.07 EF writes to Del Monte CEO Richard Wolford to set the record straight about comments made by Del Monte's Executive Vice President regarding EF's position on minimum wage
- 5.18.07 EF, U.S. Senator Daniel Inouye, U.S. Senator Jeff Bingaman, U.S. Senator Daniel Akaka & Congresswoman Donna Christensen write to Chairman David Obey and Ranking Member Jerry Lewis of the House Committee on Appropriations and Chairman Robert Byrd and Ranking Member Thad Cochran of the Senate Committee on Appropriations urging support of EF's amendment but with an initial increase of \$0.35 cents per hour.
- 5.21.07 Del Monte CEO Richard Wolford writes to EF in support of his efforts in Congress to resolve the challenges regarding the impact of increased wages on tuna cannery operations in American Samoa
- 5.25.07 Conferees do not accept the proposal but do agree to include EF language calling upon the U.S. Department of Labor to conduct a study to determine impact of future increases. Wage hike with automatic escalator clauses is included in the Iraq War supplemental spending bill and President George W. Bush signs it into law on May 25, 2007. The first wage increase occurs on June 24, 2007.
- 6.06.07 EF writes to Congresswoman Donna Christensen, Chair of the House Natural Resources Subcommittee on Insular Affairs requesting an oversight hearing on the impact of the federal minimum wage legislation. EF copies his letter to Governor and Legislature.
- 6.11.07 COS President John Signorino writes to EF, enclosing copy of letter COS Senior Vice President Jim Davet wrote to Del Monte and copied to Governor Togiola.
- 6.21.07 EF writes to Thai Union President Thiraphong Chansiri and copies his letter to U.S. Senator Daniel Inouye, Governor Togiola, Lieutenant Governor Sunia, ASG Legislature, COS President John Signorino, and COS Vice President of Operations Jim Davet. EF responds to Davet's comments and requests meeting with Thai Union President Chansiri. Mr. Chansiri agrees to meet.
- 6.21.07 EF writes to COS President John Signorino and sets the record straight about Mr. Davet's comments. EF encloses a copy of his letter to Chairwoman Donna Christensen as well as his letter to Thai Union President Thiraphong Chansiri
- 6.21.07 EF writes to Del Monte CEO Richard Wolford and encloses a copy of his letter to Congresswoman Christensen requesting a hearing as soon as possible.

- 6.21.07 EF writes to Governor Togiola informing him that he will meet be meeting with StarKist, Chicken of the Sea, Del Monte, Thai Union and boat owners in San Diego, California regarding the impact of federal minimum wage law. EF also informs Governor that he will be meeting with Thai Union President Thiraphong Chansiri on July 1, 2007. EF copies his letter to U.S. Senator Daniel Inouye, Lieutenant Governor, American Samoa Legislature.
- 7.1.07 EF meets with Thai Union President Thiraphong Chansiri in Bangkok, Thailand.
- 7.24.07 EF meets with U.S. Department of Labor officials, including Dr. Ronald Baird, Chief Economist from the Office of the Assistant Secretary for Policy, who is tasked to undertake the study mandated by Congress to determine impact of minimum wage increases.
- 7.25.07 EF writes to U.S. Secretary of the Interior Dirk Kempthorne regarding his meeting with the U.S. Department of Labor and requesting support in assisting ASG and CNMI officials in how to collect the necessary data needed to make determinations about both economies.
- 1.25.08 U.S. Department of Labor (DOL) releases it report
- 1.29.08 EF introduces H.R. 5154 to condition further increases in minimum wage on a determination by the Secretary of Labor
- 1.29.08 EF writes to Governor Togiola and provides him with a copy of the DOL report and informs him that he has introduced H.R. 5154. EF copies U.S. Senator Daniel Inouye, U.S. Secretary of the Interior, Lieutenant Governor, ASG Legislature
- 2.12.08 EF writes to Paramount Chief Mauga regarding field hearing to be held in American Samoa regarding impact of minimum wage increases
- 2.14.08 EF writes to Congressman George Miller regarding H.R. 5154 and thanking Chairman Miller for sending 2 professional staff members to field hearing scheduled to be held in American Samoa on February 22, 2008
- 2.22.08 Congresswoman Donna Christensen, Chair of the House Natural Resources Subcommittee on Insular Affairs, holds field hearing in American Samoa at EF's request regarding impact of federal minimum wage increases on American Samoa's economy.
- 2.22.08 EF testifies before the House Resources Subcommittee on Insular Affairs
- 2.28.08 EF testifies before the Senate Committee on Energy and Natural Resources regarding the Impact of the Recently Increased Minimum Wage in American Samoa
- 3.14.08 Chairman George Miller writes to EF and raises concerns about DOL study
- 3.14.08 EF, U.S. Senator Daniel Inouye, U.S. Senator Daniel Akaka, U.S. Senator Jeff Bingaman write to Chairman Robert C. Byrd & Ranking Member Thad Cochran of the Senate Committee on Appropriations requesting delays in minimum wage
- 3.31.08 U.S. Secretary of the Interior to Dirk Kempthorne writes to EF offering support
- 4.03.08 EF writes to U.S. Senator Daniel K. Inouye thanking him for agreeing to offer an amendment based on H.R. 5154 to delay minimum wage increases and to review further increases
- 4.03.08 EF writes to U.S. Senator Jeff Bingaman
- 4.03.08 EF writes to U.S. Senator Daniel Akaka
- 4.18.08 EF writes to Senate Majority Leader Harry Reid
- 4.20.08 EF writes to U.S. Senator Orrin Hatch
- 4.22.08 EF & Governor Fitial write to U.S. Senator Edward Kennedy, U.S. Daniel Inouye, U.S. Senator Jeff Bingaman, & U.S. Senator Daniel Akaka
- 4.22.08 EF & Governor Fitial write to Chairman George Miller
- 4.24.08 EF & Governor Fitial write to House Majority Leader Steny Hoyer
- 5.13.08 EF and CAPAC members Congressman Mike Honda, Congressman Joseph Crowley, Congresswoman Donna Christensen, Congressman Albio Sires, Congressman Solomon Ortiz, Congresswoman Nydia Velazquez, Congressman Bennie Thompson, Congressman Neil Abercrombie, Congressman Al Green, Congressman Luis Gutierrez, Congresswoman Joe

- Baca, Congresswoman Mazie Hirono, Congressman Hank Johnson write to Senate Majority Leader Harry Reid, Speaker of the House Nancy Pelosi, House Majority Leader Steny Hoyer, Chairman David Obey of the House Appropriations Committee, Chairman Norm Dicks of the Interior Appropriations Committee, Chairman George Miller of the Education and Workforce Committee, Chairman Edward Kennedy of the Senate HELP Committee, U.S. Senator Daniel Inouye, U.S. Senator Daniel Akaka, and Chairman Jeff Bingaman of the Senate Committee on Energy and Natural Resources requesting support for delays
- 5.21.08 Senate passes language in the Emergency Supplemental to conduct new GAO study
- 5.30.08 2nd minimum wage increase goes into effect
- 7.31.08 EF & Chairman Rahall of the House Committee on Natural Resources & Congresswoman Donna Christensen write to U.S. Secretary of the Interior Dirk Kempthorne requesting technical assistance funds to conduct comprehensive economic study of American Samoa
- 11.25.08 EF writes to StarKist regarding announcement to lay off workers and copies letter to Senator Daniel Inouye, Governor Togiola and Chairman Kim Jae-Chul of the Dongwon Group
- 1.28.09 EF writes to Chairman George Miller requesting delays in further increases
- 1.30.09 EF meets with U.S. Senator Daniel Inouye and thanks him for agreeing to include language in H.R. 1, the American Reinvestment and Recovery Act (ARRA) that would require the GAO to conduct a new study by April 15, 2010
- 2.17.09 H.R. 1 is signed into law with 3rd wage increase to go forward and a mandate for a new GAO report to be released by April 2010
- 2.19.09 EF writes to Governor Togiola, President of the Senate Gaoteote, Speaker Savali and asks them to join him in sending a letter to Chairman Miller requesting a deferment of the 3rd increase until GAO has time to complete its study
- 2.23.09 EF holds meeting in his DC office with Governor Togiola and Governor Fitial for purposes of drafting a letter and sending a unified message to Congress and the Administration regarding the need to delay minimum wage
- 2.24.09 EF, Governor Togiola and Governor Fitial deliver their letter to U.S. Secretary of the Interior Ken Salazar during meeting of Interagency Group on Insular Affairs (IGIA)
- 5.07.09 EF writes to Governor Togiola re COS closure and copies letter to American Samoa Legislature
- 5.30.09 3rd minimum wage increase goes into effect
- 7.24.09 EF responds to ASG petition to President Obama
- 12.14.09 House and Senate agree to EF's request to postpone 4th minimum wage increase from May 2010 to September 2010 to give Congress time to act on the GAO study
- 4.08.10 GAO releases new study on the impact of minimum wage hikes in American Samoa and CNMI
- 4.30.10 EF thanks Chairman Miller for agreeing to his request to modify minimum wage law based on findings of GAO and copies U.S. Senator Daniel Inouye, Chairman Nick Rahall of the House Committee on Natural Resources, U.S. Secretary of the Interior Ken Salazar, Governor Togiola, & American Samoa Legislature
- 5.05.10 EF forwards U.S. Senator Daniel Inouye copy of letter to Chairman Miller
- 5.12.10 U.S. Senator Daniel Inouye thanks EF for copy and assures him of support in Senate
- 6.12.10 EF and Congressman Sablan of CNMI write to U.S. Senator Daniel Inouye, Chairman of the Senate Appropriations Committee, and include language approved by Chairman Miller that would halt minimum wage increases in American Samoa for 2010 and 2011 and for CNMI for 2011 based on GAO report, and asking for inclusion in any legislative vehicle that might be moving

- 6.12.10 EF and Congressman Sablan write to U.S. Senator Tom Harkin, Chairman of the Senate HELP Committee
- 6.12.10 EF and Congressman Sablan write to U.S. Senator Bingaman, Chairman of Senate Committee on Energy and Natural Resources
- 6.12.10 EF and Congressman Sablan write to Chairman David Obey of the House Committee on Appropriations
- 7.27.10 U.S. Senator Jeff Bingaman & U.S. Senator Lisa Murkowski agree to include EF and Sablan language in H.R. 934, a CNMI bill already passed by the House, which is hotlined for Unanimous Consent (UC) in the Senate. Bill clears Democratic hotline. Republican hold placed on CNMI provision relating to submerged lands. Congressman Sablan would not agree to take out his submerged lands provision. In response, U.S. Senator Jeff Bingaman and U.S. Senator Lisa Murkowski agree to include EF and Sablan minimum wage language in H.R. 3940, a Guam bill already passed by the House, which is hotlined for Unanimous Consent in the Senate.
- 8.03.10 EF writes to U.S. Senator Bingaman thanking him for agreeing to include minimum wage language in H.R. 3940
- 8.03.10 EF writes to U.S. Senator Lisa Murkowski thanking her for support
- 8.06.10 EF provides updates informing public that H.R. 3940 has cleared Democratic holds but Republicans did not have time enough to review before August recess
- 9.14.10 House returns from District work period. UC process begins again. Senator Bingaman and Senator Murkowski's committee staff inform EF and Sablan that Democrats have cleared H.R. 3940 for UC.
- 9.16.10 At 4 pm, Republican cloakroom informs Democrats that 2 holds have been placed including one by one by Senator DeMint (R-SC). Senate ends business for the day and does not go in Session on Friday.
- 9.18.10 Saturday night Senator Bingaman and Senator Murkowski's staff inform EF and Sablan that there is nothing they can do to overcome Senator DeMint's hold.
- 9.20.10 EF's office contacts Senator DeMint's Chief of Staff at 10:29 am. At 11:52 am, Senator DeMint's Chief of Staff responds stating he has forwarded EF information and comments to policy staff for review.
- 9.21.10 11:28 am, Senator DeMint's staff informs EF office that Senator DeMint will agree to let minimum wage section pass, but expresses concerns about Guam provision. EF office informs Congresswoman Bordallo's office of concerns raised about Guam. Congresswoman Bordallo's office begins process of working out compromise regarding Guam provisions.
- 9.27.10 At 4:36 pm, Congresswoman Bordallo's office and Sen DeMint's office reach agreement on new language regarding Guam provision.
- 9.28.10 At 9:45 am, Senator DeMint's office informs Republican cloakroom that he has released his hold on H.R. 3940 pending the change in language regarding the Guam provision. Change is made and H.R. 3940 is hotlined again. At 1:36 pm, Democrats begin hotline process. At 3:48 pm, Democratic staff informs EF and Sablan that Senator Coburn is raising questions but Senator Murkowski's staff is trying to resolve his concerns. At 4:13 pm, EF speaks with U.S. Senator Majority Leader Harry Reid asking that bill be placed on floor for UC once it clears the Democratic and Republican cloakrooms. However, Senator Murkowski's staff is unable to clear Senator Coburn's hold. At 4:42 pm, EF office contacts Senator McCain's office asking for help to release Senator Coburn's hold. Senator McCain's office agrees. At 5:17 pm, EF office phones Senator Coburn's office. At 6:03 pm, Senator Coburn's office informs EF's office that Senator Coburn has agreed to release his hold. At 6:09 pm, Senator McCain's office also informs EF office that Senator Coburn has agreed to release his hold. Senate passes H.R. 3940 by UC. At 10:28 pm, EF sends letter to Speaker of the House Nancy Pelosi, House Majority Leader Steny Hoyer, Chairman George Miller of the House Committee on Education and Labor, & Chairman Nick Rahall of the House Committee on Natural Resources requesting that H.R. 3940 be brought to the House floor for immediate passage.
- 9.29.10 At 8:05 am, EF office phones House Majority Leader Steny Hoyer's Chief of Staff again requesting that H.R. 3940 be brought to Floor for passage.

ML Hoyer's office states that Republican Leadership must be on board. At 10:33 am, EF office contacts Republican Leader John Boehner's Chief of Staff, Republican Whip Eric Cantor's Chief of Staff, Republican Staff Director for Ranking Member John Kline of the House Committee on Education and Labor, and Republican Staff Director for Ranking Member Doc Hastings of the House Committee on Natural Resources. At 10:38 am, EF office contacts Congressman Jeff Flake (R-AZ), member of the Resources Committee and member of LDS Church, requesting help in getting support from Republicans, including Ranking Member Doc Hastings of the Natural Resources Committee. At 10:39 am, Congressman Flake's office informs EF office that message will be forwarded to Congressman Flake. At 12:08 pm, Congressman Flake sends message saying he will speak to Ranking Member Doc Hastings of Natural Resources Committee. At 12:31 pm, Republican Leader John Boehner's Chief of Staff responds thanking EF office for bringing this to his attention and stating that they will respond appropriately based on conversations with their two Ranking Members. At 12:30 pm, EF speaks to Ranking Member Doc Hastings on House floor, and also Congressman Jeff Flake who has also spoken to Ranking Member Hastings. Ranking Member Hastings and Ranking Member John Kline of the Education and Labor Committee agree to let bill go to the Floor by suspension. At 12:38 pm, EF office informs Majority Leader Hoyer's office that Republicans will agree to let the bill go to the House floor by suspension instead of UC, meaning a voice vote will be requested and that the measure must win by a vote of 290. At 5:18 pm, ML Hoyer's office agrees to put bill on House floor. ML Hoyer calls EF. At 5:52 pm, EF office begins providing Samoa News with regular updates.

9.30.10 At 12:19 am, EF office informs Samoa News that vote is taking place. At 12:27 am, EF issues press release stating bill passes House by a vote of 386 to 5. At 12:31 am, EF office emails White House requesting assistance to get bill on President's desk for signature. At 8:00 am, White House emails EF office thanking EF for flagging the bill for signature. At 8:36 am, EF office contacts Majority Leader Hoyer's Chief of Staff requesting assistance to get the bill from the House to the White House. At 8:40 am, ML Hoyer's COS states he is working it. At 10:58 am, Majority Leader Hoyer's Chief of Staff informs EF office that he has taken the bill to the Clerk's office and that it is at the Parliamentarian's office awaiting clearance, then it goes to Speaker Pelosi, then to the Senate, then to the President of the United States for signature. At 5:06 pm, White House informs EF that President has signed H.R. 3940. At 5:09 pm, EF office informs Samoa News bill has been signed. Samoa News issues breaking news flash. At 5:38 pm, EF issues press release announcing that bill has been signed into law.

Mr. FALEOMAVAEGA. Also for the record, the statement submitted by Mr. In-Soo Cho, the President and CEO of StarKist Cannery.

Dr. FLEMING. Without objection, so ordered.

[The prepared statement of Mr. In-Soo Cho follows:]

Statement of Mr. In-Soo Cho, President and CEO, StarKist Co.

On behalf of the StarKist Company and its employees, I wish to express our wholehearted gratitude to Chairman Fleming, Ranking Member Sablan, and Delegate Faleomavaega for your interest in the American Samoan economy and the impact of minimum wage increases on the territory's economy and its global competitiveness. As you know, StarKist is the largest private sector employer in American Samoa and we have worked closely with the Congress for the last several years to do everything we can to protect this fragile economy. So, we thank you for your interest in this subject today and look forward to working with you and the Congress to continue to protect the economy of this important U.S. Territory.

With a private economy that is almost completely dependent on the tuna fishing and processing industry, American Samoa's economy is at constant risk of failure due to global cost pressures within this highly competitive industry. Indeed, American Samoa has suffered dramatic reductions in private sector employment since the implementation of automatic wage increases starting in 2007. Current wages in

American Samoa are many multiples of the wages in competing nations such as Thailand, where wages have been as low as 60 cents an hour.

According to the U.S. Department of Labor in January 2007, the tuna processing industry and ancillary businesses supported nearly 80% of all private sector employment in American Samoa. Unfortunately, today a substantial portion of that employment has already been lost with the closure of the Chicken of the Sea, Inc. (COSI) processing plant on September 30, 2009 and significant employment loss at our own facility. We have done our best to maintain employment while remaining globally competitive and have even from time to time been able to increase employment on a seasonal or temporary basis, however, our regular employment levels continue to remain significantly lower than our historic levels.

With the departure of COSI, StarKist is the sole remaining full production tuna processor in American Samoa, so we have a unique perspective on the factors contributing to the Territory's loss of global competitiveness. Canned tuna is priced as a global food commodity and has very little elasticity in price. Therefore, a rapidly increasing cost structure in American Samoa makes it increasingly difficult for American Samoa to compete with other southeast Asian countries that can pay workers pennies per hour.

Currently, there are two business models for the manufacture of canned tuna intended for the U.S. market. One is our model which manufactures canned tuna starting with the whole—or round—fish purchased directly from boats and results in the finished product ready for market. This model requires a significant investment in a U.S. workforce to prepare, cut, clean, cook, and can the product. The other model, used by many of our main competitors, instead outsources the bulk of the manufacturing and the most labor intensive parts of the process to extremely low-wage countries. These companies take advantage of nearly duty-free importation of cleaned and frozen tuna "loin" into the mainland United States for final packaging using the least amount of U.S. labor possible. The cost savings between a fully U.S. manufacturing process and an outsourced manufacturing process is substantial and places American Samoa at a distinct disadvantage vis-à-vis competing economies.

The General Accounting Office as well as the U.S. Department of Labor have both investigated the impact of recent wage increases and have unanimously agreed that these wage increases have had a direct and substantial negative impact on employment in American Samoa and a direct and substantial negative impact on the territory's ability to remain globally competitive in the tuna industry. In 2010 Congress prudently delayed an automatic increase in the minimum wage scheduled to occur on October 1, 2010. That increase was delayed for two years. Because of the greater certainty provided by this two year delay, the StarKist Company has been better equipped to make longer-term business plans for 2011 and 2012 because we had greater confidence in the underlying cost structure of manufacturing in the territory. This greater certainty allows us to better plan procurement, negotiate supply contracts, more aggressively compete for business, and to stabilize our employment base.

However, as we come closer to the next automatic wage increase, the global cost structure remains the same but our ability to make business plans and to keep our cost structure as lean as possible is comprised. For these reasons we strongly urge the Congress to again delay the next scheduled increase in wages. American Samoa is already at a substantial disadvantage and at risk of the elimination of its economic base. Further, we would urge the Congress to consider the establishment of a more reliable system by which the economics of the territory may be evaluated on a systematic and automatic basis. There have been previous proposals, which we would support, to grant authority to an appropriate Cabinet agency for review of the economic condition of the territory and subsequent decision on any scheduled wage increase to move forward or not. We believe a system such as this would put American Samoa, its businesses, and the government in a more stable position to plan for the future knowing that the review would be automatic and a decision maker would be known and empowered to make a timely decision on any potential wage increase.

Once again, we thank you for your interest and hard work on this subject.

Mr. FALÉOMAVAEGA. Thank you, Mr. Chairman.

Mr. Chairman, probably many of our fellow Americans do not know that for the past 111 years American Samoa has had a very unique political relationship with the United States. American Samoa has long been the backbone of the U.S. tuna industry, tuna and processing industries. For more than 50 years, our economy

has been more than 80 percent dependent either directly or indirectly to the major brands of canned tuna, that is primarily StarKist and Chicken of the Sea. Regrettably though, the tuna canneries in my humble opinion have had a history of suppressing wages for American Samoa.

Mr. Chairman, I think within the context of the history, the minimum wage issue is not something that just popped up the past couple of years. I think if we read our history carefully, after the Great Depression of 1929, or even previous to that, there was an outrage in our country where many of our workers in the South were paid 15, 10 cents an hour; no compensation, no benefits whatsoever. In other words, slave labor, in my humble opinion. And Congress was so outraged, and that is why we passed the Labor Standards Act in 1938. And American Samoa was included with other Territories along this national concern that working people in America were paid cheap labor at the expense of corporations and companies that were making a lot of money. And don't get me wrong. I want companies to be successful. I want them to make good profits.

Let me just add also as a matter of history, in 1956, Chicken of the Sea, the predecessor of Van Camp, testified before the U.S. Senate Committee on Labor and Public Welfare urging the Congress to take American Samoa out of the fair labor minimum wage requirements of the Act of 1938, commenting on the company's desire to pay Samoan workers 27 cents an hour as opposed to the prevailing minimum wage rate at the time of \$1 per hour. Let me quote what was stated by these executives.

"The company has found that it takes three to five Samoan workers to perform what one continental worker in the United States will do. It is therefore felt that this justifies lowering the wages of Samoan workers."

Forgive me for pausing here, Mr. Chairman, but what company in good conscience in my opinion would suppress wages in a U.S. Territory on the finding that more than 300 Samoan women cleaning fish in the Territory for 27 cents an hour somehow is inferior, inferior in its quality of its work performance to stateside employees being paid \$1 an hour?

While some may think that history does not matter, in my humble opinion, Mr. Chairman, cannery workers in American Samoa are only now paid \$4.76 per hour as a result of three increases of 50 cents per hour as mainland workers provided in the public law that was passed in 2007.

Given that American Samoa has since suffered dramatic reductions in employment in the tuna industry, other than increased wages, what other factors contributed to the job losses? I think the 2010 report of the GAO stated that even before the minimum wage increase ever took place, our canneries were already operating at a \$7.5 million loss per year simply because the whole tuna industry has evolved in a very different economic situation.

So when this came about, American Samoa and the CNMI were caught in these two huge forces between the labor unions and all that we have been debating for all these years. Where is really the proper balance, that we should provide decent wages for American workers, but at the same time making sure that our businesses

make regional profits so that they can continue doing their business. Because I think this is really where the issue stands, Mr. Chairman.

I have so many questions I wanted to ask, and unfortunately we don't have the time.

I want to thank our Governor for his testimony. I want to work with him and the Interior Department. Setting up an industry committee is another thing. I have very serious concerns with the history of how the industry committees have developed for all these years.

When these industry committees make recommendations of increasing wages at 2 cents an hour, 3 cents an hour, what can these workers possibly do for 24 cents an hour increase in wages? It is impossible. But I will say, I am willing to work with the Administration, with our Governor, to see if the industry committee is another possible option so we can find a solution, so that we don't have to come to the Congress every time. Because every time we bring it, as you well know, Mr. Chairman, Congress isn't exactly the best place to give us answers to our problems.

I would like to ask Secretary Babauta if the Administration is committed that we work together with the Governor as well as with our office to see what we can do about establishing an industry committee that has teeth, an industry committee that is going to give better and more comprehensive reports about the economic status of American Samoa.

With due respect, my good friend from CNMI, he knows enough about CNMI that I am not going to address the issue.

But I want to say to Mr. Gootnick, the biggest disappointment that I have with the GAO report that I have suggested at the times we were meeting, we have 18 minimum wages in American Samoa. The only jurisdiction in the whole United States of America, not one minimum wage, 18 minimum wages. As complicated as the issue is already, it is even more complicated by the fact that GAO never addressed this issue.

But I will say that I appreciate your concerns. There is absolutely no question. I think the challenge on this very issue is how do we strike a balance on giving decent wages for working people at the same time, at the same time that our businesses will continue to grow and prosper and have a decent margin of profit that they can operate under. And the very question, why do companies in America leave to do their business in foreign countries? Bottom line, cheap labor.

I think this is where the rubber meets the road in terms of our national debate about the issue, working people, decent wages, cost of living, standard of living. How does all this play within the context of how we can get our businesses to grow, but at the same time be fair to the working people, to the working Americans who are also trying to make a decent living. I think that is basically where I am coming from.

Mr. Chairman, again I want to thank our Governor and Secretary Babauta and Mr. Gootnick. With all due respect, I agree with the Governor, some of the findings and some of the things that were brought to the attention of the Committee by the GAO report, it was not enough.

Again, I know my time is up, but I do want to thank you, Mr. Chairman, for extending me this time, too. I expressed my feelings. I will have some follow-up questions.

Because of the essence of time, again, thank you, Mr. Chairman.

Dr. FLEMING. I thank the gentleman from American Samoa. I will say certainly we can have another round of questions if you like. With that, I will go ahead and recognize myself for another five minutes. Maybe just some random comments here about statements made.

First of all, the gentleman from American Samoa said that perhaps Congress doesn't have all the answers to this. I would say I am shocked to hear that, with tongue firmly in cheek. I think way too often Congress thinks it has all the answers, and really doesn't.

You know, I had a conversation I recall many years ago when I was just high school age, and as a typical high schooler I believed I was twice as smart as my dad, a man who had grown up during the Great Depression and had been in World War II. He made a statement about the fact that the economy after the Great Depression picked up after the war began, and I corrected him on his misunderstanding about history and said no, that it was the New Deal and all of the legislation that occurred during that period from approximately 1933 and on that really saved our economy. I know this to be true because I read it in my textbooks.

He came back and corrected me. He said, "Son, we lived on a farm, and sometimes we were lucky to eat one meal a day, and the economy was bad despite all these regulations." It wasn't until there was a robust effort in industry that this country got back on its feet, and I think again that is instructive to us today.

We can come up with all the artificial laws that we want. We can set limits and set points that say we have to pay this much and that much and so forth and guarantee this and guarantee that. That is all well and good and I am certainly not against having labor laws and things to make sure that we take care of our citizens.

But the point I will make is that you can only go so far with that; that the power of government to control economies is much more limited than we often think, and the more we do to encourage industry and to allow industry to be competitive and robust, the better off I think we are in the long term in terms of getting living wages, more productivity and a better standard of living for our citizens, both in the continental U.S. and elsewhere.

So, those are just some thoughts about our discussion today that I think is important. I really think this discussion, while it is so important for CNMI and American Samoa, as Dr. Harris pointed out, it has a much wider scope of consideration about where we are today in our world and our economy and how we are going to get out of the lassitude of commerce that we have today.

Returning to questions, I want to ask this: New industries have been proposed, call centers for both Territories, tourism in American Samoa and agriculture and aquaculture in the Northern Mariana Islands. So I like that. I am glad that there is some consideration for some new areas, that we don't just stay with an industrial or factory base, but maybe look at other things.

I also want to just kind of comment on the statement made, why is it that Guam can do OK with minimum wage but some of the other islands cannot. I lived on Guam. I visited Saipan. Guam has a tremendous military footprint. Lots of money flows to Guam. Then it has some of the other benefits like tourism that these other places do not have.

So it is obvious that it is more difficult to meet those minimum wage targets for other island groups. And I do like the idea, although I haven't studied it and am not ready to endorse it, of again returning to some sort of a local commission or board that kind of looks at this and applies these laws and rules, for one thing in a very consistent way rather than 18 different minimum wages, which is ridiculous, but also takes into account what the local economic situations are.

Anyway, are these viable options for the Territories, as I say, call centers, et cetera? Anyone.

Governor TULAFONO. Call centers specifically were introduced to American Samoa, and we have taken a few years to investigate it. As it turned out, the technology is available. It is viable, but not in a very major, major way that it was initially introduced. A 1,000-seat call center has not been ruled to be totally impossible and unfeasible. The recommendation is for us to go with smaller centers like 50 to 100 seats. It is what we can support with employment. Turnover is very, very high in that industry. We need a lot of people and we do not have the employment base to support a major industry like that. But it is possible.

One of the factors that we continue to struggle with is bringing our educational system to a standard where we can actually elevate the kinds of industries and jobs that we can have. So we have to deal with that issue as well, because it is going to take a few years for us to catch up to that, and that is part of the reason why some of these industries may be difficult, although it is possible to some degree, but on a large scale it is not possible to replace the kind of 2,000 employment that the manufacturing jobs provide.

To us, there is no better way of controlling wages than the competition in industry. When industry is successful and they are vibrant, wages do naturally increase with good competition and a vibrant private sector. When that doesn't exist, you cannot depend on the government to pick up that difference and the government should never be the standard for setting wages for that work.

Dr. FLEMING. Let me ask Mr. Arenovski, did you have something you were going to add to that discussion?

Mr. ARENOVSKI. Yes, sir. This past March we actually had an economic summit here in the CNMI and we talked about aquaculture, ecotourism and call centers. We right now have one of the largest shrimp producers in our region. Our limitation is export out of Saipan. We can't get the shrimp or our agricultural, our produce, between Rota and Tinian and Saipan. We have wonderful produce. It is cost prohibitive to get it to Guam, which has a large population, we have been told they would buy it from us if we can get it there at a reasonable price. But, unfortunately, that is difficult to do. Right now we have some industry that could grow, but, unfortunately, some of these forces, air freight and shipping out of the NMI, is prohibitive.

Call centers we don't think will be viable here in the future for the NMI, but we believe we have a very bright future for ecotourism. The point being though that these industries combined, plus anything else you could think of, including casinos, will never make up the economic benefit that we had in the garment factory. So what we have to understand is we will have a tapered economy into the future.

But these industries, agriculture, aquaculture and certainly ecotourism, are certainly something that can flourish in the future.

Dr. FLEMING. Thank you. My time is up. I yield to the Ranking Member, Mr. Sablan.

Mr. SABLAN. Thank you again, Mr. Chairman.

I don't know if anyone has ever done this and I don't know if it is my place to do it, but Governor and my good friend Eni and the people from American Samoa, I am very sorry and I apologize that our officials in the Northern Mariana Islands who went to bed with people like Jack Abramoff and brought this whole thing, actually dragged American Samoa into the situation, because our government paid Mr. Abramoff millions of dollars of taxpayers' money and then actually it became an issue that Congress noted, and unfortunately for the people of American Samoa, you got trapped. So if no one has apologized to the people of Samoa, I am making that apology today.

Let me ask another question, and I don't have too much time, but I want to know, Mr. Secretary, and then I will go to Mr. Gootnick, why exactly didn't the industry committee work in American Samoa? The Governor alluded to seeing this thing in New Caledonia, in Noumea, where he saw this mansion next to a shanty house. Now, that is maybe the problem, right, in the mansion is the people who are using the people living in the shanty house. And that is what we are trying to avoid here. But why didn't the special industry committee work in Samoa?

Mr. BABAUTA. I think I would agree with Congressman Faleomavaega that it maybe didn't work to the extent that it lifted wages higher when it should have when the canning industry and the canneries were there and it was a strong, vibrant industry. Wages should have gone up probably higher than they did, certainly more increments than 2 cents every year.

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. SABLAN. Real quick.

Mr. FALEOMAVAEGA. With all due respect, here again I have a love-hate relationship with our canneries. I love them because they provide jobs for our people, but I have very serious problems with the way they went about making business. I think our Territories, the gross sales of these canneries were well over \$100 billion in gross sales, and for that period of time, the people were being paid \$2 an hour, \$3 an hour for this 50-year period.

What happened is that every time the industry committee comes, the attorneys, the lawyers for the canneries made sure that pressure is being put upon our government officials and the community, if you raise the wages we are going to leave. That has been the way it has happened in my opinion. That is how why the industry committees have not been very effective.

Mr. SABLAN. So reclaiming my time, so it is the people in the mansion was influencing the government so that the people in the shanty house remain in that shanty house, which is why we need this law.

Mr. Gootnick, hold on, I guess this is for Secretary Babauta again. You reported—or Mr. Gootnick. Right, this is for Mr. Gootnick.

You reported, sir, that employers in the Northern Mariana Islands face a perfect storm of factors dragging down the economy. One of them is poverty, or people needing power and water. Of course, increasing the minimum wage is supposed to lift these people out of poverty.

Can you tell me something about poverty in and of itself, how it has a negative effect on the economy?

Mr. GOOTNICK. That is a challenging question, Congressman. The language “perfect storm,” I am not sure that is our characterization. That is perhaps a more colorful term than we would employ. But I think the factors associated with that storm we don’t disagree with.

Poverty in and of itself, as I understand it, does have some long-term relationship with minimum wage in that the health and education of the population, as the health and education of the population improves, poverty can be reduced. So a poor health status certainly entails costs. Poor educational status is kind of a vicious cycle, discouraging the opportunity for workers to move into higher skilled professions and higher skilled jobs.

Mr. SABLAN. Thank you. We will talk about this some more.

Mr. Secretary, again, I will go back to you, because you say going forward in your testimony, we have three options, and I am sure you don’t mean that that is exclusive. But we either do nothing and let the 50-cent increase continue, we stop the increases entirely, or go back to the wage boards that used to be used in American Samoa.

But there are other options. I will associate myself with Congressman Faleomavaega that we need to work together and address this issue for the Northern Mariana Islands and American Samoa. I support whatever they agree to. But, of course, there are other things I am thinking of, maybe a 25-cent increase. Because you have heard my opening statement. I have no objection to people having an extra, some loose change in their pocket. Because where I come from, once you pay COC, you don’t have money for food, period. No and’s, if’s and but’s. It is reported in the media. People tell me they have a choice, paying for utilities or putting food on the table, because there is nothing there. And these are people who are working.

So we need the other options available. We really would like to continue to work with you, Mr. Secretary. I am very grateful to your Department and to you for putting some money out for the Census Bureau to do this analysis that we have. I am sorry that is all they did, because that was a very important report where they reported that the GDP in the Northern Mariana Islands decreased by that much, the gross domestic product.

My time is up, so, Mr. Chairman, I yield. Thank you very much for being here, Mr. Secretary.

Mr. BABAUTA. Mr. Chairman, if I could just respond, we agree that wages need to go up and there needs to be a very strong minimum wage that helps create a middle class for both the CNMI and American Samoa and puts money into people's pockets and into families. At the same time, we also agree with Mr. Faleomavaega and want to work to be able to strengthen those special industry committees if the decision is to reinstitute them so they are not making decisions with respect to wages increasing at very small levels.

Dr. FLEMING. Before I recognize the gentleman from American Samoa, I think that is very accurate. The only thing I would add is we can pass all the laws in the world, but unless there is a robust industry to make that happen, it just won't happen.

Governor TULAFONO. Mr. Chairman, may I inject a perspective to the special industry committee? It would be a fallacy to think that minimum wages never went up in American Samoa. It went from 25 cents to \$3.25 by 2006. The difference in my opinion was in the early beginnings of the special industry committee, they had the power to insist on receiving how canneries calculated their profit margins and where they passed those two, how they passed those numbers around. Instead of using the American Samoa cannery only as a cost center and shift all their profits to another location, they were able to detect that before the law changed in 1972, when Congress changed the law where the canneries were not obligated to disclose that any more. That was the argument I made, that if we put that back in the hands of the special industry committee and give them the ability to see those numbers, then they will be able to not just say that there is no increase this year, because they were totally reliant on whatever the canneries and the industry provided.

We need a special industry committee with the power to see those numbers, how do they calculate their profits, how do they work those numbers, especially now with multinationals and all that. That was the argument we wanted to make and we did make before the installation of the first escalation of the minimum wage.

Dr. FLEMING. Thank you. I now yield to Mr. Faleomavaega for his questions.

Mr. FALEOMAVAEGA. Mr. Chairman, I couldn't agree with the Governor more and I appreciate his comments on this issue.

Mr. Chairman, I thank you. I think it is an interesting observation that maybe American Samoa is a good micro example in terms of bringing this to the national forum as far as the minimum wage issue is concerned.

One of the ironies of this issue, Mr. Chairman, it was my good friend, a Republican Member who is now a U.S. Senator in the Congress, he was the one who proposed to add American Samoa for increased wages in the minimum wage when the deliberations were made. The reason for this is because my Republican friend would come up to me and say Eni, why should you be exempted from the national requirements that the minimum wage should be the same throughout America? This is America. Why should CNMI and American Samoa be made exceptions to the rule? My district has 20 percent unemployment. Why should you be exempted because of your economic situation?

So I think in terms of philosophical terms, Mr. Chairman, you are correct. And I think the pendulum swings. I think too much government is just as bad as no government, and I think we found out what happened recently, what Wall Street did, which I think primarily was the big cause of our big economic recession. I am not going to pass judgment any further because I am not an economist. But I really would like to pursue this issue about how we can better establish an industry committee for the simple fact again because Congress sometimes in its own clumsy way provides cures or remedies that are not necessarily helpful in that regard.

What I mean is that for 10 years, no consideration of how American workers should be given increases in their wages, and that is when the whole debate flared up in 2006 when we had this problem. So maybe the industry committee might be a way that we could really put substance, make it comprehensive. Because the reluctance that I have always had in putting increases in wages in our economy, Mr. Chairman, is the fact that we never were able to get in our hands a good report that really tells us the bottom line, other than the fact that there are symptoms. We know there are indicators that our economy is going down the tube. But at the same time we just were not able to come up with a bottom line to tell the Congress, to tell the Administration we need help in this.

Again, I do want to thank our Governor for his statement, because they are right to the point. And I sincerely hope that in the coming weeks we are going to be able to get together with Secretary Babauta and the Governor's office, if we can look at the industry committee as an option, how we can get better review the process so that wages can be in some way commensurate with the realities of how our economy is functioning.

I agree with you. I think there is a very critical role that the free market system should operate in such a way so economic growth occurs in the same way. But at the same time I think the government also has a responsibility in providing services to facilitate opportunities for companies to do well, but at the same time make sure that our workers are also mutually getting the benefits as well as part of our overall economic situation, whether it be here in our country, as well as in this little Territory called American Samoa.

So I do want to say that we need this. I don't know if asking the GAO for another study is going to be helpful, because it seems that we are going to have to find a better way. Since the Interior Department is the lead agency representing American Samoa, I am going to lean very heavily on Secretary Babauta and the Secretary of the Interior for assistance in giving us the proper resources so that we can make this thing a go and make it really functioning so if this industry committee can be done administratively or by law.

Whatever that we can do between now and when the deadline comes, I sincerely hope, Mr. Chairman, that we will be able to do this.

Again, I want to thank our Governor for traveling all this way to come here and testify before our Committee. And to you especially, Mr. Chairman, thank you for your leadership and for your sensitivity in calling this hearing that is so critical and important for American Samoa.

I yield back.

Dr. FLEMING. I thank the gentleman from American Samoa, and quite agree that too much government can be as bad as no government at all, and gladly welcome you to the Republican Conference should you choose to do that.

OK. I would like to thank all of our witnesses for their valuable testimony and contributions. Members of the Subcommittee may have additional questions for the witnesses. We ask you to respond to these in writing. The hearing record will be open for 10 days to receive these responses.

So, with that, again I want to thank our witnesses and our witness direct from Saipan today, tonight I guess for you, sir. But I want to thank you all. It is very interesting testimony.

As I say, while the focus has been on CNMI and American Samoa, I think that there is a lot that is instructive here around the world to these issues as we move forward, and I certainly pledge to work with the gentlemen, Mr. Sablan and Mr. Faleomavaega, to work on these issues and to try to resolve them so we can have a robust economy and middle-class lifestyle available for all of the citizens concerned.

Thank you, and we are adjourned.

[Whereupon, at 10:30 a.m., the Subcommittee was adjourned.]

