S. HRG. 110–388

IMPACT OF INCREASED MINIMUM WAGE OF AMERICAN SAMOA & CNMI

HEARING

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

TO

RECEIVE TESTIMONY ON THE IMPACT OF INCREASED MINIMUM WAGES ON THE ECONOMIES OF AMERICAN SAMOA AND THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FEBRUARY 28, 2008

Printed for the use of the
Committee on Energy and Natural Resources

U.S. GOVERNMENT PRINTING OFFICE

42–474 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON ENERGY AND NATURAL RESOURCES

JEFF BINGAMAN, New Mexico, *Chairman*

DANIEL K. AKAKA, Hawaii
BYRON L. DORGAN, North Dakota
RON WYDEN, Oregon
TIM JOHNSON, South Dakota
MARY L. LANDRIEU, Louisiana
MARIA CANTWELL, Washington
KEN SALAZAR, Colorado
ROBERT MENENDEZ, New Jersey
BLANCHE L. LINCOLN, Arkansas
BERNARD SANDERS, Vermont
JON TESTER, Montana

PETE V. DOMENICI, New Mexico
LARRY E. CRAIG, Idaho
LISA MURKOWSKI, Alaska
RICHARD BURR, North Carolina
JIM DEMINT, South Carolina
BOB CORKER, Tennessee
JOHN BARRASSO, Wyoming
JEFF SESSIONS, Alabama
GORDON H. SMITH, Oregon
JIM BUNNING, Kentucky
MEL MARTINEZ, Florida

ROBERT M. SIMON, *Staff Director*
SAM E. FOWLER, *Chief Counsel*
FRANK MACCHIAROLA, *Republican Staff Director*
JUDITH K. PENSABENE, *Republican Chief Counsel*

CONTENTS

STATEMENTS

	Page
Berman, Jay, Senior Economist, Office of the Assistant Secretary for Policy, Department of Labor	129
Bingaman, Hon. Jeff, U.S. Senator From New Mexico	1
Domenici, Hon. Pete V., U.S. Senator From New Mexico	2
Faleomavaega, Hon. Eni F.H., Member of Congress, American Samoa	2
Fitial, Hon. Benigno R., Governor, Commonwealth of the Northern Mariana Islands	122
Pula, Nikolao I., Acting Deputy Assistant Secretary, Office of Insular Affairs, Department of the Interior	134
Tenorio, Pedro A., Resident Representative, Commonwealth of the Northern Mariana Islands	118
Tulafono, Hon. Togiola T.A., Governor, American Samoa	28

APPENDIXES

APPENDIX I

Responses to additional questions	145

APPENDIX II

Additional material submitted for the record	153

IMPACT OF INCREASED MINIMUM WAGE OF AMERICAN SAMOA & CNMI

THURSDAY, FEBRUARY 28, 2008

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m. in room SD–366, Dirksen Senate Office Building, Hon. Jeff Bingaman, chairman, presiding.

OPENING STATEMENT OF HON. JEFF BINGAMAN, U.S. SENATOR FROM NEW MEXICO

The CHAIRMAN. Ok. Why don't we go ahead and get started. I'm told that Senator Murkowski is going to be here, but she's running a little late, but asked that we go ahead and begin.

Since 1938, the United States has had a national minimum wage. But in recognition of the special circumstances in the territories, the law provided that the transition from general lower territorial wages to the national minimum would be managed by special industry committees. The objective of these committees was to reach the national minimum wage "as rapidly as is economically feasible without substantially curtailing employment."

This approach allowed experts to analyze specific labor and wage conditions in the Islands; and recommend measured increases. It successfully brought Puerto Rico and the Virgin Islands to the national minimum wage.

Until last year, the special committees were following this policy in American Samoa. The Mariana Islands were never subject to the national minimum wage level because the covenant between the United States and the Islands provided that "the minimum will not apply to the CNMI unless Congress decides otherwise." Last May 25, the Congress enacted Public Law 110–28 which provided that the minimum wage level in Samoa and the Marianas will be increased by 50 cents an hour each year until reaching the new national level of $7.25. The law also provided that Secretary of Labor report to Congress by January 25 of this current year on the impact of these increases.

Even before enactment, this proposal was a concern to me and my colleagues here in the Senate from Hawaii. Three of us wrote to the Conferees expressing our view that this fixed schedule of in-

creases would not be flexible enough to respond to conditions in the Islands. I'll include a copy of that letter* in the record.

The Labor Department's July 25 report shows that our concerns were well founded. I understand that there may be general consensus around the bill that was introduced by the Congressman from Samoa which calls for 50-cent increases in the minimum wage every 2 years unless the Secretary of Labor finds that they would have an adverse impact on the local economies. I look forward to hearing from the witnesses today.

We have a very distinguished panel here. Why don't we go right ahead and begin with the Congressman. Thank you for being here. We look forward to your testimony.

[The prepared statement of Senator Domenici follows:]

PREPARED STATEMENT OF HON. PETE V. DOMENICI, U.S. SENATOR FROM NEW MEXICO

Mr. Chairman, thank you for calling this hearing. I would also like to thank the witnesses for being here today and for traveling so far to testify before this committee. We are grateful to be able to hear from you and I look forward to hearing your comments.

Last May, Congress passed an Emergency Supplemental Appropriations Act which, among other things, will incrementally raise the federal minimum wage to $7.25 an hour. The law also requires that minimum wages in American Samoa and the Commonwealth of Northern Mariana Islands be increased by $.50 per year until they are equal to the minimum wage rate in the United States. In addition, the law required the Department of Labor to report on the impacts this proposed wage increase would have on the economies of these territories. The Department has now released that report, and its findings raise some concerns with the wage increase and potentially detrimental impacts it could have on the economies and people of these territories.

The first 50-cent increase went into effect in these territories last July, and the Department of Labor estimates that subsequent increases could result in the loss of American Samoa's tuna canning industry to other countries with cheaper labor costs. An industry spokesman is quoted in the report that, given excess processing capacity for tuna canning worldwide, it would take "minutes" to implement a decision to move tuna canning production elsewhere. As this industry represents some 75% of economic activity in American Samoa, its loss would have drastic effects on the Samoan economy. Similarly, the Department of Labor stated in its report that additional wage increases in the CNMI "seems likely" to worsen the current economic decline.

While the Department of Labor was able to meet its deadline for the report, it openly admits that its ability to evaluate these issues was limited due to the short time frame and a lack of labor market data.

These minimum wage increases will do little good to the people of the CNMI and American Samoa if they result in the loss of major industries and thousands of jobs.

It is apparent that the Department of Labor and Congress need to take a much closer look at this issue and determine if a legislative fix is in order to ensure that wage increases will ultimately help—not harm—the people of these territories.

I thank the witnesses for being here and I look forward to hearing their perspectives and ideas as to resolving this issue.

STATEMENT OF HON. ENI F.H. FALEOMAVAEGA, MEMBER OF CONGRESS, AMERICAN SAMOA

Mr. FALEOMAVAEGA. Mr. Chairman, I want to thank you and the distinguished members of the committee for the initiative that you have taken to conduct this hearing as it relates to what has transpired with the passage of Public Law 110–28. I want to certainly welcome the distinguished Governor from the Commonwealth of the Northern Mariana Islands, Governor Fitial and our special rep-

* See Appendix II.

resentative also of CNMI, Mr. Tenorio and Mr. Nick Pula representing the Secretary of the Interior.

As I'm sure our Governor will be joining us very shortly. I'm sure he's probably having traffic problems while coming here. I'm not going to address this situation with CNMI, Mr. Chairman. I'm sure that Governor Fitial and our special representative Mr. Tenorio will address the economic situation that is now confronting CNMI.

Mr. Chairman, in 2 months time, unbeknown to many of the people in America, American Samoa will be celebrating 108 years since the raising of the American flag in our shores. It was by means of two treaties of session that we're issued by our traditional leaders. One on April 17, 1900, and 4 years later his majesty, King Tui Manua Elisala, also issued a treaty of session on July 16, 1904.

It was not until 1929 that Congress finally ratified these two treaties of session and assigned the Administration of the territory to the President of the United States. The President, by executive order, then simply assigned the responsibility to the Secretary of the Navy. In 1951, President Truman modified the executive order and then issued Administrative responsibility to be given to the Secretary of the Interior.

Under Secretarial authority in 1960, the territory established a local constitution subject to the authority and the overall responsibility of the Secretary of the Interior. For some 50 years American Samoa was subject to United States Naval Administration by naval officers. At that time also subsistent living was part of our economic being. The Navy being probably the largest employer, many of our men joined both the Marines as well as the Navy during that 50-year period.

During World War II, American Samoa was a major staging area for some 40,000 Marines as they prepared themselves to move on to the Islands of Guadalcanal, Taraoa, other islands in Micronesia as part of the World War II effort to fight against the Japanese military forces. When the Navy left in 1950, Mr. Chairman, the Secretary of the Interior then appointed civilian Governors. At that time our isolation, limited resources, problems, serious problems with surface and air travel, all of these things added to the real serious economic situations that we were confronted with. Thousands of Samoans, both men and women, left the Islands and moved their families to Hawaii and other parts of the United States.

In the early 1950s the idea of establishing a tuna canning operation came up. I thought that it was a positive move in trying to establish a better economic base for the territory at the time. I might also add, Mr. Chairman, as you noted earlier in your statement, minimum wage issue did not start in Samoa or CNMI. As you noted earlier it was in 1938 that the Fair Labor Standards Act took place. It was right here in the Congress.

It originated in the Congress because there was such a tremendous disparity among wage earners even at the time between the South as well as the North. People picking cotton in the South were paid only 10 cents an hour. The same people working over the Northern States were paid 75 cents to $1 an hour. But throughout this whole time American Samoa was part of the Fair Labor Stand-

ards Act since 1938. But the Naval Administration never bothered enforcing any provisions of the Fair Labor Standards Act.

But it was not until 1955 the tuna canneries appeared. But something happened in the mid 1950s. The executives of these corporations appeared before the Congress. I don't know if you agree, but this is the way they brought their case before the Congress is saying it would take five Samoans to do the work of one statesider, so therefore, the workers in Samoa should be paid less. At that time the minimum wage in 1950s was one dollar an hour.

But the executives of this company suggested that Samoan workers be paid 27 cents an hour. So this is how the whole thing evolved and to the point, as you noted earlier, would establish a special industry committees. The Department of Labor has been doing this for the past 50 years. In the three special committee hearings that were conducted in the past 6 years that I participated, I became very concerned that I don't think the needs of the working people were really taken into serious consideration.

Hence the result of the Public Law 110–28 of the leadership of Chairman George Miller as well as Chairman Kennedy, of both committees, passed or at least with their leadership provided this change of the law. To allow these two territories to have this 50 cent increase in wages until two or 3 years. Hence that it will hopefully catch up with our national trend that by the year 2009 that minimum wage will start at about 7 dollars an hour.

Escalation causes a very serious problem that we're faced with right now. That's the reason why, Mr. Chairman, I introduce H.R. 5154 which would end automatic increases that would empower the Department of Labor in consultation with the Secretary of the Interior and the governments of American Samoan and CNMI to conduct economic assessments every 2 years to determine when and if our economies can absorb future increases. I have made Chairman Miller aware of this legislation.

I am hopeful that as a result of the recent field hearing that we held just last week in American Samoa. Also as a result of your hearing today Mr. Chairman, both Chairman Miller and Chairman Kennedy will support the intent of this legislation. Work with us to find a solution that is fair to our workers and good for the economies of both American Samoa and CNMI.

Mr. Chairman, given that American Samoa's economy is not diversified. We cannot afford for our canneries to pack up and leave. This is why the Governor, my office and the Fono, our legislature have worked together to provide our canneries with local and Federal incentives, tax incentives, incentives that they need to stay in American Samoa.

According to the Department of Labor report when our canneries go their closure will have a rippling effect on our economy that could amount to a loss of some 7,800 jobs. This is unacceptable. This is why I believe it is important for us to give our tuna canneries every reason to stay until the time comes for them to move elsewhere. Simply put, we must slow down the departure of our canneries until our economy is diversified.

Mr. Chairman, slowing down their departure means any escalator clauses. Even though the Department of Labor did not have the time it needed to fully assess the impact the automatic in-

creases would have on our economies in the years to come. The Department of Labor report does show that the results would not be positive.

The Department of Labor report also states that raising the minimum wage in American Samoa to $7.25 an hour would be like raising the minimum wage in the United States to $16.25 per hour. An increase like this is not sustainable. I believe this is an unintentional outcome of the passage of Public Law 110–28 which I hope will soon be corrected.

Finally in closing, Mr. Chairman, I want to remind the committee that our canneries will go 1 day regardless of what we do. Both canneries reported to the Department of Labor that the tuna market is now focused on seal foil packages rather than traditional canned tuna. If this is true, it stands to reason that Starkist and Chicken of the Sea were committed to American Samoa.

If they were committed to American Samoa they would be shifting production in American Samoa from canned to pouches so that we could grow with the industry. But to my knowledge neither cannery has implemented a large scale plan that would change their operations from cans to pouches.

I know my time is up, Mr. Chairman, but I would, again, like to thank you and Senator Akaka and Senator Inouye in sending this joint letter to Chairman Miller as well as to Chairman Kennedy and see if we could adjust the provisions of Public Law 110–28. Hopefully this will be helpful to the economies of both CNMI as well as to American Samoa. Thank you, Mr. Chairman.

[The prepared statement of Mr. Faleomavaega follows:]

PREPARED STATEMENT OF HON. ENI F.H. FALEOMAVAEGA, MEMBER OF CONGRESS, AMERICAN SAMOA

Mr. Chairman: Thank you for holding this important hearing regarding Public Law (P.L.) 110-28 which increased minimum wage in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) by fifty cents per hour effective in July of last year, and automatically every year thereafter until 2014 for American Samoa, and 2015 for CNMI.

Prior to the next set of increases taking place, PL 110-28 also required the U.S. Department of Labor's (DOL) Bureau of Statistics to undertake a study to determine what impact these increases would have on both economies. The DOL released its report in January of this year. Last week, at my request, the House Resources' Subcommittee on Insular Affairs also held a field hearing in American Samoa to receive testimony regarding the impact of minimum wages increases in the Territory, and to consider the DOL findings.

As you may know, the United States Territory of American Samoa lies 2,300 miles southwest of Hawaii, covers a land area of 76 square miles, has a population of less than 70,000 and a per capita income of $4,300 per year. More than 80% of American Samoa's economy is dependent either directly or indirectly on two United States tuna canneries which employ more than 5,150 people of 74 percent of the workforce.

For the past ten years, StarKist and Chicken of the Sea have refused to increase wages for Samoan workers by anything more than 3 cents an hour. Because the tuna canneries have not done right by our local workers while exporting billions and paying their top executives millions of dollars in salaries, bonuses, and benefits, I supported a one-time increase of fifty cents per hour for our tuna cannery workers and lowest-paid government employees making less than $5.15 per hour. While both companies threatened to lay off workers due to the increase from $3.26 per hour to $3.76, the DOL report states "that neither Chicken of the Sea nor StarKist has reduced output or working hours in immediate response to the first fifty-cent increase in the minimum wage." I am pleased by this outcome.

However, I am also concerned that further increases could be harmful to our economy. This is why I opposed automatic increases, or escalator clauses. Mr. Chairman, you also opposed automatic increases as did Senators Inouye and Akaka. Unfortu-

nately, we were unsuccessful in removing this language prior to escalator clauses becoming law. Now that the DOL report confirms our position that automatic increases could be harmful to the economies of American Samoa and CNMI, I have introduced H.R. 5154 which would end automatic increases and would empower the DOL, in consultation with the Secretary of the Interior and the governments of American Samoa and CNMI, to conduct economic assessments every two years to determine when and if our economies can absorb future increases. I have made Chairman Miller aware of this legislation and I am hopeful that as a result of the recent field hearing held in American Samoa, and also as a result of your hearing today, that Chairman Miller will support the intent of this legislation and work with us to find a solution that is fair to our workers and good for our economies.

Given that American Samoa's economy is not diversified, we cannot afford for our canneries to pack up and leave. This is why the Governor, my office, and the Fono have worked together to provide our canneries with the local and federal incentives they need to stay in American Samoa. However, despite our best efforts to support our canneries, the DOL reports that when asked how quickly a decision could be implemented to transfer production to tuna canning facilities elsewhere, one industry spokesman replied, 'Minutes.'" In my humble opinion, a response like 'minutes' shows a disregard for our people and Territory and suggests that when our canneries go, they will give no notice.

According to the DOL, when our canneries go, their closure will have a ripple effect on our economy and could amount to a loss of 7,825 jobs. This is unacceptable and this is why I believe it is important for us to give our tuna canneries every reason to stay until the time comes for them to move elsewhere. Simply put, we must slow down the departure of our canneries until our economy is diversified.

Slowing down their departure means ending escalator clauses. Even though the DOL did not have the time it needed to fully assess the impact automatic increases would have on our economies in the years to come, the DOL report does show that the results would not be positive. The DOL report also states that raising the minimum wage in American Samoa to $7.25 an hour would be like raising the minimum wage in the States to $16.25 per hour. An increase like this is not sustainable, and I believe is an unintentional outcome of P.L. 110-28 which I hope will soon be corrected.

Finally, in closing, I want to remind this committee that our canneries will go one day regardless of what we do. Both canneries reported to the DOL that the tuna market is now focused on sealed foil packages rather than traditional canned tuna. If this is true, it stands to reason that if StarKist and Chicken of the Sea were committed to American Samoa, they would be shifting production in American Samoa from cans to pouches so that we could grow with the industry. But, to my knowledge, neither cannery has implemented a large-scale plan that would change our operations from cans to pouches.

The reason for this is simple. Pouched tuna is generally hand-packed meaning it is a labor-intensive process. Labor rates in American Samoa are now $3.76 and more per hour. In Thailand and South America, which are American Samoa's competitors, labor rates are sixty cents and less per hour. If StarKist and Chicken of the Sea have told DOL the truth, if the global tuna market is moving from cans to pouches, our canneries will go where labor is cheapest given that their guiding economic principle is "to maximize the returns [they give] to [their] investors," not to their workers, as stated by StarKist in testimony it submitted before Special Industry Committees.

While I wish StarKist and Chicken of the Sea would be better corporate partners and stay in American Samoa for the long-haul, especially since they have exported almost $10 billion dollars worth of tuna from our home and lived off our backs for more than 50 years, American Samoa cannot and must not remain dependent on a single-industry. At some point, the American Samoa Government must be about the business of implementing the findings of the American Samoa Economic Commission.

But as long as the tuna industry is with us, I will continue to do everything I can to encourage them to stay including pushing for extension of 30A tax credits, ending escalator clauses, and protecting their interests in any and all future trade agreements.

Mr. Chairman, I thank you for holding this hearing and I look forward to working with you and Chairman Miller to find a legislative fix that will address the concerns I have raised. Given our time constraints, I would like to also ask if, in addition to my testimony today, if you would include, as a matter of record, my statement before the House Resources' Subcommittee on Insular Affairs, which is more comprehensive in nature.

I would also like to submit, for the record, my 2001, 2003, and 2005 testimony before the U.S. Department of Labor's Special Industry Committees No. 24, 25, and 26, each of which provides an historical accounting of the relationship between minimum wage rates in American Samoa and the U.S. tuna industry, which was responsible for suppressing wages in the Territory beginning in 1956.

Finally, on behalf of the people of American Samoa, I express our sincere appreciation for your interest in the welfare of our future.

ATTACHMENT 1.—STATEMENT OF THE HON. ENI F.H. FALEOMAVAEGA BEFORE THE HOUSE RESOURCES' SUBCOMMITTEE ON INSULAR AFFAIRS REGARDING THE ECONOMIC IMPACT OF THE RECENTLY INCREASED MINIMUM WAGE IN AMERICAN SAMOA

PAGO PAGO, AMERICAN SAMOA

FEBRUARY 22, 2008

Madame Chair: I want to thank you for holding this hearing in response to legislation introduced by Chairman George Miller of the House Committee on Education and Labor to increase minimum wage in the U.S. and its territories. As a result of Chairman Miller's legislation which was passed by the House and Senate and became Public Law (P.L.) 110-28, minimum wage was increased by fifty cents per hour in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) on July 24 and July 25, 2007, respectively. P.L. 110-28 also automatically increases minimum wage by fifty cents per hour every year thereafter until 2014 for American Samoa, and 2015 for CNMI.

At my request, Chairman Miller included language, which became law, requiring the U.S. Department of Labor (DOL) to undertake a study to determine the impact the imposed minimum wage increases might have on the economies of American Samoa and CNMI. The DOL released its findings on January 25, 2008. However, given that no hearings were held by the House or Senate prior to passage and enactment of these minimum wage increases, on June 6, 2007 I wrote and asked if you would be willing to hold a hearing in your capacity as Chair of the House Resources' Subcommittee on Insular Affairs which has broad jurisdiction for the welfare of the U.S. territories. You agreed to this request and I especially thank you for your leadership and concern regarding this important matter.

For your information, my position regarding minimum wage is a matter of public record. For the past 18 years, I have fought to increase the wages of our tuna cannery workers because for too many years Star Kist and Chicken of the Sea have purposely suppressed the wages of workers in American Samoa while increasing the wages of their corporate CEOs. For example, in 2004, it was reported that the CEO of Del Monte, the parent company of StarKist, was paid $1.7 million in salary, bonuses, and other compensations. With stock options included, he earned almost $2.65 million, or over 400 times more per year than the average cannery worker in American Samoa. The CEO of Heinz, once the parent company of StarKist, paid its top CEO more than $65 million in salaries, stocks, and options. Clearly, to any person of conscience, it is difficult to oppose minimum wage increases for the poor when companies are rich enough to pay their executives so much.

I also believe that if StarKist and Chicken of the Sea had done the right thing and paid our workers fair wages, we would not be in the predicament we are in today with federal law now mandating automatic minimum wage increases. But let me briefly share with this committee a bit of our history with the tuna industry given that American Samoa is a single-industry economy and that more than 80% of our private sector economy is tied, either directly or indirectly, to StarKist and Chicken of the Sea.

On May 8, 1956, Van Camp, which later became Chicken of the Sea, appeared before the U.S. Senate Committee on Labor and Public Welfare to urge consideration of legislation for the exemption of American Samoa from the wage and hour provisions of the Fair Labor Standards Act of 1938. William D. Moore, Overseas Operations manager for the Van Camp Sea Food Co., commenting on his company's desire to pay Samoan workers 27 cents per hour as opposed to the prevailing minimum wage rate of $1 per hour, said:

> A minimum wage of $1 per hour, as required under present laws, is unrealistic, unwarranted, and unquestionably will have a deleterious effect upon the economic and social structure of the islands.

As further justification for suppressing wages in American Samoa, Mr. Moore said:

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

Mr. Collins, legal counsel for Van Camp, said 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.

If Mr. Collins were with us today, he would know that Samoan workers made Chicken of the Sea and StarKist the largest tuna canneries in the world and, the number one and two brands in America. In other words, at no time was either cannery justified in paying Samoan workers less than what they were worth. But the people of American Samoa had no real voice in these matters.

In 1956, when Van Camp was lobbying Congress to suppress our wages, the islands of American Samoa were administered by the U.S. Department of the Interior. It was not until 1977 that American Samoa elected its first Territorial Governor and in 1980 we elected our first representative to the U.S. Congress. By that time, the tuna industry already had a 20 year jump-start on fixing wage rates in American Samoa.

In fact, as early as 1956, Van Camp was successful in amending the Fair Labor Standards Act of 1938 to exempt the tuna industry from paying workers in American Samoa a minimum standard of decent living, and a special industry committee was assigned to substitute a sub-minimum wage structure that was supposedly commensurate with insular economic conditions. The industry committee structure for American Samoa was intended to be an interim measure but it remained in effect until last year when it was abolished by the enactment of P.L. 110-28. I supported its abolishment because special industry committees were a sham and an insult to the intelligence of every hourly worker in American Samoa.

Our history with the tuna industry has also been insulting. Not once in our 50 year history has StarKist or Chicken of the Sea offered profit-sharing incentives or stock options to our workers. Instead, our cannery workers are given a case of wahoo at Christmas and a turkey at Thanksgiving and we're told that our wages must remain below the federal minimum wage rate because workers in Thailand and the Andean countries are cleaning fish for $0.60 an hour, or because it takes 5 Samoans to do the work of one white.

With excuses like these, the tuna industry really has no credibility left when it comes to speaking on the subject of minimum wage. StarKist has opposed increasing minimum wage for Samoan cannery workers based on what it calls "guiding economic principles." "One basic idea guides the actions of all major businesses," Starkist says, "and that is a business has an economic, legal, and moral responsibility to maximize the return it gives to its investors or shareholders." I am of the belief that higher laws should guide our actions and that we have a moral responsibility to do unto others as we would have them do unto us.

This is why, after ten years of StarKist and Chicken of the Sea refusing to increase Samoan wages by anything more than 3 cents an hour, I supported, in the newly enacted public law, a one-time increase of fifty cents per hour for American Samoa's cannery workers and lowest-paid government employees making less than $5.15 per hour. While both companies threatened to lay off workers due to the increase from $3.26 per hour to $3.76, the DOL report states "that neither Chicken of the Sea nor StarKist has reduced output or working hours in immediate response to the first fifty-cent increase in the minimum wage." I am pleased by this outcome.

On the other hand, I am concerned that further increases could be harmful to our economy. This is why I opposed automatic increases, or escalator clauses. Senators Inouye, Bingaman, and Akaka also opposed automatic increases but they, too, were unsuccessful in removing this language prior to it becoming law. Now that the DOL report confirms our position that automatic increases could be harmful to the economies of American Samoa and CNMI, I have introduced H.R. 5154 which would end automatic increases and would empower the DOL, in consultation with the Secretary of the Interior and the governments of American Samoa and CNMI, to conduct economic assessments every two years to determine when and if our economies can absorb future increases. I have made Chairman Miller aware of this legislation and I am hopeful that as a result of today's hearing, he will work with us to find a solution that is fair to our workers and good for our economies.

Given that American Samoa's economy is not diversified, we cannot afford for our canneries to pack up and leave. This is why the Governor, my office, and the Fono have worked together to provide our canneries with the local and federal incentives they need to stay in American Samoa. However, despite our best efforts to support our canneries, the DOL reports that when asked how quickly a decision could be implemented to transfer production to tuna canning facilities elsewhere, one industry spokesman replied, 'Minutes.'" In my opinion, a response like 'minutes' shows

a disregard for our people and Territory and suggests that when our canneries go, they will give no notice.

According to the DOL, when our canneries go, their closure will have a ripple effect on our economy and could amount to a loss of 7,825 jobs. This is unacceptable and this is why I believe it is important for us to give our tuna canneries every reason to stay until the time comes for them to move elsewhere. Simply put, we must slow down the departure of our canneries until our economy is diversified.

Slowing down their departure means ending escalator clauses. Even though the DOL did not have the time it needed to fully assess the impact automatic increases would have on our economies in the years to come, the DOL report does show that the results would not be positive. The DOL report also states that raising the minimum wage in American Samoa to $7.25 an hour would be like raising the minimum wage in the States to $16.25 per hour. An increase like this is not sustainable, and I believe is an unintentional outcome of P.L. 110-28 which I hope will soon be corrected.

Finally, in closing, I want to remind this subcommittee and our people that our canneries will go one day regardless of what we do. Both canneries reported to the DOL that the tuna market is now focused on sealed foil packages rather than traditional canned tuna. If this is the case, it stands to reason that if StarKist and Chicken of the Sea were committed to American Samoa, they would be shifting production in American Samoa from cans to pouches so that we could grow with the industry. But, to my knowledge, neither cannery has implemented a large-scale plan that would change our operations.

The reason for this is simple. Pouched tuna is generally hand-packed meaning it is a labor-intensive process. Labor rates in American Samoa are now $3.76 and more per hour. In Thailand and South America, which are American Samoa's competitors, labor rates are, as I stated earlier, sixty cents and less per hour. If StarKist and Chicken of the Sea have told DOL the truth, if the global tuna market is moving from cans to pouches, our canneries will go where labor is cheapest given that their guiding economic principle is to maximize the returns they give to their investors, not to their workers.

While I wish StarKist and Chicken of the Sea would be better corporate partners and stay in American Samoa for the long-haul, especially since they have exported almost $10 billion dollars worth of tuna from our home and lived off our backs for more than 50 years, American Samoa cannot and must not remain dependent on a single-industry. At some point, the American Samoa Government must be about the business of implementing the findings of the American Samoa Economic Commission.

But as long as the tuna industry is with us, I will continue to do everything I can to encourage them to stay including pushing for extension of 30A tax credits, ending escalator clauses, and protecting their interests in any and all future trade agreements.

Madame Chair, I thank you for holding this hearing and I look forward to working with you and Chairman Miller to find a legislative fix that will address the concerns I have raised.

Given our time constraints, I would like to also ask if, in addition to my testimony today, if you would include, as a matter of record, my 2001, 2003, and 2005 statements before the U.S. Department of Labor's Special Industry Committees No. 24, 25, and 26, each of which provides an historical accounting of the relationship between minimum wage rates in American Samoa and the U.S. tuna industry, which was responsible for suppressing wages in the Territory beginning in 1956.

In closing, I would also like to express, on behalf of the people of American Samoa, our sincere appreciation for your interest in the welfare of our future.

ATTACHMENT 2.—STATEMENT OF THE HON. ENI F.H. FALEOMAVAEGA BEFORE SPECIAL INDUSTRY COMMITTEE NO. 26, DEPARTMENT OF LABOR WAGE AND HOUR DIVISION, REGARDING THE MINIMUM WAGE IN AMERICAN SAMOA

FAGATOGO, AMERICAN SAMOA

JUNE 20, 2005

I am very disappointed that StarKist is opposing an increase in minimum wage for cannery workers based on what it calls "guiding economic principles." If you will recall, StarKist submitted identical testimony in 2003 to Special Industry Committee No. 25 and once again states on page 5 of its pre-hearing statement before Special Industry Committee No. 26 that "one basic idea guides the actions of all major businesses [and that is] a business has an economic, legal, and moral responsibility to maximize the return it gives to its investors or shareholders."

I, too, would like to talk about guiding principles and state, as I did before Special Industry Committees No. 24 and 25, that I believe higher laws should guide our actions and that we have a moral responsibility to do unto others as we would have them do unto us. I also believe all major businesses, including those of the tuna industry, have an obligation to be fair when applying their "guiding economic principles."

For example, if StarKist is going to ask Special Industry Committee No. 26 to oppose a minimum wage increase for our cannery workers because it has an obligation "to maximize [its] profits" then StarKist must also review the salaries of its top executives to be sure it is acting "in the interests of its investors and/or shareholders" as stated on page 5 of its pre-hearing statement.

On the one hand, StarKist says it cannot afford to pay our people more than $3.26 per hour because it would be unable "to attract needed investment dollars" or "generate the best return possible" for its investors. On the other hand, Del Monte, which owns StarKist, paid its CEO $1.7 million in salary, bonuses and other compensation in FY 2004. With stock options, Del Monte's CEO earned almost $2.65 million in FY04.

In other words, Del Monte's CEO is making 200 to 300 times more per year than the average cannery worker in American Samoa. This said, can an intelligent person really believe that an increase in minimum wage is going to hurt StarKist's ability to maximize its profits? If StarKist wishes to maximize its profits for its investors, let Del Monte begin by cutting the salaries of its top management including its CEO, and let Chicken of the Sea do the same.

Let StarKist also be upfront about the salaries of its President and Vice Presidents. Let those testifying before Special Industry Committee No. 26 tell our people how much StarKist and Chicken of the Sea are paying them to procure protein or to oversee seafood, soup and infant feeding operations. Until they are willing to make their salaries known, how can we fully gauge whether StarKist or Chicken of the Sea are doing right by their stockholders or even more importantly by the cannery workers of American Samoa?

Quite frankly, these proceedings are a sham and an insult to the intelligence of the 5,000 workers employed by our canneries. To paraphrase President Franklin D. Roosevelt, it is a mockery for calamity-howling executives with million dollar incomes to tell us that wage increases will have a disastrous effect on our economy or that we must exploit labor in developing countries to remain competitive. Neither will I accept the idea that businesses are to maximize their profits without a moral obligation to also increase the wages of our cannery workers.

As I said before Special Industry Committees No. 24 and 25, I also believe that the right to live is higher than the right to own a business. Furthermore, I believe a business has an economic, legal, and moral responsibility to pay its employees enough to enable them to live and I believe this should be the basic idea that guides the actions of all major businesses, including those of the tuna industry.

Nevertheless, the U.S. Department of Labor picks and chooses its Special Industry Committee and, for the most part, the outcome is determined before we testify. In some ways, it is unclear to me why the U.S. Department of Labor bothers to hold these hearings. If the Department of Labor was serious about minimum wage then it would be serious about conducting a study to determine the cost of living in American Samoa. If it was serious about minimum wage it would be serious about making the tuna industry declare its margin of profit. Simply put, until we know what the canneries are making we cannot determine what a fair wage is for our workers.

Having spent the past four years fighting to protect American Samoa's tuna industry in the U.S. Congress, I can tell you that I understand what our canneries are up against when it comes to competing against countries with low wage rates. I understand the realities of supply and demand. I understand that production will leave high cost locations when low cost alternatives exist. I also understand that these are the same words the U.S. tuna industry has been regurgitating for the past 50 years.

In 1956, as part of its lobbying effort to suppress wages in American Samoa and pay Samoan workers only 27 cents per hour, Van Camp (now Chicken of the Sea/Samoa Packing) said that "a minimum wage of $1 per hour, as required under present laws, is unrealistic, unwarranted, and unquestionably will have a deleterious effect upon the economic and social structure of the islands." Almost 50 years later, there has been no change in the way StarKist or Chicken of the Sea view the worth of our workers.

In our 50 year history with the tuna industry, not once has StarKist or Chicken of the Sea offered profit-sharing incentives or stock options to our workers. Instead, our cannery workers are given a case of wahoo at Christmas and a turkey at Thanksgiving. And now we're told that our wages must remain below the federal

minimum wage rate because cannery workers in Thailand and the Andean countries are cleaning fish for $0.60 an hour.

Well guess what? Autoworkers in China are building cars for less than autoworkers in Detroit. And garment workers in India are making clothes for less than factory workers in New York. And farmers in Mexico are growing food for less than farmers in the Midwest. And McDonald employees in Taiwan are flipping hamburgers for less than McDonald employees in the United States. So what is the tuna industry's point?

We are not here before Special Industry Committee No. 26 to discuss the wage rates of third world countries. We are here to discuss U.S. wage rates. American Samoa is a U.S. Territory and our cannery workers should be entitled to American pay. If our corporate executives wish to discuss wage rates around the world, then let us also discuss the global wage rates of corporate executives. I believe such a discussion would show that a CEO in Thailand or Ecuador makes nothing compared to the CEOs of StarKist and Chicken of the Sea and I again make the point that if our canneries are interested in maximizing their profits, let them begin by cutting corporate salaries and make adjustments on corporate profits.

Let me also address the issue of international trade agreements. It is well-known that StarKist, under the management of the H.J. Heinz Foundation, opened a pandora's box in 2001 when it went against the entire U.S. tuna fishing and processing industries and attempted to include canned tuna in the Andean Trade Preference Act. StarKist did this for one simple reason, to displace $3.26 workers in American Samoa and exploit $0.60 labor in Ecuador.

At the time, StarKist said this would not affect its business in American Samoa. Today, at these minimum wage hearings and at the minimum wage hearings in 2003, StarKist testified that the Committee must not increase minimum wage rates because an increase would affect its business in American Samoa and its ability to compete against Ecuador, Thailand and other low wage rate countries. StarKist cannot have it both ways and, in fairness to our cannery workers, I believe Special Industry Committee No. 26 has an economic, legal and moral responsibility to make sure that StarKist testifies truthfully before this federally constituted committee.

I also want to address the issue of IRS Section 936. Again, in its pre-hearing statement submitted to Special Industry Committee No. 25, StarKist stated that favorable local and federal tax treatment makes little difference to our canneries.[1] Before this Committee, StarKist says IRS section 936 does make a difference. While agreements are in place to extend section 936 benefits to American Samoa, I question why StarKist continues to contradict itself before this Committee.

Regarding tuna loins, I would like to publicly state that I am deeply concerned about the number of loins that are being shipped to American Samoa for processing. It is an insult to our intelligence for both StarKist and Samoa Packing to assume that Samoans do not understand what this means for the Territory. Samoans understand that the use of precooked tuna loins as a raw material in canning operations could significantly influence the amount of labor needed in the production process. Samoans also understand that the production of loins, including the butchering and cleaning steps, accounts for up to 80% of the cost of labor in a full-scale cannery.[2]

This means that if a cannery buys loins instead of whole fish it can substantially reduce its labor costs. In other words, the more loins you send to American Samoa, the less labor you need in our canneries. Less labor means downsizing and downsizing means many of our cannery workers will be out of jobs if StarKist and Samoa Packing continue to ship loins into American Samoa. Furthermore, our U.S. tuna boat owners who not only contribute more than $22 million per year to our economy but also supply 70% of the tuna processed in our canneries will also be out of business.

As I have said before, I cannot and will not support an increase in loins being shipped from foreign countries into American Samoa for use in our canneries. This trend must stop or American Samoa must be compensated for revenue lost as a result of this backdoor attempt to reduce our labor force, suppress our wages, and allow foreign countries to send their tuna into the U.S. exempt from duty.

I am also disturbed by a recent letter received in my office regarding Project Nemo, an alleged "plan by Chicken of the Sea and StarKist to consolidate their tuna canneries in American Samoa." The letter states, "The objective of this plan will be to substantially reduce tuna production, which will allow the companies to increase

---

[1] Prehearing Statement of Barry Mills. StarKist Samoa, Inc. Special Industry Committee No. 25.2003.20.

[2] U.S. Department of Labor. Economic Report: The Minimum wage in American Samoa, 2001. 40.

prices. The effect will be closure of one of the two canneries in Samoa and the elimination of more than 2,000 jobs."

This letter, dated May 27, 2005 and received in my office on June 15, 2005, is unsigned and was copied to Governor Togiola, the U.S. Federal Trade Commission, the U.S. Department of Justice and Samoa News. The letter is addressed to me. While I cannot and will not act on an unsigned letter, I will take steps to forward this letter to the proper officials at the U.S. Federal Trade Commission and the U.S. Department of Justice.

I am also including this letter as an attachment to my written testimony. Should anything ever come of this, this letter will be on file as a matter of record. However, I am hopeful today, under oath, and before Special Industry Committee No. 26, both canneries will deny any knowledge of a plan to reduce American Samoa's production or to increase prices.

In conclusion, I would like to state that I believe workers in American Samoa are the backbone of the U.S. tuna industry. I also believe that men and women of conscience will agree that businesses are obligated to act not only in the interest of their shareholders but also in the interest of their workers. I also believe that after 50 years in our Territory, and having exported over $7 billion worth of canned tuna to the U.S., I believe it is time for our canneries to work with us.

I am pleased that the U.S. tuna industry has united in support of H.R. 629—a bill I introduced in Congress to make permanent or extend the federal IRS section 936 tax credit to American Samoa for another ten years. I am also pleased that our local Senate issued a Concurrent Resolution in support of H.R. 629. However, I need to understand why StarKist stated before Special Industry No. 25 that favorable local and federal tax treatment makes little difference to our canneries. Since our tax incentives make little difference, I would suggest that a 10% duty on loins coming into this Territory will be a good source of revenue for our local government and a minimum wage increase should be supported.

Finally, if the minimum wage cannot be increased, I believe our canneries should subsidize the medical care of their workers. In any other U.S. location, the tuna industry would be required to provide health care benefits for its employees. In American Samoa, however, ASG subsidizes the tuna industry by providing health care for sick or injured employees and their families. In itself, this is a savings of at least $5 million per year to our canneries and it is time for our canneries to return this money to LBJ and assume responsibility for the medical care of its employees.

It is also time for our canneries to increase pensions for our workers and I believe something needs to be said on and in behalf of Samoans who stand for 8 hours a day cleaning fish and after 20 years of service only get a pension of approximately $160 per month. This is not right and this is simply un-American.

For 50 years, the U.S. tuna industry has told us it would leave American Samoa if wages were increased. Fifty years later, both canneries are with us and only three years ago StarKist erected a sign and declared that American Samoa is the permanent home of Charlie the Tuna. Maybe I missed it but I did not see any fine print beneath the sign stating that Charlie the Tuna's home is conditional on whether or not we raise the minimum wage. In fact, as I recall, StarKist's Vice-President was emphatic in stating that StarKist had no intention of leaving American Samoa. However, he also said StarKist was not up for sale and only a few months later it was sold to Del Monte.

Given that the industry often contradicts itself, I have come to believe that the only thing we may know for certain is that our future with the industry is uncertain. But I am hopeful that we will settle our differences and work together to protect American Samoa's tuna industry.

To this end, I support business and the need for business to make a reasonable profit. To this end, I also support an increase in minimum wage for our cannery workers. I believe this is what fair trade demands and I am hopeful that this is what men and women of conscience will thoughtfully consider.

ATTACHMENT 3.—STATEMENT OF THE HONORABLE ENI F.H. FALEOMAVAEGA BEFORE SPECIAL INDUSTRY COMMITTEE NO. 25, DEPARTMENT OF LABOR, WAGE AND HOUR DIVISION, REGARDING THE MINIMUM WAGE IN AMERICAN SAMOA

FAGATOGO, AMERICAN SAMOA

JUNE 16, 2003

According to a 1954 U.S. Congressional House Report, "from January through April 1954, Van Camp Co. and the Tokyo Marine Products Corp., with whom the former had entered into contract, carried out in American Samoa the first joint American-Japanese venture in the history of Central Pacific tuna fishing. A fleet of

7 long-line boats, manned by Japanese fishermen, based in Pago Pago, with the logistical support of 2 American freezer ships, fished in a several hundred mile radius of American Samoa."[1]

"During 1954, the cannery was in operation for only 6 months, yet over 200 tons of fish were processed and another 400 tons of frozen fish were sent to the United States . . . The results indicate[d] that a continuing and expanding tuna fishery in American Samoa [was] a distinct possibility, providing certain basic problems of supply and organization [were] met and solved."[2]

Forty-nine years later, American Samoa is home to the largest tuna cannery in the world and since 1975 Chicken of the Sea/Samoa Packing and StarKist have exported billions of dollars worth of canned tuna from American Samoa to the United States. But our history with the industry has been tangled and our future is in no longer certain due to tremendous competition from foreign nations that catch and produce canned tuna at lower labor costs.

Only last year, American Samoa faced one of its most critical hours as a result of aggressive efforts by the H.J. Heinz Co., and its then subsidiary StarKist Seafoods, to include canned tuna in the Andean Trade Preference Act (ATPA). As part of the ATPA and in an effort to curb drug production in Latin America, the U.S. agreed to provide preferential, mostly-duty-free treatment to certain products exported to the U.S. from Bolivia, Colombia, Ecuador, and Peru. In my honest opinion, had StarKist been successful in its effort to include canned tuna under the provisions of the ATPA, American Samoa would have faced massive unemployment and insurmountable financial difficulties.

Briefly, the economy of American Samoa is more than 85% dependent either directly or indirectly on the U.S. tuna and fishing processing industries. Two canneries, Chicken of the Sea and StarKist, employ more than 5,150 people or 74% of the workforce. American Samoa processes about 950 tons of tuna per day which is equivalent to 228,000 tons of tuna or 20.5 million cases per year.

On the other hand, the Andean Pact countries control more than 35% of the catch in the Eastern Pacific Tropic (EPT) and, in the past ten years, the Andean tuna fishing fleet has also grown from about 20 to 90 fishing vessels. Ecuador and Colombia now have the capacity to jointly process 2,250 tons of tuna per day which is equivalent to 540,000 tons of tuna or 48.6 million cases per year.

It should be noted that the U.S. only consumes 48 million cases per year while the Andean countries have the production capacity to supply the entire U.S. market and wipe out the economy of American Samoa. Additionally, labor rates for cannery workers are $0.69 per hour and less in the Andean countries but on average $3.26 per hour in American Samoa. With these differences in wage rates, I did not believe then and I do not believe now that StarKist's interest in the ATPA was to curb drug production in the Andean countries. More likely, I believe StarKist fought the matter for one reason and one reason only—to displace $3.26 workers in American Samoa and exploit $0.60 labor in Ecuador.

I do not believe this is what fair trade should be about and I am pleased to state that my colleagues in both the House and Senate agreed with me on this point and excluded canned tuna from the ATPA. Parenthetically, I am also pleased that StarKist has since changed ownership and I am hopeful that our new corporate partner, Del Monte Foods, will work with us to rebuild the heap of stones that has collapsed. E ta'ape a fatuati, or the collapse of the heap or structure of stones, is a Samoan proverb which refers to the practice of setting up a heap of stones under the water to attract fish. Sometimes the structure collapses as a result of deliberate acts or accidental causes. Either way, when the heap collapses, the fishermen will come to rebuild it for the good of the community which is solely dependent on the fishing industry.

For more than forty-five years, American Samoa's economy has been dependent on a structure which is also used to attract and protect investment in the Territory. This structure, known as the U.S. tariff or tax structure, provides duty-free treatment for canned tuna entering the U.S. from American Samoa. This structure also assesses a low duty of 6% and a high duty of about 12% on canned tuna packed in water entering the U.S. from foreign countries. For tuna packed in oil the tax is about 30%. Whether 6%, 12%, or 30%, foreign countries must pay a U.S. duty, or tax, to send their canned tuna to the U.S. while American Samoa's canned tuna enters the U.S. free of charge.

Fortunately, this tariff or tax structure levels the playing field for American Samoa and allows us to compete against countries with lower wage rates of $0.60

[1] U.S. Congress, House. Special Subcommittee on Territorial and Insular Affairs. Pursuant to H.Res. 89. American Samoa. 83d Cong., 2d Sess. Nov. 1954. 419.

[2] Id.

and less per hour. This tax structure safeguards us. It protects us. It maximizes the profits of our canneries and without it American Samoa's canneries cannot survive. This is why I am disappointed that H.J. Heinz, the once parent company of StarKist, fought so hard to give Ecuador the same trade advantages as American Samoa. Thanks to H.J. Heinz, Ecuador can now send tuna packaged in pouches to the U.S. free of duty but the U.S., including American Samoa, must pay a duty rate of 20% or more to export canned tuna to Ecuador. Again, this is neither free nor fair trade and, although Heinz was unsuccessful in its attempt to eliminate duties or collapse tariff and tax rates for canned tuna, I am concerned that American Samoa's canneries are at risk.

Whether by a deliberate act or accidental cause, the taxes (and mostly specifically the average duty of 12%) which foreign countries once paid to export canned tuna to the U.S. are now in question. As a result, Heinz has left American Samoa and the U.S. tuna industry vulnerable to other trade initiatives now being put forward to provide duty-free treatment for canned tuna originating from ASEAN nations and Central American countries. Heinz's aggressive efforts to give Ecuador the same trade advantages as American Samoa also divided the U.S. tuna industry which historically has stood united against unfair trade practices and foreign competition.

Now StarKist is testifying before Special Industry Committee No. 25 once again stating that it cannot afford to pay our workers a decent standard of living. What kind of sense does this make when StarKist (under previous and present leadership) spent hundreds of thousands of dollars trying to do away with the 12% duty protection that keeps our canneries in business? If StarKist can live without the millions in savings that the 12% duty provides who is to believe that StarKist cannot afford to increase the minimum wage for its workers in American Samoa?

For your information, lobbyists in Washington do not come cheap. At a minimum, StarKist paid out more than $250,000 and more likely over $500,000 to fight and lose the Andean Trade agreement. Needless to say, I believe that $500,000 could have been better spent on increasing wages for workers in American Samoa. It is our workers, after all, who have made StarKist the number one brand of tuna in the U.S. and I was hopeful that when Del Monte took over ownership of StarKist that more thoughtful consideration would be given to the needs of our cannery workers.

In fact, it was my sincere hope that there would be a shift in thinking on the part of our tuna processors. I was hopeful that our processors would come to believe that employees are as important as stockholders and I am disappointed that this has not been the case. In fact, I am especially disappointed that StarKist's Vice President for Seafood Operations and Procurement began his minimum wage statement by saying that "one basic idea guides the actions of all major businesses. A business has an economic, legal, and moral responsibility to maximize the return it gives to its investors or shareholders. Simply stated," he said, "businesses are obligated to maximize their profits."[3]

My friends, I support business and the need for business to make a reasonable profit. But to paraphrase President Franklin D. Roosevelt, I will not let calamity-howling executives with million dollar incomes tell me that wage increases will have a disastrous effect on the U.S. economy or that we must exploit labor in developing countries to remain competitive. Neither will I support the notion that businesses are to maximize their profits without a moral obligation to also increase the wages of our cannery workers.

As Senator Borah from Idaho said during the 1937 fair labor standards debate, "whether North or South, East or West, there [is] a standard of . . . living, and we ought to recognize that and fix a minimum wage upon that basis."[4] Senator Borah also said that he looked upon "a minimum wage such as will afford a decent living as a part of a sound national policy."[5]

"I would abolish a wage scale below a decent standard living just as I would abolish slavery," he said. "If it disturbed business, it would be the price we must pay for good citizens . . . I take the position that a man who employs another must pay him sufficient to enable the one employed to live."[6]

Senator Pepper from Florida asked, "What if he cannot afford to pay it?"

Senator Borah responded, and I quote, "If he cannot afford to pay it, then he should close up the business. No business has a right to coin the very lifeblood of workmen into dollars and cents . . . . Every man or woman who is worthy of hire

[3] Prehearing Statement of Barry Mills. StarKist Samoa, Inc. Sepcial Industry Committee No. 25. 2003. 6.
[4] 74 Cong. Rec. S. 7723. (1973).
[5] Id. 7793.
[6] Id. 7796.

is entitled to sufficient compensation to maintain a decent standard of living . . . . I insist that American industry can pay its employees enough to enable them to live."[7]

Senator Ellender from Louisiana then asked, "Without exception?"[8]

Senator Borah replied, "Yes without exception. If it cannot do so, let it close up . . . I am opposed to peon labor, whether it is employed by one man or another. I start with the proposition that the right to live is higher than the right to own a business."[9]

As I said two years ago in my statement before Special Industry Committee No. 24, I also believe that the right to live is higher than the right to own a business. Furthermore, I believe a business has an economic, legal, and moral responsibility to pay its employees enough to enable them to live and I believe this should be the basic idea that guides the actions of all major businesses, including those of the tuna industry.

Quite frankly, it is an insult to our people for executives who are paid top dollar to recommend that there be no increase to the minimum wage and to suggest that their only obligation is to their investors or stockholders. If this is the basic idea that guides StarKist or Del Monte, so be it. But I believe that higher laws should guide our actions and that we have a moral responsibility to do unto others as we would have them do unto us.

Indeed, I do not believe one corporate executive at Del Monte, StarKist, or Chicken of the Sea/Samoa Packing would oppose minimum wage increases if their mothers, fathers, sisters, brothers, sons or daughters toiled day in and day out in tuna canneries here or abroad. If suppressed wages are not good enough for their families and low yields are unacceptable to their stockholders, why should wages of $3.26 and less per hour be sufficient for our cannery workers? Furthermore, why should low wages be acceptable for cannery workers anywhere? This is not the way the world should be and I will do everything I can to make sure this is not the way things will be in American Samoa.

Nevertheless, I do not have a vote in these proceedings and neither do the people of American Samoa. The U.S. Department of Labor picks and chooses its Special Industry Committee and, for the most part, the outcome is determined before we testify. In some ways, it is unclear to me why the U.S. Department of Labor bothers to hold these hearings. If the Department of Labor was serious about minimum wage then it would be serious about conducting a study to determine the cost of living in American Samoa. If it was serious about minimum wage it would be serious about making the tuna industry declare its margin of profit. Simply put, until we know what the canneries are making we cannot determine what a fair wage is for our workers.

Having spent the past year and half fighting to protect the interests of American Samoa in the U.S. Congress, I can tell you that I understand what our canneries are up against when it comes to competing against countries with low wage rates. I understand the realities of supply and demand. I understand that production will leave high cost locations when low cost alternatives exist. I also understand that these are the same words the U.S. tuna industry has been regurgitating for the past 47 years.

In 1956, as part of its lobbying effort to suppress wages in American Samoa and pay Samoan workers only 27 cents per hour, Van Camp (now Chicken of the Sea/Samoa Packing) said that "a minimum wage of $1 per hour, as required under present laws, is unrealistic, unwarranted, and unquestionably will have a deleterious effect upon the economic and social structure of the islands."[10] Forty-seven years later, neither Samoa Packing nor StarKist thinks any more or less of our cannery workers and I can assure you that neither will think any more or less of cannery workers in Papua New Guinea or Ecuador, for that matter.

In his statement before this Committee, StarKist's Vice President mentioned that many of our neighbors in the South Pacific continue to aggressively attempt to enter the tuna processing industry.[11] Ironically, as the Ranking Member of the International Relations Subcommittee on Asia and the Pacific and as American Samoa's

---

[7] Id.
[8] Id.
[9] Id.
[10] U.S. Congress. Senate. Committee on Labor and Public Welfare. Amending the Fair Labor Standards Act of 1938. Hearings, 84th Cong., 2d Sess., May 8, 1956. p. 387.
[11] Prehearing Statement of Barry Mills. StarKist Samoa, Inc. Sepcial Industry Committee No. 25. 2003. 15.

Representative in the U.S. Congress, I am also working just as aggressively to protect American Samoa's tuna industry from unfair competition.

In a press release dated June 11, 2003, I recently stated that there is movement to increase the amount of tuna the Federated States of Micronesia and the Marshall Islands could send to the U.S. exempt from duty. This has come about as a result of negotiations to renew the Compact of Free Association and the matter is serious for American Samoa. While the previous Compact exempted duty for up to 10 percent of the United States consumption of canned tuna for the Marshall Islands and the Federated States of Micronesia collectively, U.S. State Department and USTR officials recently announced that it is their intent to grant each government duty-free treatment for up to 10% which collectively equates to 20% of U.S. consumption.

Given the seriousness of the current situation, I am pleased that State Department officials informed my office that it would favorably grant my request and expeditiously work to revise the canned tuna provisions before the Compacts of Free Association are submitted to Congress. I am hopeful that the USTR will do the same. However, I will not rest until both the USTR and the State Department are on record stating that the canned tuna provisions will be revised to reflect our past agreement with FSM and the Marshall Islands and this is why I must be present on June 18, 2003 when this matter is taken up by the International Relations Subcommittee on Asia and the Pacific. Although I am disappointed that I will be unable to attend the minimum wage hearings as a result of this scheduling conflict, I believe it is critical to protect our tuna industry for generations to come.

Regarding tuna loins, I would like to publicly state that I am deeply concerned about the number of loins that are being shipped to American Samoa for processing. It is an insult to our intelligence for both StarKist and Samoa Packing to assume that Samoans do not understand what this means for the Territory. Samoans understand that the use of precooked tuna loins as a raw material in canning operations could significantly influence the amount of labor needed in the production process. Samoans also understand that the production of loins, including the butchering and cleaning steps, accounts for up to 80% of the cost of labor in a full-scale cannery.[12]

This means that if a cannery buys loins instead of whole fish it can substantially reduce its labor costs. In other words, the more loins you send to American Samoa, the less labor you need in our canneries. Less labor means downsizing and downsizing means many of our cannery workers will be out of jobs if StarKist and Samoa Packing continue to ship loins into American Samoa. Furthermore, our U.S. tuna boat owners who not only contribute more than $22 million per year to our economy but also supply 70% of the tuna processed in our canneries will also be out of business.

Let me explain. Currently, there is a tuna loin operation in the Marshall Islands where approximately 10,000 tons of tuna is offloaded per year. Almost all of this fish is caught by foreign flag ships including Taiwanese, Chinese, and Japanese fishing vessels. The Marshallese cut, clean, and convert this fish to loins. In fact, the Marshallese process 45 tons of loins per day, 300 tons per month and most of these loins are bought by StarKist, shipped to American Samoa and packed directly into cans. Samoa Packing does the same thing by shipping tuna loins from its canning operations in Thailand to American Samoa.

Why are our canneries doing this? Our canneries are doing this because they have to pay our workers on average $3.26 an hour to convert whole fish to loins while workers in Thailand and the Marshall Islands do this work for less than $1.50 per hour. Let me also say that PM&O Shipping, based in San Francisco and the principal investor in the Majuro factory in the Marshall Islands, asked for and received an exemption from the country's minimum wage law of $2 per hour.

To PM&O Shipping, to Special Industry Committee No. 25, to our friends at StarKist, Del Monte and Samoa Packing, let me be perfectly clear. I cannot and will not support an increase in loins being shipped from foreign countries into American Samoa for use in our canneries. This trend must stop or American Samoa must be compensated for revenue lost as a result of this backdoor attempt to reduce our labor force, suppress our wages, and allow foreign countries to send their tuna into the U.S. exempt from duty. Let me say this again.

The tuna loins being sent from the Marshall Islands and Thailand are caught by foreign fleets and our U.S. tuna boat owners will either be forced to offload in locations other than American Samoa or they will be forced out of business. Either way this is also a loss to our economy and I sincerely hope our local leaders will seriously address this situation in the near future. Indeed, I recommend that our local leaders assess a duty of at least 10% on all tuna loins offloaded in this Territory.

---

[12] U.S. Department of Labor. Economic Report: The Minimum Wage in American Samoa, 2001. 40.

Workers in American Samoa are the backbone of the U.S. tuna industry and I believe that men and women of conscience will agree with me that businesses are also obligated to act in the interest of its workers. After 47 years of working against us, I believe it is time for our canneries to work with us and I am pleased that the U.S. tuna industry has united in support of H.R. 1424—a bill I introduced in Congress to make permanent or extend the federal IRS section 936 tax credit to American Samoa for another ten years.

I am also pleased that our local Senate issued a Concurrent Resolution in support of H.R. 1424. However, I need to understand why StarKist has taken the position that favorable local and federal tax treatment makes little difference to our canneries.[13] Since our tax incentives make little difference, I would again suggest that a 10% duty on loins coming into this Territory will be a good source of revenue for our local government.

My point is you can't have it both ways. Either favorable tax treatment benefits our canneries and frees up cash to increase minimum wages or it doesn't. If StarKist is not in need of favorable local tax treatment and if 936 means so little, then by all means increase the minimum wage. Increase the minimum wage for our cannery workers and also increase the minimum wage for our government workers who make less than the federal standard of $5.15 per hour.

The federal government has sent more than a billion dollars to American Samoa in the past seven years and I believe this is reason enough to support an increase in minimum wage for ASG workers. I also believe if we take another look at the tax breaks we are giving to foreign companies doing business in this Territory, we will be able to find the revenue we need to increase minimum wage for entry level workers in other industries.

Finally, if the minimum wage cannot be increased, I believe our canneries should subsidize medical care at the LBJ Tropical Medical Center. In any other U.S. location, the tuna industry would be required to provide health care benefits for its employees. In American Samoa, however, ASG subsidizes the tuna industry by providing health care for sick or injured employees and their families. In itself, this is a savings of at least $5 million per year to our canneries and it is time for our canneries to return this money to LBJ and assume responsibility for the medical care of its employees.

It is also time for our canneries to increase pensions for our workers and I believe something needs to be said on and in behalf of Samoans who stand for 8 hours a day cleaning fish and after 20 years of service only get a pension of approximately $120 per month. This is not right and this is simply un-American.

For 47 years, the U.S. tuna industry has told us it would leave American Samoa if wages were increased. Forty-seven years later, both canneries are with us and only last year StarKist erected a statue and declared that American Samoa is the permanent home of Charlie the Tuna. Maybe I missed it but I did not see any fine print beneath the statue stating that Charlie the Tuna's home is conditional on whether or not we raise the minimum wage. In fact, as I recall, StarKist's Vice-President was emphatic in stating that StarKist had no intention of leaving American Samoa. However, he also said StarKist was not up for sale and only a few months later it was sold to Del Monte.

Given these nonsensical statements, I have come to believe that the only thing we may know for certain is that our future with the industry is uncertain. But with the Andean Trade agreement behind us and the minimum wage hearings before us, I am again reminded of a Samoan proverb—O le upega e fili i le po ae talatala i le ao—which means that the net that became entangled at night will be disentangled in the morning. In other words, I am hopeful that when the night passes and the morning comes we will settle our differences and work together to protect American Samoa's tuna industry.

To this end, I support business and the need for business to make a reasonable profit. To this end, I also support an increase in minimum wage for our cannery workers.

I believe this is what fair trade demands and I am hopeful that this is what men and women of conscience will thoughtfully consider.

---

[13] Prehearing Statement of Barry Mills. StarKist Samoa, Inc. Special Industry Committee No. 25. 2003. 20.

ATTACHMENT 4.—STATEMENT OF THE HON. ENI F. H. FALEOMAVAEGA, MEMBER OF CONGRESS, AMERICAN SAMOA, TO THE SPECIAL INDUSTRY COMMITTEE NO. 24, DEPARTMENT OF LABOUR, WAGE AND HOUR DIVISION, REGARDING THE MINIMUM WAGE IN AMERICAN SAMOA

FAGATOGO, AMERICAN SAMOA

JUNE 4, 2001

The minimum wage debate is not new to the United States or to American Samoa. Neither are the arguments offered by those in favor of an increase or those opposed to it. The debate has been with us since 1935 when President Franklin D. Roosevelt proposed a New Deal for an America that had not yet established minimum wages, maximum hours, or fair labor standards.

The debate began at a time in our nation's history when hundreds of thousands of people were compelled to work 12 to 14 hours a day, 7 days a week, for 5, 10 and 15 cents an hour. Congress took notice in 1937 with consideration of S. 2475, a bill to provide for the establishment of fair labor standards in employments in and affecting interstate commerce. During the debate, U.S. Senator Neely from West Virginia stated that:

> More than 5,800,000 American families—21 percent of our people—are existing on incomes of less than a thousand dollars a year. Three-fifths of American families have incomes of less than $2,000 a year . . . . On the other hand, in 1935, the last year for which complete figures are available, a certain corporation executive received compensation of $500,000, or $369 more for his service for a single day than the total income upon which any one of more than 5,800,000 American families lived for an entire year. In 1935 another corporation executive received compensation of more than $398,000, and another a salary of more than $374,000, while others received compensation of more than a quarter of a million dollars a year.[1]

Commenting on the need for Congress to enact legislation to close the gap between corporate income and workers' wages, Senator Neely said, and I quote:

> The alarming spectacle of fabulous wealth and insufferable poverty living side by side; the menacing pageant of corporation executives with preposterous salaries of half a million dollars a year ruling employees of the corporation who work long hours for starvation wages should move the Congress to instant and heroic efforts to banish the evils and exile the agonies which a third of the people has so long suffered and so patiently endured.[2]

For four tense and anxious days, Congress argued the merits of Senate Bill 2475. At issue was whether or not the establishment of minimum wages and the regulation of working hours were matters for legislation by the Federal government. Of concern was the wage differential between the Northern and Southern states. Senator Black of Alabama read this except, and I quote:

> I do not see how the South can ever become prosperous when we give our principal resources away, namely, cotton, lumber, and labor. Our cotton, lumber, and labor is based on 10 cents and 15 cents an hour wages. Whereas everything we buy from the North is based on 75 cents to $2 labor. The prices we pay for mill supplies and machinery parts is based on labor which is paid 5 to 10 times more than our labor. There can be no real prosperity in the South until there is a leveling of wage differential.[3]

To those who moved their businesses from North to South in pursuit of cheap labor, Senator Black of Alabama further noted:

> Many of them come south with a mill which has sometimes been considered unfit for human use in New England and when they get down into the South they seem to consider that a southerner is worth only about one-fourth of what a man is worth who lives in New England. I myself never fully subscribed to that doctrine. I rather subscribe to the gospel that a man who is born in Alabama, and who can do as much work as a man born in any state in New England, or in any country across the water who emigrates to New England, is entitled to the same pay if he does the work.[4]

---

[1] 74 Cong. Rec. S. 7938. (1937).
[2] Id.
[3] Id. 7649.
[4] Id. 7655.

I have always subscribed to a similar doctrine when considering the worth of the Samoan people. I have never understood why a corporation that pays fish cleaners in Puerto Rico $7.00 per hour seems to think when it gets down here that a Samoan is only worth $3 per hour. I do not subscribe to pseudo economics that say this is the way it must be. I rather subscribe to the gospel that a Samoan is entitled to the same pay from the same corporation if he does the same work as any man or woman born in any other part of America.

I would certainly like to believe that both Puerto Rico and American Samoa are part of America. After all, our sons and daughters fight and die for America. All we ask in so doing is that we be given no more or no less than any other American. 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."[5] Senator Borah further added, and I quote:

> I look upon a minimum wage such as will afford a decent living as a part of a sound national policy. I would abolish a wage scale below a decent standard living just as I would abolish slavery. If it disturbed business, it would be the price we must pay for good citizens . . .[6] I take the position that a man who employs another must pay him sufficient to enable the one employed to live."[7]

Senator Pepper from Florida asked, "What if he cannot afford to pay it?"

Senator Borah responded, and I quote, "If he cannot afford to pay it, then he should close up the business. No business has a right to coin the very lifeblood of workman into dollars and cents . . . .Every man or woman who is worthy of hire is entitled to sufficient compensation to maintain a decent standard of living . . . .I insist that American industry can pay its employees enough to enable them to live.[8]

Senator Ellender from Louisiana then asked, "Without exception?"[9]

Senator Borah replied, "Yes without exception. If it cannot do so, let it close up . . . I am opposed to peon labor, whether it is employed by one man or another. I start with the proposition that the right to live is higher than the right to own a business."[10]

I start with the same proposition and borrow these words from Senator Borah:

> When we are fixing a minimum wage we are undertaking to determine what is a minimum standard of decent living . . . and that is all we are undertaking to determine. We are not undertaking to determine what a full wage should be or what the different conditions may be which affect wages in different circumstances. We are simply determining what it costs to live.[11]

I believe this should be the focus of our discussions during the course of these hearings. What does it cost to live in American Samoa? What is a minimum standard of decent living? The Department of Labor reports that from 1986 to 2000, the American Samoa Consumer Price Index rose 54 percent. During the same period, the tuna industry minimum wage rose only 12 percent. Figure 19 in Section Three of the Department of Labor's 2001 Economic Report shows the "widening cumulative gap between the tuna cannery minimum wage and the cost of living in American Samoa."[12] While production at the canneries increased during this period, "6 out of 10 American Samoa residents were living below the poverty line, according to the 1990 U.S. Census."[13]

While there has been a significant decline in real minimum wages in American Samoa, I have yet to see any in-depth analysis which shows how the cost of living in American Samoa compares to other areas of the United States, including Hawaii, Guam and the Virgin Islands, where the U.S. minimum wage does apply. I know from experience that the cost of fuel in American Samoa is as high as the cost of fuel in Hawaii, and this is also true of most food items. I also know that the living wage in the United States is calculated to be at $8.15 per hour. Can the living wage in American Samoa be far behind? It does not appear that statistics in this area

---

[5] Id. 7723.
[6] Id. 7793.
[7] Id. 7796.
[8] Id.
[9] Id.
[10] Id.
[11] Id. 7798.
[12] U.S. Department of Labor. Economic Report: The Minimum Wage in American Samoa, 2001. 30.
[13] Id. 35.

are readily available, but I believe they would be useful, and I urge the Department of Labor and this Committee to consider undertaking such an analysis as the Committee deliberates on these fundamental issues and questions.

For purposes of these hearings, I believe it is important to state that the Fair Labor Standards Act has applied to American Samoa since 1938. However, it was not enforced until the late 1950s and only then through a special industry committee structure. In other words, under the Fair Labor Standards Act of 1938, American Samoans were entitled to receive the federal minimum wage established by Congress. But under U.S. Naval rule, the law was never enforced.

In 1951, President Truman, by Executive Order, transferred the administration of American Samoa to the Department of the Interior. In 1953, Van Camp Sea Food came to American Samoa and established a tuna canning operation. What happened next is a history lesson every school child in American Samoa should be taught. It bears repeating at this hearing.

On May 8, 1956, William D. Moore, Overseas Operations manager for the Van Camp Sea Food Co., accompanied by the Honorable Cecil R. King of California, and Linton M. Collins, legal counsel for the Van Camp Sea Food Co. appeared before the U.S. Senate Committee on Labor and Public Welfare to urge consideration of legislation for the exemption of American Samoa from the wage and hour provisions of the Fair Labor Standards Act of 1938. Let me share with you what the tuna industry was saying back in 1956 as part of its lobbying effort to suppress wages in American Samoa.

Let's begin with this statement from Mr. Moore. Commenting on his company's desire to pay Samoan workers 27 cents per hour as opposed to the prevailing minimum wage rate of $1 per hour, Mr. Moore said:

> A minimum wage of $1 per hour, as required under present laws, is unrealistic, unwarranted, and unquestionably will have a deleterious effect upon the economic and social structure of the islands.[14]

As justification for suppressed wages, Mr. Moore said:

> The Samoans are Polynesians. They are not American citizens.[15]

Mr. Collins, legal counsel for Van Camp, said 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.[16]

Regarding Van Camp's intent to improve the local economy, Mr. Moore said:

> The economy of American Samoa, when administered by the United States Department of the Navy prior to July 1951, was on a higher level than at present . . . . The Department of the Interior has diligently worked to restore the economy but on a more stable basis. Its policy has been to encourage secondary industries and processing plants to locate in Samoa so that the natives may be trained in industrial procedures and skills. Any products so produced by manufacturing on the islands would be exported to United States markets or other countries. This will provide wage income, make the natives self-sustaining, enlarge the total product of the islands, now less than a half million dollars, and thus improve the Samoan economy . . . . Van camp is sufficiently encouraged with its progress to consider continuation of its Samoan cannery because a nominal supply of fish has been found. In its first 2 years of operations, Van Camp suffered substantial losses. It is hopeful of finishing this fiscal year in the black.[17]

Regarding the labor force and associated costs of production, Mr. Moore further stated:

> Van Camp now employs 300 Samoans, mostly women . . . . Its wages range from 27 cents per hour for the women who clean the fish to $1 per hour for 1 employee, who is a technician . . . . During the past year the cost of labor in Samoa at the rates presently paid was 7.66 percent of the total cost of production in the American Samoa plant. The cost of raw materials was 56.20 percent. For the sake of comparison, the cost of labor in the company's plants in the United States is 10.52 percent of the total cost of

---

[14] U.S. Congress. Senate. Committee on Labor and Public Welfare. Amending the Fair Labor Standards Act of 1938. Hearings, 84th Cong., 2d Sess., May 8, 1956. p. 387.
[15] Id.
[16] Id. 401.
[17] Id. 387–88.

> a case of tuna produced on stateside. The difference in the costs of labor between the average in the United States and Samoa is only 2.86 percent. The small 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.[18]

I must pause here for comment. What company sincerely intent on improving our economy and "making the native self-sustaining" would use as its basis for suppressing wages a claim that more than 300 Samoan women cleaning fish for 27 cents an hour were substandard to stateside employees being paid 75 cents to $1 per hour?

I invite you to consider the testimony used 45 years ago to suppress wages in American Samoa. I also invite you to consider the parallel arguments that will be presented during the course of these hearings. I submit, that to this day, these arguments fail to recognize that when we are fixing a minimum wage we are not undertaking to determine what a full wage should be or what the different conditions may be which affect wages in different circumstances. We are simply determining what it costs to live.

I do not know what it cost to live in American Samoa in 1956. I only know this was of no consideration to Van Camp. Mr. Moore only spoke of Van Camp's interests and intents. He stated, and I quote:

> If Van Camp were compelled to raise its wage rates to a minimum of $1 an hour in Samoa, labor costs would increase to 18.88 percent or approximately double the cost of producing a case of tuna in the United States . . . . Van Camp does not expect the plant on the islands to ever be very large, much less to be a substantial part of its overall operations. It does not contemplate making large profits, other than a normal return on its investment . . . . It is evident that the company could not pay the American standard of wages because of the disruption of the entire local economy . . . . Let me make it clear, however, that we should look forward to a gradually increased wage scale. Someday the territory may be ready for the minimum wages applicable within the United States, but when that day will be is anybody's guess. Certainly it is not today.[19]

Committee members, parties to these hearings, this is our history with the tuna industry. Some 45 years later, the tuna industry would have us believe that when the territory may be ready for minimum wages is still anybody's guess. For this reason, it is important for the people of American Samoa and members of this committee to fully understand that the tuna industry has lobbied Congress since 1956 to suppress wages in American Samoa. Although Van Camp made the case that it paid wages equivalent to those paid by the government of American Samoa, it failed to state for the public record that the islands of American Samoa were administered by the Department of the Interior during the time of these discussions.

The people of American Samoa had no real voice in these proceedings. We had no local representation in Congress. We had no duly elected Governor in our Territory. What we had was an advisory body, or Fono, that had no authority to veto or enact law. To be precise, in 1929 and under the Territorial clause of the U.S. Constitution, the Congress ratified the 1900 and 1904 Deeds of Cession of Tutuila/Aunu'u and Manu'a and delegated its plenary authority for the administration of American Samoa to the President or his designee. In 1929, the President officially transferred administration of the Territory to the Secretary of the Navy. From 1951 to 1977, authority fell to the Department of Interior which in turn appointed civilian Governors from Washington to administer the affairs of the Territory. In 1977, American Samoa elected its first Territorial Governor and in 1980 we elected our first representative to the U.S. Congress.

I believe it is important for us to be well aware of the history of these islands before arbitrarily suppressing wages based on special interest presentations that have been well rehearsed since 1956. The fact of the matter is the Fair Labor Standards Act of 1938 was amended in 1956 to exempt the tuna industry from paying workers in American Samoa a minimum standard of decent living. As a direct result of Van Camp's lobbying efforts, a special industry committee was assigned to substitute a sub-minimum wage structure that was supposedly commensurate with insular economic conditions.

The industry committee structure for American Samoa was intended to be an interim measure. But 45 years later, the special industry committee structure remains

---

[18] Id. 388.
[19] Id 389.

in effect and as a result we meet here today. This can only mean that during the course of these hearings we will once again hear tale of how the largest single industry in American Samoa cannot afford to pay a minimum standard of decent living.

I can assure you that the tale won't be much different than the one told by Mr. Moore on behalf of Van Camp in 1956. It goes like this:

> Mr. Chairman, it will readily be seen, we are sure, that any application of state-side wage scales to industrial activity in American Samoa would completely disrupt the local economy, impose price inflation upon the people and create serious personnel and financial problems for the Territorial government, to say nothing of the impact which such a situation would exert on the prevailing economic conditions of neighboring islands and territories.[20]

The charts and tables and indexed exchange rates soon to be presented before Special Industry Committee No. 24 may be new. But the calculated intent to suppress wages remains the same. Maybe in 1956 it made sense to create special arrangements for a new and developing industry to establish operations in American Samoa. And maybe the American Samoa legislature supported the arrangement as a will of good faith.

After all, the tuna industry made and entered into an agreement with the Government of American Samoa that "only United States citizens and nationals will be employed in the cannery and related shore activities . . . and no aliens, or their dependents, shall be allowed to enter American Samoa in connection with fishing operations relating to the cannery without the permission in writing of the Governor."[21]

This lease agreement was conditioned on a provision "that subject to the laws of the United States applicable to American Samoa and to the laws of American Samoa, the Governor shall permit aliens and their vessels to land fish for delivery to the Lessee, to enter the harbor therefor, and to enter the harbor for the purpose of obtaining fuel and supplies."[22]

In turn, "the Lessee shall take practicable positive steps, at the earliest feasible date, and by January 1, 1958, if possible, with a view toward the establishment of a fishery capable of supplying the full capacity of the cannery with fish caught by Samoans on boats operating out of American Samoa, and shall submit to the Governor quarterly reports on the steps taken to that end."[23]

My friends, if you were privy to recent hearings held on this island regarding legislation proposed by our Senators to impose a 20% duty on light meat tuna purchased from foreign vessels you would know that after 45 years the canneries have failed to live up to their promise of establishing a fishery capable of supplying the full capacity of the canneries with fish caught by Samoans on boats operating out of American Samoa. If Iread the original lease agreement correctly, Van Camp promised that by 1958, if possible, this fishery would be established.

Here we are 45 years later and where's the fishery? More than 30% of light meat tuna processed in our local canneries is supplied by foreign vessels and when our legislative body requested a 20% tax on foreign purchased tuna, the canneries did what the canneries always do when an increase of any kind is proposed. The canneries threatened lay-offs and closure.

As for only United States citizens and nationals being employed in the canneries, we know that more than 70% of the cannery workforce is made up of foreign nationals. This begs the question, what has American Samoa gotten out of its 45 year relationship with the tuna industry?

I don't know what American Samoa has gotten out of the arrangement. However, I know a little of what tuna industry has gotten in return.

- In FY 1999, Star Kist Samoa and Chicken of the Sea/Samoa Packing exported a total of more than $446.5 million worth of canned tuna from American Samoa to the United States.
- Since 1975, Star Kist Samoa and Chicken of the Sea/Samoa Packing have exported nearly $6 billion worth of canned tuna from American Samoa to the United States.

---

[20] Id. 391.
[21] Id. 396.
[22] Id.
[23] Id.

In addition, the U.S. Department of Labor notes that the canneries enjoy a tariff savings of $6 million for every 10 percent of processed tuna production. In 1999, this equated to a savings of somewhere between $61 to $66 million.[24]

The tuna industry also enjoys Federal and local tax benefits. Some may recall that during the debate about proposed legislation to tax tuna purchased from foreign vessels, a Star Kist executive called into question the special tax arrangement the industry has with our local government. He noted that "a tax exemption certificate incentifies a company to invest capital and protect that investment from unknown future costs." I asked then and I asked now, isn't $6 billion worth of canned tuna exported from American Samoa a reasonable enough incentive?

I thank the U.S. Department of Labor for pointing out the following, and I quote, "the American Samoa government provides medical facilities for sick or injured employees and their families. This allows employers not to provide health insurance or other benefits that might be subsidized by employers in the U.S. Even assuming a modest health insurance plan costing $1,000 per employee per year, the savings for the tuna processing industry's more than 5,000 workers would be more than $5 million."[25]

I would also like to make a statement about pensions. In doing so, I would invite members of this committee to visit the villages of Amanave, Vatia, Tula, Aunu'u and Onenoa. Visit these villages at about two or three in the morning and see our Samoan women dressed in their white uniforms waiting to catch their one-hour long bus ride to the canneries. Then visit the canneries and again observe these same women cleaning fish and standing for some eight hours each day. After twenty years of service these women are rewarded for their efforts with a pension check of about $40.00 per month, compliments of Heinz Corporation/Star Kist of Samoa Packing/Chicken of the Sea/Thai Union.

Committee members, when I think about our 45 year relationship with the tuna industry, I am reminded again of the floor debate that took place in the U.S. Senate in 1937 over minimum wage and fair labor standards. During the course of the debate, Senator Black of Alabama reminded his colleagues about the history of the lumber business in Mississippi. He said:

> A great deal of timber has been taken from the virgin forests of the South and of the West, but originally in the main it was not taken out for the benefit of those who lived in that section. The dividends went North. The wages stayed South. The wages were very small indeed. All over that section one may find ghost villages. Some of those who lived there had worked for wages so low that they were helpless to take care of themselves for a week after the trees were gone and the plants were closed.[26]

I can't help but wonder how long a woman who has worked day in and day out for 20 years cleaning fish for a multi-billion dollar corporation can care for herself on a pension of $40 per month.

To a man from Mississippi who wrote to Senator Black advocating higher wages in the South, the Senator said:

> Perhaps the gentleman from Mississippi who wrote this letter was somewhat familiar with the history of the lumber business in Mississippi. Perhaps he had traveled over that great state. Perhaps he had seen stumpage that was left, and how the winds would come and blow the dust about from place to place. Perhaps he had read the article in last week's Saturday Evening Post about unknown multimillionaires. Perhaps he read about one of those who had taken the timber from the State of Mississippi, not to enrich the laborers who worked in his mill from 10 to 14 hours per days. If Senators will read the article in the last week's Saturday Evening Post, they will find where Mississippi's virgin forests went, and in whose pocket the proceeds from them were finally found.[27]

Committee members, just as the lumber industries left Mississippi the tuna industry will one day take its proceeds and leave American Samoa. Heinz Corporation/Star Kist and Chicken of the Sea/Samoa Packing/Thai Union are not going to be part of American Samoa's economy forever. I predict these canneries will leave American Samoa in another 7 to 10 years, if not sooner. Our leaders and our people

---

[24] U.S. Department of Labor. Economic Report: The Minimum Wage in American Samoa, 2001. 63.

[25] Id. 65.

[26] 74 Cong. Rec. S. 7649–50. (1937).

[27] Id. 7649.

need to face up to this reality and we must remember, these companies are here to make a profit on their investment, and only that—a profit.

Looking at the situation globally, countries like Columbia, Peru, Ecuador, and Bolivia as part of the Andean Agreement, are all pushing for duty free imports of canned tuna to the United States similar to NAFTA and the Caribbean Basin Initiative. The countries of Japan, Costa Rica, and Italy can now export yellow fin tuna to the United States. You can be sure that Star Kist and Chicken of the Sea are going to find ways to maximize their profits in other locations, and leaving American Samoa to do it will be a reality as long as labor can be bought for 30 cents an hour in other parts of the world.

But as long as the canneries choose to operate on American soil, they should be required to abide by fair labor standards enacted to protect those who do not have the means to lobby Congress for an increase in minimum wage. As noted on page 37 of the U.S. Department of Labor's Economic Report for 2001:

> The American Samoa minimum wage Committee is required to recommend the Mainland Federal minimum wage unless evidence 'establishes that the industry, or a predominate portion thereof is unable to pay that wage due to such economic and competitive conditions.[28]

For the record, I would like to note that in 1986 Special Industry Committee No. 17 following routine hearings and investigation concluded that the minimum wage for American Samoa could be raised to the mainland level without risk that it would "substantially curtail employment in the industries" of the island."[29] However, before the Committee's recommendations could be enacted, the Department of Labor explained that "several interested groups" commenced litigation to have them set aside. I hope this will not be the case should this Committee find that the tuna industry can and should increase its minimum wage rate.

I would like also to note that in 1999 Special Industry Committee No. 23 recommended an increase of 3 cents per hour for Samoan fish cleaners. This wage increase, as reviewed and implemented through the Wage and Hour Division of the U.S. Department of Labor, was a farce and a sham, and quite frankly, an insult to the Samoan fish cleaners in the Territory. I hope such a pittance of an increase is never recommended again.

I also hope that as the Committee reviews the evidence to be presented by the canneries that it will keep in mind CROW's Nest November 1999 in-depth report on the status of the tuna industry.

> It was reported that a change in the way Heinz accounts for its tuna inventories means its older products are still tallied at higher prices, depressing profits . . . . [The report also states] that in April of 1999 the company became aware of operational and accounting irregularities in its Ecuador tuna processing facility and expensed $10.0 million as an estimate of the losses. In the first quarter, the company recognized an additional $20.0 million of expenses related to this facility.[30]

I hope Special Industry Committee No. 24 will not make Samoan fish cleaners pay for the way Heinz tallies its inventories or mismanages its Ecuador facility. As noted in CROW's industry report:

> StarKist is the leading brand of canned tuna in the United States, followed by Bumble Bee and Chicken of the Sea. The competition among the three brands in the U.S. market has been fierce. It has been announced that StarKist will be advertising for the first time in 10 years to reinforce brand loyalty.[31]

I ask again, should the wages of any fish cleaner in the world be suppressed to pay for corporate competition? Should wages be suppressed to pay the former CEO of Heinz $65 million a year? Should wages be suppressed by a company that generates $9.4 billion in annual sales? It is naïve to assume that a company that generates $9.4 billion in sales is operating so close to the edge that it cannot afford to raise the wages of workers in American Samoa.

To those who make the case that secondary businesses in American Samoa will suffer if the minimum wage is increased, I submit that history teaches us that the

---

[28] U.S. Department of Labor. Economic Report: The Minimum Wage in American Samoa, 2001. 37.

[29] CRS Report for Congress. Minimum Wage in the Territories and Possessions of the United States: Application of the Fair Labor Standards Act. June 16, 1999, p.9.

[30] CROW's Nest. November 1999.

[31] Id.

multiplier effect works both ways. When wages were raised in the South at the height of the 1938 minimum wage debate, what happened? The South prospered as it never had prospered before.[32]

Now I would like to address the subject of increased wages for employees of the American Samoa government. I want to say from the outset that I support Governor Tauese's efforts to stabilize our local economy. He has my full support and I will do everything I can to assist him in his efforts to create a better future for the people of American Samoa.

While many have said that ASG is the second largest employer in the Territory, the fact of the matter is 70% of the money ASG utilizes each year comes from the Federal government. As the Bank of Hawaii sates in its 1997 Economic Report for American Samoa, "the main business of ASG is the management and distribution of federal income and capital subsides."[33]

According to the U.S. Department of Labor[34] and ASG fiscal reports for 1996, the federal government provided for 64% of ASG's budget through Congressional appropriations and other federal assistance and grant programs. In 1997, funding from the federal government accounted for 67% of the Territory's total budget. Audit reports for 1998 to present have not yet been released but I suspect that for the past ten-year period the federal government has provided for nearly 70% of ASG's total budget and expenditures. The remaining 30% of ASG's operating budget comes from individual income taxes, corporate taxes, excise taxes, and other duties and surcharges.

What does this mean? This means that we must begin to account for how we manage and distribute our federal dollars before we can have a serious discussion about an increase in the minimum wage rate for government employees. I will state for the record that I fully believe the working men and women of American Samoa deserve and are entitled to an increase in the minimum wage rate. I will also state that I believe there is currently a wage disparity between government officials and the lower echelons of government workers. That is why I believe it is incumbent upon this Committee to narrow the disparity by increasing wages for the 41% of government employees who are making less than the mainland minimum wage. Surely, if we can find the funds to increase the salaries of our government officials or elected leaders, we should certainly be able to fund increases in wages for our government employees.

However, we should keep in mind that according to ASG's quarterly financial report for December 31, 2000, the local government is in "serious financial and cash flow difficulty."[35] The estimated general fund deficit is at $39 million. In other words, ASG owes a lot of money to a lot of people, including $4.5 million to the working people of American Samoa for tax refunds past due unless this problem has now been remedied.

In addition to its $39 million deficit, ASG also has a long-term debt of $18 million. Put another way, ASG has overspent its budget every year for the past decade. It is now estimated, and I further quote from the ASG quarterly financial report, "that ASG will have an operating loss of between $4 to $6 million in FY 2001 . . . . Combined with the accumulated losses of prior years, ASG is facing a cash and financial crisis of enormous proportions."[36] If action is not taken immediately, ASG may not be able to meet its payroll, much less provide for an increase in minimum wage.

Given our present set of circumstances, it is difficult to ask the federal government to pick up the tab for any additional increases in funding. However, if we are serious about expeditiously moving our wages to more reasonable rates, I believe one of the things we must re-think is our local tax structure. As you are aware, Congress recently passed legislation which would reduce federal taxes by $1.35 trillion over ten years. Under American Samoa's tax law, this change in federal law will become applicable in the Territory unless ASG enacts a local law to prevent the change from taking place.

As every single item in the bill is either a reduction in taxes, an increase in tax credit, or an increase in the availability of tax reductions, we can be fairly certain that the change will reduce the income ASG is expecting for current and future years. Given ASG's current financial situation, I hope ASG will take a hard look at this bill and decide very soon whether to reduce government expenditures to com-

---

[32] 74 Cong. Rec. H. 7268. (1938).

[33] Bank of Hawaii Economic Report for American Samoa. p. 14. (1997).

[34] U.S. Department of Labor. Economic Report: The Minimum Wage in American Samoa., 2001. 61.

[35] American Samoa Government Quarterly Financial Report. December 31, 2001. 1.

[36] Id. 3.

pensate for reduced revenues or to enact a new local law which would make all or part of the bill passed by Congress not applicable to American Samoa.

I would also hope that during the course of these deliberations, ASG would take a hard look at its corporate income tax structure. It is my understanding that after corporate tax returns are filed, there are routinely disagreements between ASG and the canneries, for example, as to the correct amount of taxes to be paid. In the past this has resulted in protracted negotiations and audits of the canneries' financial records to determine if the correct amount of taxes have been paid. After two or three fiscal years have passed, our canneries continue to contest the amount of corporate taxes they owe ASG. As such, ASG finds itself in cash flow difficulty and short in revenue collections. Is it any wonder ASG ends up financially strained?

I have suggested before, and I wish to suggest again, that perhaps it is time to change our local laws so that the canneries pay a fixed tax based on a fixed unit of production. I think it is fair to mention that in 1956 Van Camp's original agreement with ASG provided for increased duties and rents based on increased production. I believe the idea still has merit today. Quite frankly, I believe this taxing regime would have several advantages including simplification of the determination of the corporate tax owed to ASG, certainty to both ASG and the canneries of the amount of tax to be paid, timely payment of the tax owed, and a substantial reduction in the amount of money spent on tax audits and compliance. Presumably, these savings could be used to increase employee wages while maintaining acceptable corporate profits.

While this Committee cannot make recommendations as to the taxing policy of the local government, I wish to note my concern at this time, and I hope that this suggestion will be given due consideration as part of a broader effort to improve our economy. As a matter of public policy, I believe it is time for tax rates to be publicly debated and defined by our local government. In this manner, tax rates would be known in advance by any investor or industry wishing to conduct business in the Territory. In turn, ASG would have a better sense of what it could expect in tax revenues. Simply put, every business should be placed under a uniform and standardized period of tax holidays, exemptions, and corporate tax rates.

As an example, a company that wants to conduct business in Western Samoa is entitled, by law, to a seven-year tax exemption period. Afterwards, that company pays the same tax rates as others. This causes me to question why our canneries have been given special tax exemptions for the past 40 years. It also causes me to question why some businesses pay one rate while others pay another. I am convinced that if a uniform and standardized tax law is enacted, this Territory could avoid providing inconsistent and prolonged tax holidays and exemptions.

I also believe the Territorial Tax Exemption Board has served its usefulness. ASG needs to standardize, by law, corporate tax rates, exemptions, tax holidays, and capitalization requirements so that the Tax Exemption Board can be terminated. The Governor need not be burdened with such discretionary authority.

I also want to make a comment about immigration. Some reports suggest that there are as many as 10,000 illegal aliens residing in the U.S. Territory of American Samoa. Any way you cut it, our Territory cannot absorb the associated costs of playing host to 10,000 illegal aliens. Neither should we continually look to import labor as a means of economic development.

I still maintain that the working people of American Samoa deserve to be paid a minimum standard of decent living. But we must work together to bring this change about. We must re-adjust and re-define our tax policies. And we must insist that our canneries pay fairer wages and corporate taxes.

I want to end with the same proposition with which I began. I believe that the right to live is higher than the right to own a business. I welcome business. I am for business. I support the need for business to make a reasonable profit. But to paraphrase President Franklin D. Roosevelt, I will not let a calamity-howling executive with an income of $65 million a year tell me that a wage increase in American Samoa is going to have a disastrous effect on the entire tuna industry.[37]

After more than 45 years of rapid, uninterrupted and unsurpassed return of prosperity to the tuna industry, it is time for the U.S. Department of Labor to support a scheduled movement of minimum wages that is commensurate with today's costs and standard of living which still has not been properly determined by this Committee or ASG. What is more aggravating is that about 10 years ago, the per capita income in the Territory was about $6,500. Now it is about $3,500 or less, yet consumer prices have increased. These trends are unacceptable and must be immediately addressed.

---

[37] Franklin Roosevelt. Public Papers and Address. Vol. VII. (New York, Random House, 1937). 392.

During the 1938 House debate on Fair Labor Standards, Congressman Maverick of Texas said, and I quote:

> For my part, I want the laboring people in my section of the country to exercise [a] spirit of independence . . . and demand that we have better standards of living . . . .No, I don't want my people to be docile, bowed-down beggars, but upstanding courageous Americans demanding all their rights . . . . Yes sir, I want them to demand the same wages as those received by the rest of the people of the United States of America.[38]

I can assure you that I want the same for the people of American Samoa. I realize reorganization and change is not going to be an easy matter. But the principle of minimum wage is sound. The U.S. Congress believed the principle was sound in 1938 and I believe the principle is just as sound today.

For those who oppose the principle of minimum wage, I borrow these words from Congressman Cochran of Missouri:

> All I ask is for those who oppose [a minimum wage] to stop and think for a moment, and then publicly let the people in their community know their opposition. Let them put themselves in the place of the workers we seek to help and see how soon they would change their views. We are not only doing something for the employee but we are also assisting the employer, because the increase in wages means an increase in buying power which brings better business . . . . In setting this standard . . . we strike at those who for years have exploited their labor; at those who furnish unfair competition by selling their products at a price far below the producer who pays his employees a fair wage . . . . Those who care nothing about a reasonable standard of living for others so long as they can reap a harvest in dollars, those who deny a reasonable share of the profits of their industry to men and women who are responsible for those profits and those who would pay themselves hundred of thousands of dollars in wages and bonuses annually, at the same time paying starvation wages to their employees, for selfish reasons oppose this legislation.[39]

While some oppose, I think it is important for the rest of us to remember that "it is the community that cares for its citizens when exploiters of labor refuse to do so."[40] Neither our local government or our Federal government can continue to carry the full weight of exploitation. Mr. Chairman and Committee members, I urge you to hold the tuna industry more accountable in its labor dealings so that we can begin to more fully address the serious economic conditions facing this U.S. Territory.

In closing, I just want to say that some members of the community have been critical of my participation in these hearings, suggesting that minimum wage issues are not part of the Congressman's responsibilities. But the fact of the matter is I am a federal official responsible to the people of American Samoa on any and all issues where there is involvement of the federal government. In this instance, these hearings are federal in nature. The operations of this Committee come under the purview of a federal law. The U.S. Department of Labor is the federal agency responsible for carrying out the intent of the Congress. And the more I look into this matter, the more I realize there are very serious issues that need to be brought out for public discussion and review. This is why I am here testifying before this Committee just as I testified two years ago and two years before that.

At each hearing, I always keep in the back of my mind a discussion the late Congressman Phillip Burton and I once had when I worked as a staff counsel to one of the Congressional Committees he chaired. As many may be aware, Congressman Burton was a national leader and a great advocate and champion of the rights of working men and women throughout America. At a time when we were discussing the issues of corporate business and the labor movement, Congressman Burton turned to me and said, "Eni, don't worry about those large corporations because they can afford to pay high priced teams of lawyers to protect their interest, but it is the little guy out there who is struggling to make a decent salary to support his family that you need to watch out for, and I trust that you will not forget that."

Mr. Chairman and members of this distinguished Committee, as you thoroughly review all aspects of the minimum wage rates in American Samoa, I also trust that you will not forget that. For the past 40 years, and in the absence of any established labor unions to look after the needs and rights of the working men and women of

---

[38] 74 Cong. Rec. H. 7292 (1938).
[39] Id 7409–10.
[40] Id. 7410.

this Territory, the wage rate in American Samoa has always tilted in favor of corporations and management. I submit that it is time for the wage rate to tilt in favor of the working people in this Territory struggling to support their families. So that there may be fairness and equity in the process, I urge Special Industry Committee No. 24 to grant a more reasonable increase in the minimum wage rate.

The CHAIRMAN. Thank you very much.

Governor Tulafono, you are welcome as a witness here. We're very pleased to see you. If you wanted to add anything to what your Congressional Representative has said, we're glad to hear it.

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

Mr. TULAFONO. Thank you very much, Mr. Chairman. I apologize for walking in a little late and interrupting your process here.

The CHAIRMAN. Not a problem.

Mr. TULAFONO. Talofa greetings to you, Mr. Chairman and your honorable committee. I would also like to say good morning to his Excellency Fitial and all, the Congressman Faleomavaega and the rest of the witnesses here. I greatly appreciate the opportunity and invitation to testify before your committee on the urgent need for the remedial legislation addressing the minimum wage increases that Congress has mandated for American Samoa.

I also wish to raise with the committee an underlying concern over Federal policy consistency necessary to foster economic development in American Samoa. In view of the committee's tight hearing schedule I ask that my full statement with attachments be inserted into the hearing record and you will receive that. I will summarize just the chief points of that written testimony.

In the 1960s the Federal Government initiated a policy of economic development and in the 1970s a policy of self government for American Samoa. Since then the American Samoan government has utilized every opportunity to lift up the territory from a subsistence economy. We've made progress, but our per capita gross domestic product sale amounts to only 22.8 percent of the national average. Our per capita income amounts to just one fourth of the national average.

In these two measurements American Samoa ranks the lowest of all the territories. The Labor Department's January 25, 2008, report to Congress describes the economy of American Samoa as small, developing and fragile. My administration remains absolutely committed to raise the standard of living in American Samoa through economic development.

The private sector as well as the people of the territory share this goal. To achieve that objective my administration hopes to implement a business development program similar to initiatives undertaken by a number of United States. If American call centers can operate in India and Guatemala they can certainly operate in American Samoa. At each turn however, whether due to trade and tariff modifications, tax changes or minimum wage legislation, our efforts to foster growth and raise the living standard in the territory seem to run into Federal roadblocks.

This leads me to my second and crucial point. As part of last year's minimum wage increase Congress mandated that $7.25 an hour Federal rate fully applied to American Samoa. This replaced

a program that had adjusted the territorial minimum wage upwards in step with economic growth.

The new mandate was enacted without considering the consequences in the territory. The legislation did instruct the Department of Labor to assess the impact after the fact. The Department now reports that imposing the regular Federal rate in the territory has disastrous consequences.

The advanced economy of the United States, states can support a much higher wage rate than a developing economy in American Samoa. At its current level of economic development the Department concluded American Samoa cannot sustain a rate which is set for the States. The mandated increase for the American Samoa economy, the Department explains is equivalent to imposing a $16.50 hourly minimum wage on the States. The economic and political fallout of such a drastic hike for the United States economy is obvious. The territory must not contend with these very consequences.

The Labor report as well as an early Interior Department study anticipate massive run up in operational costs for businesses as well as the government in the territory. Total private sector wages paid in American Samoa amount to $120 million annually. The mandated Federal minimum wage will increase wage expenses by $40 million. The territorial economy, the report says, cannot sustain this 33 percent run up in operating cost. As a result, nearly half of the jobs in American Samoa will be lost and services eliminated.

Under this Federal mandate the American Samoa government must also pay higher wages. The Labor Department reports that payroll cost for the territorial government will increase by $7.2 million a year at a time when due to a faltering territorial economy our receipts are declining. As the Labor Department report states the territorial government will then face the difficult choices of trimming work hours for public sector workers, raising taxes and cutting programs.

These budgetary problems caused by the congressionally mandated wage hike will require supplemental Federal appropriations. Economic contraction of the public and private sector carries dire economic and social costs for American Samoa. What remains of the territory's economy will depend almost exclusively on Federal Government funding.

Remedial legislation is desperately needed, Mr. Chairman. I urge expedited enactment of corrected legislation along the lines which you, Mr. Akaka, are delicate. The Honorable Senator Inouye had recommended in a May 18, 2007, letter to congressional leaders. Future increases of the minimum wage in American Samoa should be contingent on the Secretary of Labor's determination through the Bureau of Labor Statistic Analysis that such increase will not cause adverse impact on the American Samoa economy.

To provide sufficient time for the analysis and determination the adjustment should occur every 2 years. Our delegate has introduced such a proposal. Disastrous effect of the mandated wage increase for the territory highlights an underlying concern.

In the rush to include the minimum wage increase in the United States troop readiness, veterans care, Katrina recovery and Iraq

Accountability Appropriations Act, Congress had little time to weigh the impact on American Samoa. This is partly due to the lack of timely economic data collection for American Samoa and partly due to scant awareness of a very small, distant part of the country.

In other legislation the President and Congress have changed United States trade and tax policies also to the detriment of American Samoa. Without full awareness of the impact these policy changes have led to the termination of economic development programs for the territory. My full statement refers to the specific tax and trade programs.

Some of the changes cannot be undone. The United States has entered into binding trade agreements ending the quota and tariff references for territorial products. The preferences cannot be reinstituted.

Consequently reliance must be placed on other Federal and in territorial provisions to encourage economic growth in American Samoa. These tax and appropriation measures are described in my full testimony presented. I request the committee's support for these proposals. A clear coordinated and consistent Federal policy for territorial economic development is needed.

In conclusion, the Government Accountability Office in 1985 and again in 1994 had called attention to the lack of a clearly defined and coordinated Federal policy for American Samoa's economic development. In its 2006 and 2007 reports GAO repeatedly stressed a need for policy and program coordination. That consistency and coordination have not occurred as demonstrated in the changes to the Federal minimum wage, tariff and trade preferences and tax programs. These changes have drastically impacted American Samoa.

Mr. Chairman, this committee has been acutely sensitive to the ramifications of Federal policy change has on American Samoa. In particular, you and Senator Akaka sought to modify the 2007 minimum wage legislation to reflect actual economic conditions in the territory. On behalf of the people of American Samoa I wish to express appreciation for your attempt to ward off a well meaning, but disastrous legislative mandate.

Now that the Department of Labor has documented a dire impact of the 2007 legislative change on American Samoa, I urgently request this committee and Congress to enact timely remedial legislation. Committee support for additional enactment of the tax and appropriation measures to correct the unintended, but very real consequences of past legislation is also needed.

We, in American Samoa, are proud to be Americans. We have served our country will valor and devotion. Remedial legislation will help us to develop our economy so that we can stand with other territories and the 50 States as one nation. Thank you very much.

[The prepared statement of Mr. Tulafono follows:]

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

Talofa and greetings Chairman Bingaman and honorable members of the Committee. I greatly appreciate this opportunity to testify before the Committee on the

urgent need for remedial legislation addressing the minimum wage increases that Congress has mandated for American Samoa. I also wish to raise with the Committee an underlying concern over federal policy consistency necessary to foster economic development in American Samoa.

I. CURRENT ECONOMIC CONDITIONS IN AMERICAN SAMOA

American Samoa's transition from a subsistence economy began in the 1960's with road, airport, health care, and school modernization. The Federal Government also instituted a policy for territorial self-government. Since 1977 American Samoa has elected its own governor. Over the past fifty years, the territory has made significant progress, but in its January 25, 2008 report to Congress, the Department of Labor states that the territory's economy is still small, developing, and fragile. Similarly, in hearings before this Committee on March 1, 2006, Deputy Assistant Secretary David Cohen of the Department of Interior stated, "American Samoa has the narrowest economic base" of the four territories. To document this point, Secretary Cohen noted that the per capita gross domestic product (GDP) in American Samoa ranks far below the other territories.

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

The Federal Government had provided trade and tax incentives for economic development in American Samoa. Although federal funds play a significant role in the territory, the per capita rate of federal expenditures in American Samoa is half that for the rest of the country. Reliance on the private sector had to be fostered. Specifically, preferential quota allocations, particularly for canned fish, as well as favorable tariff treatment and federal tax credits allowed American Samoa to develop a seafood canning industry. As a recent Department of Interior-funded study has reported, the fish canning industry is the mainstay of the territory's economy. The two canners in American Samoa directly employs half of the territory's entire workforce directly and indirectly.

The growth of the fish canning industry has boosted employment and spurred development in the territory. Such a heavy reliance on two canneries however is not economically sound, and my Administration with assistance from the Department of Interior has pursued every opportunity to diversify the territory's economy. The territorial government has actively promoted business investment opportunities in agriculture, fisheries, tourism, call centers, electronic information processing, and an international fiber optic cable connection for American Samoa. If American call centers can operate in India and Guatemala, they should certainly be able to operate in American Samoa. But such investments have been deterred by the erosion of existing federal policy and inconsistent federal action towards American Samoa.

II. INCONSISTENT FEDERAL ACTION TOWARDS AMERICAN SAMOA

To implement a policy of global trade expansion, the United States has negotiated a series of trade agreements. These agreements have the effect of reducing and soon ending the quota and tariff protections for American Samoan products. In addition, as part of a budget offset measure, Congress repealed the possession tax credit that had stimulated investments in American Samoa. The subsequent reports of the Government Accountability Office and Joint Committee on Taxation Staff raise concerns over the adverse effect on American Samoa. As a result, Congress has temporarily delayed full repeal of the tax credit. The temporary delay assists only the two cannery operations that had previously qualified for the credit. The temporary credit extension does not apply to new businesses that might start up in the territory.

The loss of trade and tax incentives renders existing cannery operations in American Samoa far less economical. Even starker is the effect on the diversification and development of the territory's economic base. Changing federal policy, with little regard to the impact on the territory, has crippled efforts to start new businesses in American Samoa. Furthermore, as the Department of Labor report to Congress states, legislation in 2007 mandating annual increases of the minimum wage in

American Samoa hobbles the territory in dealing with the threatened cutback of cannery operations.

Recognizing that the territory's economic level is far below that of the 50 states, Congress had previously decided to establish the federal minimum wage rate in American Samoa proportionate to economic development. Under a procedure that had been applied to Puerto Rico and the Virgin Islands, Congress adjusted the minimum wage in American Samoa administratively every two years so as to reflect the territory's progress. Such adjustments therefore were economically sustainable not throttling the economy. The biennial adjustments over time would raise the minimum wage in the American Samoa to parity with the regular federal rate as had occurred in other territories.

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

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

III. ECONOMIC IMPACT AND REMEDIAL PROPOSALS

A. Minimum Wage Legislation

The regular federal rate reflects the United States' advanced industrialized economy. American Samoa needs to undergo major economic development to match the United States' economic level. In the 2006 hearings, the Department of Interior reported that per capita GDP in American Samoa amounted to $9,041 which is equal to 34.4% of per capita GDP in the lowest of the states and 22.8% of the national average. This also compares to a higher $13,350 per capita GDP in the Commonwealth of the Northern Mariana Islands, $22,661 on Guam, and $25,815 in the Virgin Islands.

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

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

The separate Department of Interior-financed study of the minimum wage impact on the fish canning industry also predicts the closure of the two canneries in the territory. From this economic analysis, the Department of Labor concludes that losing the canneries would eliminate 44 percent of all jobs in American Samoa. The economic contraction would increase shipping and utility costs for the remaining sectors. Moreover, the remnants of the territory's economy would depend almost exclusively on Federal Government funds to survive. The study funded by the Interior Department is attached as Appendix 1.

These budgetary problems caused by the congressionally mandated wage hike will require supplemental federal appropriations. Given the stark assessment of the Labor Department's report as well as the of the Interior Department's study, I request expedited enactment of remedial legislation along the same lines that you Mr. Chairman had outlined with Senator Akaka and our Congressman in a letter on

May 18, 2007 to congressional leaders. Future increases of the minimum wage in American Samoa should be contingent on the Secretary of Labor's determination (through the Bureau of Labor Statistics' analysis) that such increase will not cause adverse impact on the American Samoan economy. For the Bureau of Labor Statistics to have sufficient time to conduct a substantive analysis, future increases should occur every two years. Our Congressman has introduced such a proposal.

Legislative inadvertence towards the territory is partly due to the fact that the Bureau of Labor Statistics and the Census Bureau do not collect timely economic data on American Samoa. Regular data collection provides Congress with ample details on labor, employer, and household conditions in the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. But the lack of such data for American Samoa leaves Congress and the federal Departments unaware of the economic consequences to a very distant part of the country. The remedial legislation should also require such data collection. A proposal is attached as Appendix 2.

B. Tax Credit

As earlier stated, federal policy had provided an incentive in the tax code for economic development in the territories. To offset tax expenditures in other areas, Congress later repealed this section 936 possession tax credit and provided a temporary economic activity credit as a phase-out measure. Subsequently, the Senate Finance Committee requested the Joint Committee on Taxation to report on the tax and economic policy implications of the repeal again after the fact. The Finance Committee also requested the Government Accountability to report on the economic impact of federal tax policy on the territories. The two reports were submitted to Congress in 2006. To secure time to review its legislative options, Congress delayed the full repeal of the tax credit for American Samoa through 2007.

As a further stopgap measure, the House Ways and Means Committee in section 333 of the Temporary Tax Relief Act of 2007, H.R. 3996, would have temporarily extended by one additional year the economic development credit for American Samoa. The House committee explained that "it is important to encourage investment in American Samoa. With the expiration of the possession tax credit, the American Samoa economic development credit is an appropriate temporary provisions while Congress considers long-term tax policy toward the U.S. possessions." The end-of-the-year legislative calendar, however, prevented the House from acting on this limited extension which would have applied only to taxpayers that were already qualified.

At this Committee's hearing in 2006 I had stated that without a consistent federal policy American Samoa would be unable to foster economic growth. The Government of American Samoa therefore suggested enactment of a federal economic development tax program consistent with longstanding tax principles. The proposal has been introduced in the House of Representative by our Congressman as H.R. 1916. It extends the present section economic activity credit for a longer period so that businesses can make plans and undertake investments with assurance of qualifying for the credit. And it makes the credit available for all business ventures so as to encourage economic diversification in American Samoa.

I request this Committee's support for expeditious enactment of the proposal. The loss of trade incentives for our economic development places greater reliance on alternative programs. The proposed economic development tax incentive is such an alternative. The proposal is attached as Appendix 3.

C. Territorial Operational Costs and Job Incentive Program

Increased business development in American Samoa depends on attracting investments from the United States. The economic development in American Samoa requires the cooperation not only of the Federal Government but also of the private sector, the people, and the government of the territory. The Government of American Samoa is absolutely committed to developing the territory's economy for the purpose of raising our people's standard of living. In addition to federal initiatives, the territory should create a local development program just as the states have.

Following the recommendations of the American Samoa Economic Advisory Commission, the Government Accountability Office, and the Intergovernmental Group on Insular Areas, the American Samoa Government has examined state development initiatives. These state programs offer economic incentives to businesses that commit to investments, hiring, and long-term operations in the respective state. Utilizing the states' experience, the territorial government has drafted a similar proposal to promote business development. The proposal is attached as Appendix 4. Resources for this proposal, however, have had to be diverted to cope with the problems produced by the federal minimum wage increase.

Higher government payroll costs to cover the past July and the upcoming May minimum wage hike mandated by Congress, have curtailed funding for new territorial programs and even existing programs. The Department of Labor's assessment of the impact of the minimum wage increase states: "General experience in the U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be ... offset to some degree by an expanding economy that is generating net employment growth. In a declining economy, any adverse effects on employment will not be offset." Let me note that the territorial economy at present is anemic and that the territorial government must deal with falling tax revenues.

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

IV. CONCLUSION

The Governmental Accountability Office in 1985 and again in 1994 had called attention to the lack of a clearly defined and coordinated federal policy for American Samoa's economic development. In its 2006 and 2007 reports, GAO repeatedly stressed the need for policy and program coordination. Policy clarification and coordination has not occurred. In fact the changes to the federal minimum wage, tariff and trade preferences, and tax incentive cited above are additional setbacks. These changes have drastically impacted American Samoa.

Mr. Chairman, this Committee has been acutely sensitive to the ramifications federal policy change has on American Samoa. In particular, you and Senator Akaka sought to modify the 2007 minimum wage legislation to reflect actual economic conditions in the territory. On behalf of the people of American Samoa, I wish to publicly express appreciation for your attempt to ward off well-meaning but disastrous legislative mandate.

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

APPENDIX 1.—AMERICAN SAMOA'S ECONOMIC FUTURE AND THE CANNERY INDUSTRY

PREPARED FOR: DEPARTMENT OF COMMERCE AMERICAN SAMOA GOVERNMENT

CONSULTANTS: MALCOLM D. MCPHEE & ASSOCIATES WITH DICK CONWAY AND LEWIS WOLMAN

FEBRUARY 2008

THIS REPORT WAS PREPARED UNDER A GRANT AWARD FROM THE US DEPARTMENT OF INTERIOR, OFFICE OF INSULAR AFFAIRS

INTRODUCTION

This study was undertaken to assess American Samoa's economic future especially in view of possible serious reductions in cannery operations or even plant closures. Reasonable prudence requires hope for the best but preparation for the worst. The benefit of such preparations is that even if the worst economic scenario never materializes, the program can still yield benefits in the form of improved economic conditions for the residents and businesses of American Samoa. That which is not required to combat economic adversity can be dedicated to strengthening American Samoa's economic future, its economic self-reliance, and reducing its dependence on

the federal government. The potential economic problems American Samoa faces could arise from two primary sources.

CANNERY INDUSTRY INSTABILITY

In the next few years, American Samoa's canneries could seriously reduce operations or shut down completely as a result of more competitive foreign locations emerging from NAFTA, the Andean Trade Agreement, WTO and other international trade and investment trends. Of immediate importance to the canneries is the continuation of federal corporate tax incentives in American Samoa and the recent dramatic increases in American Samoa's minimum wage. The tuna canning industry represents approximately one-half of American Samoa's economic base.

FEDERAL REVENUE INSTABILITY

There is also the possibility for reductions in federal financial support. The federal government has played an important role in American Samoa's development. It provides a net injection of federal funds that represents the other one-half of American Samoa's economic base. The federal government ranks very close to the canneries in importance to the American Samoa economy. This means that declining real federal expenditures could be a source of erosion in the American Samoa economy. This could arise because of federal policies to reduce insular area reliance on federal funds and rising federal deficits from war, natural disasters, and rising domestic financial liabilities.

It is generally agreed that serious cannery cutbacks or closures could have drastic impacts on population, employment, unemployment, average incomes, and other indicators of economic wellbeing in American Samoa. Multiplier effects could include precipitous declines in trades and services industries and local government revenues as local businesses sustain heavy economic losses and closures. Unlike the US, American Samoa has no unemployment compensation benefits to extend in hard times. Nor does it have monetary policy or the fiscal capability to cushion such economic shocks. This could be an economic, political and social nightmare. If unprepared, it could be truly catastrophic. There are things that can be done to prepare for such an economic contingency in the future.

The following will be undertaken in this study:

Economic Impacts of a Decline in Cannery Operations.—This will include construction of an input-output model of how American Samoa's economy operates. It will demonstrate how employment, income and businesses would be affected by serious reductions in cannery operations in American Samoa.

American Samoa's History, Culture and Economy.—This will also include a critique of American Samoan aspirations for the future, American Samoan attitudes toward economic development, and American Samoa's relationship to the United States.

Short Term Response to Precipitous Cannery Industry Decline.—This will include a review of local resources and programs to deal with economic adversity, American Samoa's dependence on federal expenditures, US Welfare Programs in American Samoa, and other sources of temporary assistance for unemployed workers and vulnerable families.

Long Term Response to Cannery Industry Decline.—This will include an evaluation of American Samoa's position in the US economic system, approaches to economic growth and development and the evolution of American Samoa's private sector.

The Private Sector Role in Economic Development.—This will include a survey of the private sector for their views on the cannery industry's future, closure impacts, and perspectives on future development directions. It will include a review of private sector economic development constraints and private sector economic development opportunities.

American Samoa Government Role in Economic Development.—This will include private sector views on the American Samoa Government's role in economic development and the importance of public-private sector collaboration in maximizing American Samoa's future economic welfare.

Federal Role in American Samoa's Economic Development.—This will include an examination of federal development programs and policies regarding the territories and the role of the federal government in territorial development.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

AMERICAN SAMOA'S ECONOMY

Need for the Project.—American Samoa's largest industry, the tuna canning industry, is in danger of serious decline or actual plant closures. Dramatic increases in American Samoa's minimum wage, the possible loss of federal corporate tax incentives, and reductions in international trade and investment barriers have all eroded the competitive position of the cannery industry in American Samoa.

Project Purpose.—The purpose of this project is (a) to estimate the effects on American Samoa's economy of any serious reduction in cannery operations, (b) to determine what it would take to mitigate those impacts in the short term, and (c) to determine policies and programs to produce longer-term economic recovery and development.

American Samoa's Economic Foundations.—American Samoa's economic growth rate and welfare depend primarily on the growth of its industries or sectors that attract income to the territory. These basic sectors are primarily canned tuna exports and federal financial aid. This basic activity brings money into the economy and supports non-basic activities, principally in trade, services, and local government, through the multiplier or re-spending process. When there is a decline in these basic activities, non-basic or secondary sectors contract proportionately through the same multiplier process.

CANNERY INDUSTRY DECLINE IMPACTS

Economic Perspective, 1975-2005.—Since 1975, American Samoa employment and population both grew at a 2.7 percent annual rate, compared with national rates of 1.1 and 1.9 respectively. Cannery employment growth and a substantial increase in federal expenditures accounted for this high employment growth rate in American Samoa. In 2005, as in 1975, the canneries and federal expenditures accounted for over 90 percent of American Samoa's economic base. Furthermore, the territory's real per capita income growth, a better measure of economic wellbeing, has shown healthy growth over the period. However, American Samoa's per capita income remains only about one-fifth the US average. American Samoa has the lowest per capita income in the entire US system including 3141 counties, 50 states and the other US territories.

Prospects for American Samoa's Economy.—The American Samoa economy faces an uncertain future. Much depends upon decisions made by the federal government with regard to the minimum wage, tax incentives and financial support. Even if the federal government continues its current level of financial support, a doubling of American Samoa's minimum wage in a seven-year period could spell the end of the fish processing industry and a calamity for the economy. The economic devastation would be exacerbated by rising prices and costs from arbitrary increases in the minimum wage in other industries. Transportation, energy and utility costs would rise because the canneries would no longer be available to share those costs. Important as they are, these costs would pale in comparison with the job and income losses.

The Worst Case Cannery Scenario Could be the Most Likely.—The worst case scenario could cost American Samoa 8100 of its total of 17,300 jobs, 46 percent of all jobs in the territory. Most of these jobs would be in the canneries, but there would be serious income and job losses among all sectors including government. The full impact would not be immediate and could occur over several years. In the end, the economic losses would be massive. Such a calamity would take years for the American Samoa economy to recover fully. (The economic impact figures prepared for this report were used by the US Department of Labor in their study of the impact of minimum wage increases on American Samoa and the Commonwealth of the Northern Mariana Islands.)

A Long Period of Economic and Social Dislocation would Ensue.—Many unemployed workers and families would not have good options for relocation. US nationals may not be prepared for employment in the states. Many citizens of independent Samoa have been here for many years and have children who are US nationals having been born in American Samoa. Furthermore, there is little economic opportunity for them in their home country, Samoa. So, American Samoa faces a very protracted economic recovery period in the form of very high rates of unemployment, business closures or cutbacks and precipitous declines in local ASG revenues. These conditions would have a variety of adverse effects on the community. They would include increased family and social stress which sometimes translates into criminal behavior including domestic violence; declining economic opportunities for youth entering the workforce; declining local revenues for health, education and general public welfare; declining investments in capital projects and maintenance; rising economic de-

pendence on the federal government; and fewer resources to preserve Samoan culture and the physical environment.

ASG Will Require Substantial Short Term Economic Recovery Assistance.—The worst-case scenario, and to some extent anything close to it, would trigger an economic crisis. Local government would be unable to address the situation adequately. It has limited resources and limited access to federal social programs, especially unemployment compensation programs. Outside assistance would be required for those unemployed including temporary assistance in food, shelter, relocation, retraining, employment services, and other assistance required to get American Samoa through the initial period of escalating unemployment and income losses. This need will continue until lessened by out-migration or new job development.

ASG Will Require a Long Term Economic Recovery and Development Plan.—This is essential not just to deal with cannery industry issues, but also to provide a clear path for economic improvement in the future regardless of what the canneries do. This will be outlined below in the form of constraints and opportunities and related recommendations for future economic development.

THE LONG TERM ECONOMIC RECOVERY AND DEVELOPMENT PLAN

Economic Development Constraints.—Aside from the natural development constraints of size and isolation about which little can be done, there are constraints over which government and the people have some control. The private sector in general expresses concern about the government's receptivity to entrepreneurship, business operations and development in general. Among the issues of concern are access to land, lack of private sector participation, education and training, the minimum wage, federal tax incentives, higher tax rates for foreign firms, high business tax rates in general, and other basic elements of American Samoa's business climate. In addition there are concerns about the need for continued local control over immigration, the need for achieving higher education standards, and the influence of the federal government on American Samoa's economy.

The federal government is critical to American Samoa's development. A stronger federal role in territorial economic development policy has been recommended over the years. This was based on the finding that federal legislation, policies and programs have adversely affected development of the territories.

Economic Development Opportunities.—American Samoa has business and investment opportunities that could result in significant economic diversification and job creation. Those opportunities are in internet-based businesses (e.g., call centers, data processing), light manufacturing based on unique US advantages, and communications and other internet-based businesses and consulting services. They include businesses that are not bound by geography, or for whom American Samoa's location between Australasia and the U.S. West Coast is an advantage. They include natural resource based development in fresh and frozen fish processing and tourism, recreation and many others. In order to capitalize on these opportunities, several initiatives are required to strengthening American Samoa's competitive position.

A great deal must be done to enable American Samoa to capitalize on development opportunities. American Samoa must look to the private sector to compensate for cannery job losses in the future and encourage the private sector by various means. It must look to the private sector to convey information about economic development opportunities and problems. Efforts are already underway to forge a new working relationship between ASG and the private sector especially the American Samoa Chamber of Commerce.

ASG also has responded aggressively to the needs of the private sector and has been working closely with the private sector in meeting the requirements of new industries and responding to possible economic adversity. The Governor has created a public-private Economic Advisory Council, has pushed forward with plans for a major government investment in a submarine fiber optic connection for American Samoa, and has advocated replacement of the government's Office of Tourism with a Visitor Industry Bureau led by the private sector.

Finally, American Samoa has an opportunity to reinvigorate its development program in general. It can take advantage of the rising role of technology in economic development. The driving force for economic growth today is knowledge. It affects innovation and productivity at all levels from the most sophisticated equipment, products and services to the millions of productivity advances emanating from an educated and motivated management and work force. These technological advancements apply to efficiency in government operations as well. American Samoa will not prosper indefinitely competing with the lowest wage and productivity countries of the world. It must continue to improve the quality of its education to modern in-

dustrial country standards in order to advance its productivity and competitive position.

ECONOMIC DEVELOPMENT RECOMMENDATIONS

PRIVATE SECTOR RECOMMENDATIONS

Strengthen the Private-Public Sector Governor's Economic Advisory Council.—Continue to participate in the newly established formal private-public sector Economic Advisory Council. Its purpose is facilitate the exchange of information between the public and private sector groups pertaining to development priorities, government operations and programs, education and training needs, general business climate matters, and especially assistance in identifying private sector development opportunities.

Pursue Specific Private Sector Economic Development Opportunities.—

- Continue to support private-public sector efforts to help identify export industries and sectors that offer a comparative advantage or identify obstacles to the development of those industries. Examples include recent work on improved submarine fiber optic communications access, call centers, industries producing goods in the South Pacific region that are bound for the U.S. market, expanding the visitor industry, and others.
- Explore opportunities that arise from federal laws or policies including labeling requirements, minority set-aside or preference programs, military procurement, and products or services requiring or benefiting from US domestic production.
- Seek out niches from international trade trends or US trade laws including industries which benefit from operating on American soil (e.g., barge and small ship building and repair), and laws and regulations pertaining to anti-dumping listees, countervailing duties, Headnote 3(a), the Jones Act, the Nicholson Act, and others.
- Utilize American Samoa's own professional and technical expertise in ventures to export those services to other island nations and elsewhere (e.g., managers, engineers, lawyers, medical personnel, and others.).
- Target foreign direct investment to export income industries (e.g., manufacturing, tourism, etc.).
- Encourage the expansion of existing locally owned businesses or the establishment of new locally owned businesses to meet the goods and services needs of the local market.

AMERICAN SAMOA GOVERNMENT RECOMMENDATIONS

Strengthen Consultations with the Canneries on their Needs.—It is in American Samoa's interest to retain the canneries at some level of operation for as long as possible to retain jobs and aid in a transition to other forms of operation (e.g., loin processing and pouch production) or a transition to replacement industries.

Seek Contingency Assistance for Possible Precipitous Cannery Decline.—Explore opportunities for assistance from appropriate federal agencies such as SBA, EDA, and various social service agencies concerning Unemployment Compensation; Supplemental Security Income; Aid to the Aged, Blind, or Disabled; Temporary Assistance for Needy Families; nutrition assistance; and Child Support Enforcement; Foster Care and Adoption Assistance. Develop policies and programs for dealing with unemployed US Nationals and foreign workers.

Continue Development of a Private-Public Sector Governor's Economic Advisory Council.—The American Samoa Government should continue efforts to establish more effective working relationships with the private sector pertaining to development priorities, government operations and programs, education and training, private sector development opportunities, tax laws, immigration laws, business licensing laws, procurement practices, and general business climate matters.

Strengthen the Business and Investment Climate.—A good business and investment climate begins with good government. The American Samoa Government should continue to seek improvements in public infrastructure and services in all areas. This includes all of the usual staples including education and training, transportation, utilities development, industrial park usage, industrial-commercial land availability, health care, and the general business climate including:

- Make education improvements at all levels that are so essential to productivity and income gains especially as almost all modern developments employ technological advances to an increasing extent. American Samoa will have to rely increasingly on improvements in human capital and other forms of social capital. Pursue continued improvements in aligning educational programs with work-

force needs using existing programs. The American Samoa Government should undertake a variety of improvements in the procedures for starting and operating a business in the territory.
- Cooperate with Samoa and other Pacific nations in production or market sharing.

Improve Timeliness of Economic Indicators.—Begin collecting more timely annual employment and personal income data to better track the economy.

ASG Organization.—Consider analysis of ASG structure, management, and functions, as a means of improving government efficiency in general especially for economic development. The US state government model may not the right one for American Samoa. Reorganize the American Samoa Government so that there is a staff function devoted solely to economic development promotion and advocacy.

ASG Operations.—Establish a system of ASG incentives for workers and management to seek more efficient and effective ways to encourage development through the issuance of licenses and permits, leases, procurement, immigration, customs, and education and training.

FEDERAL GOVERNMENT RECOMMENDATIONS

Establish a Formal Federal Role in Territorial Development.—This is crucial in view of the massive influence of the federal government on American Samoa's development. This has been recommended over the years by the US General Accountability Office, the American Samoa Economic Advisory Commission, the US Congress, and others.

Establish the Form this Federal Role Could Take.—Examples include an enhanced Office of Insular Affairs in the Department of the Interior; a restructured Pacific Basin Development Council; or a restructured Interagency Group for Insular Affairs. Others might include a legislatively authorized office attached to the White House, some form of Regional Commission (e.g., Appalachian Regional Commission), or an organization specifically designed for this purpose.

Establish the Agenda and Work Program for this Federal Effort.—

- Clearly define U.S. goals and objectives in the insular areas and develop an overall insular area strategy to guide federal activity toward achieving its goals, including supporting economic development and greater economic self-sufficiency.
- Issues that might be addressed include federal taxes and incentives, immigration and customs, minimum wage, international trade, transportation, federal grant requirements, federal laws and programs, consolidating data on federal economic development expenditures in the insular areas, OIA's conferences and business opportunities missions, and others.
- Develop procedures for formal evaluations of progress made by the insular areas in economic development.

CHAPTER 1: ECONOMIC IMPACTS OF A DECLINE IN CANNERY OPERATIONS

Over the past thirty years, the American Samoa economy has expanded at a rapid rate. But federally legislated increases to the minimum wage could erode the competitiveness of the tuna canneries, one of the mainstays of the island economy. If the fish processing industry were forced to shut down, the damage to the American Samoa economy would be severe and widespread. Without substantial help from the federal government, the full recovery from the loss of the tuna canneries would likely take many years.

The principal objective of this section of the study is to provide an understanding of how the American Samoa economy works and how it would react to closure of the tuna canneries. Drawing upon the 1977 and 2002 American Samoa input-output studies and other economic data, the study addresses the following questions:

- In terms of employment and population, how rapidly has the American Samoa economy grown?
- What are the principal causes of this growth?
- To what extent do American Samoa jobs and income depend upon the tuna canneries?
- How much of the economy depends upon financial assistance from the federal government?
- How has the structure of the American Samoa economy changed over time?
- What would be the loss to the economy if the tuna canneries were to shut down?
- What are the prospects for mitigating such a loss?

AMERICAN SAMOA INPUT-OUTPUT TABLE

A prerequisite for effective economic decision-making is good information. Without reliable statistics describing past and present conditions in the American Samoa economy, we can neither identify its problems nor make helpful recommendations for its development.

The methodological centerpiece of this study is the American Samoa input-output table, which has been updated to 2002. When combined with the 1977 table, the 2002 input-output table provides the kind of information required for an in-depth analysis of the economy.

More specifically, these tables serve two purposes. First, through a systematic accounting of transactions among industries, government, households, and other sectors of final demand (investment, exports, and imports), the input-output tables describe the structure of the American Samoa economy and how it has changed over time. Second, the input-output data provide the factual basis for estimating output, income, and employment multipliers. Used in economic impact analyses, multipliers estimate the total change in production, labor earnings, and jobs in the economy resulting from a given change in economic activity, such as an increase in tuna cannery exports or federal government expenditures.

One word of caution is in order. The economic impact model derived from an input-output table is a complex but imperfect model of the economy. Thus, the results of the analysis (i.e., the economic impacts and projections) should therefore be considered as "reasonable estimates" rather than exact measures.

Appendix A provides a detailed discussion of the 2002 American Samoa input-output table. With regard to its construction and the multipliers derived from it, the 2002 input-output table differs somewhat from the 1977 table. These differences, however, have little bearing on the general results of the input-output analysis or the conclusions of the study.

AMERICAN SAMOA ECONOMY, 1977

The 1977 Economy.—In terms of employment and population, the American Samoa economy in 1977 was about one-half as large as it is today. Despite the rapid growth of the economy over the past thirty years, its structure has remained essentially the same. Just as they are now, fish processing and government were the two driving forces of the economy back then.

In 1977, the American Samoa economy was beginning to bounce back from a three-year downturn in employment. The recession was triggered by a cutback in tuna cannery jobs due to a shortage of water and a reduced supply of fish. Also contributing to the slump was a significant reduction in federal grants to the Government of American Samoa.

Table 1
American Samoa Gross Domestic Product, 1977
(Millions of dollars)

	Gross Domestic Product	Percent of Total
Personal consumption expenditures	32,470	56.7
Private investment	3592	6.3
American Samoa government expenditures[1]	17,712	30.9
Federal government expenditures	664	1.2
Exports	183	.3
Imports	1146	2.0
Gross Domestic Product	57,291	100.0

[1]Expenditures funded by local taxes and charges.

American Samoa Gross Domestic Product (GDP) totaled $49.1 million in 1977, according to the 1977 input-output table (Table 1). This figure was somewhat higher than previously reported estimates. On a per capita basis, it was $1,590, making it five times greater than GDP per capita in Western Samoa (now independent Samoa).

Personal consumption expenditures amounted to $35.1 million, representing 71.5 percent of GDP. Per dollar of GDP, American Samoans spent more on consumer

goods and services than other households in the United States, but the difference was not appreciable. Due to the weak performance of the economy in the mid-1970s, which limited new business opportunities, private investment was a lowly $2.8 million or 5.7 percent of GDP.

Reflecting American Samoa's reliance on the public sector, government expenditures totaled $48.0 million, nearly equal to the economy's total GDP. The Government of American Samoa spent $54.0 million on payroll and other expenses, of which $13.0 million was funded from local appropriations (taxes and charges) and $7.0 was earned from direct charges for public services, such as electricity and telecommunications. The U.S. federal government contributed $35.0 million in grants and expenditures. The major grant recipient was the American Samoa government, which used the money primarily for education, healthcare, and capital improvements.

Typical of small economies, American Samoa has a large external sector. In 1977, exports totaled $90.1 million, nearly double the territory's GDP. American Samoa exported $84.4 million of canned tuna and related fish products. Other exports included other commodities ($2.6 million), visitor expenditures ($2.0 million), and trade, transportation, and other services ($1.1 million). Imported goods and services totaled $126.9 million, which meant that the territory ran a trade deficit of $36.8 million. Federal government grants, which nearly matched that amount, had the effect of erasing the deficit in American Samoa's external payments.

Table 2
American Samoa Employment and Labor Income, 1977

	Employment	Labor Income (mils. $)	Average Labor Income ($)
Fish processing	1,410	4.6	3,260
Other industries	2,780	5.3	1,910
Government[1]	3,920	18.7	4,770
Gross Domestic Product	8,110	28.6	3,530

[1]Includes 300 employees in federal government.

In 1977, the American Samoa economy supported 8,110 jobs with labor earnings of $28.6 million, according to the input-output estimates (Table 2). Labor earnings include wage and salary disbursements, proprietors' income, and other labor income. Annual labor earnings averaged $3,530 per job. Taking into account non-labor income, personal income was estimated to be $40.0 million. On a per capita basis, personal income amounted to $1,290.

Despite job gains in 1977, employment was still down 4.7 percent from the 1973 peak. As a consequence, the unemployment rate stood at about 15 percent.

Table 3
American Samoa Employment, 1977

	Employment	Percent of Total
Agriculture and fishing[1]	110	1.4
Construction t	260	3.2
Fish processing	1,410	17.4
Other manufacturing	100	1.2
Wholesale and retail trade	860	10.6
Transportation and communications	830	10.2
Finance, insurance, and real estate	60	0.7
Eating and drinking places	110	1.4
Other services	450	5.5
American Samoa government[2]	3,620	44.6
Federal government	300	3.7
Total employment	8,110	100.0

[1]Employment classified by the Standard Industrial Classification code.
[2]Includes government authorities.

The largest employer was the Government of American Samoa. Its 3,620 employees accounted for more than two out of every five jobs in the territory (Table 3). Because of its relatively high pay (about one-third above average), government, including the federal government, accounted for three out of every five dollars of labor income earned. Although tuna canning had been around for years, the industry was still in an early stage of development in 1977. Fish processing employed 1,410 workers, who earned $4.6 million in labor income. The industry constituted about one-sixth of the employment and labor earnings in the territory.

Economic Base of American Samoa.—A strong and expanding economic base is a key determinant of American Samoa's economic growth and welfare. Basic activity, such as exporting, brings money into the economy and supports non-basic activity, principally in trade, services, and local government, through the so-called multiplier (re-spending) process. Basic activity in America Samoa takes on several different forms, including tuna exports, financial aid from the federal government, visitors, and transfer payments (e.g., government retirement benefits).

In 1977, the two most important components of American Samoa's economic base were canned tuna exports and federal financial aid (Table 4). According to the 1977 input-output model, the fish processing employment multiplier was 1.55, meaning that each cannery job supported 0.55 jobs elsewhere in the economy. Thus, the estimated impact of fish processing on the American Samoa economy amounted to 2,180 jobs or 26.9 percent of the territory's employment. Of the 770 indirect jobs created by the fish processing industry, 710 were in retail and wholesale trade, transportation, services, and government authorities (utilities and telecommunications).

Calculations with the 1977 input-output model also showed that the tuna canneries were a major growth force during the decade. Taking into account the multiplier effect, fish processing was responsible for approximately two-fifths of the jobs created in American Samoa between 1970 and 1980. While these jobs were undoubtedly welcomed, the growing dependence on fish processing increased the economy's sensitivity to fluctuations in cannery production.

In spite of the importance of the canneries, the economy was dominated by the Government of American Samoa, whose 3,620 employees constituted 44.6 percent of total employment in the territory. The size of the government was partly attributable to the fact that it performed many services usually undertaken by the private sector, such as electric service, telecommunications, and healthcare. Such services were provided by so-called government authorities. Local appropriations and enterprise revenues paid for one-third of the cost of government.

Table 4
Impact of Fish Processing and Federal Grants and Expenditures on American Samoa Employment, 1977

	Fish Processing	Federal Grants and Expenditures
Agriculture and fishing[1]	1,410	2,570
Construction	770	1,320
Fish processing	2,180	3,890
Total Employment	2,180	3,890
Percent of total employment[1]	26.9	48.0
Implied employment multiplier	1.55	1.51

[1]Percent of total American Samoa employment.

The other two-thirds of the cost of the American Samoa government was financed by the federal government. Consequently, not only did federal grants and expenditures heavily subsidize local public services, but they also propped up a large part of the economy. Federal funds directly supported an estimated 2,570 jobs in local government. Including the indirect impact, federal aid generated a total of 3,890 jobs in the economy. The economic impact of the federal government represented 48.0 percent of the jobs and 52.3 percent of the labor income in American Samoa. This implied that without federal aid, American Samoa per capita income in 1977 would have been only one-half its actual level.

ECONOMIC GROWTH, 1975-2005

Employment and Income.—Since 1975 the American Samoa economy has grown rapidly, outpacing the U.S. economy. This growth has been driven by a four-fold expansion of tuna cannery employment. As a consequence, the economy has increased its dependence on fish processing and has reduced its dependence on federal grants and expenditures.

Table 5
American Samoa Employment, 1975-2005

	1975	Percent of Total	2005	Percent of Total	Change 1975-05	Percent of Total
Basic employment	3,879	49.2	8,428	48.6	4,549	48.1
Fish processing	1,300	16.5	4,546	26.2	3,246	34.3
Government[1]	2,179	27.7	3,282	18.9	1,103	11.7
Other	400	5.1	600	3.5	200	2.1
Non-basic employment	3,999	50.8	8,916	51.4	4,917	51.9
Total employment	7,878	100.0	17,344	100.0	9,466	100.0

[1]American Samoa government and authorities supported by federal grants.

Over the past three decades, American Samoa employment has more than doubled, rising from 7,878 in 1975 to 17,344 in 2005. Between 1975 and 2005, job growth averaged 2.7 percent per year. This was substantially higher than the 1.9 percent rate for the United States over the same period. The territory's employment growth rate was even faster than the 2.6 percent rate for Washington State, which has been touted as one of the more successful economies in the nation.

A simple economic base analysis reveals the nature of this growth (Table 5 and Figure 1*). In 1975, there were an estimated 3,879 jobs in the basic sector of the American Samoa economy, accounting for 49.2 percent of total employment. This included 1,300 jobs in fish processing and 2,179 jobs in local government and authorities supported by federal funds. The other 400 basic jobs were in the visitor industry (primarily, hotels and restaurants) and other export activities. The implied economic basic employment multiplier was 2.03 (=7,878/3,879). [Note that the multipliers derived from this economic base analysis are comparable, though somewhat higher than, the multipliers derived from the 1977 and 2002 input-output models.]

In 2005, basic employment totaled 8,428 jobs, accounting for 48.6 percent of total employment. As was the case in 1975, almost all of the basic jobs were in fish processing (4,546) and the part of local government and the authorities supported by federal grants and expenditures (3,282). In this case, the implied aggregate employment multiplier was 2.06 (=17,344/8,428).

Led by fish processing and federal financial aid, basic employment grew at a 2.6 percent annual rate, nearly matching the growth rate for total employment. But job growth in the tuna canneries (4.3 percent) was much faster than job growth in local government supported by federal grants and expenditures (1.4 percent).

These findings lead to four important conclusions about the nature of the economy's growth over the three-decade period. First, the tuna canneries and federal financial aid accounted for virtually all of the economic growth in American Samoa between 1975 and 2005. The fact that together these two sectors kept pace with the entire economy as well as the fact that the economic base multiplier remained relatively constant over that time empirically support this contention.

Second, the overall structure of the economy did not fundamentally change. The data indicate that no other basic activity played a significant role in the economy's growth. Between 1975 and 2005, the economy added 200 jobs in other basic activities, but this gain was negligible alongside the gains in fish processing (3,246) and local government supported by federal aid (1,103).

Third, the American Samoa economy did not benefit from significant import substitution. Import substitution is the process by which an economy increasingly produces goods or services that were previously imported. This kind of shift to domestic production would have been evident in a rising employment multiplier.

Fourth, the only notable change in the structure of the economy was the increased importance of the tuna canneries. The addition of 3,246 workers over the thirty-year period raised the fish processing's share of total employment in the territory from 16.5 percent to 26.2 percent, not counting the multiplier effect. Although federally-supported jobs in local government increased 1,103, their share of total employment fell from 27.7 percent to 18.9 percent.

Population.—Due primarily to a high natural growth rate, American Samoa population has grown at the same rate as employment. This has had the effect of holding down the territory's employment rate (the fraction of population with a job) as well as its per capita income.

Over the thirty-year period, American Samoa population grew at a 2.7 percent annual rate, nearly three times the 1.1 percent national rate (Table 6 and Figure 2). Much of the growth in the American Samoa population was due to a high birth rate. Between 1975 and 2005, population increased by 35,840. The natural gain amounted to 39,928 (45,920 births less 5,992 deaths). This meant that net migration totaled -4,088. In other words, despite a robust economy, the outflow of people was greater than the inflow during this time span of time.

The population growth rate equaled the employment growth rate. As a consequence, the employment rate (the ratio of employment to population) remained relatively low and constant over the entire time period. In 2005, the employment rate was 0.265, virtually the same as the estimate in 1975 (0.266). In contrast, the U.S. employment rate rose from 0.357 in 1975 to 0.451 in 2005.

Given that labor income accounts for about 70 percent of personal income, the increase in the U.S. employment rate had the effect of boosting the average annual growth rate of personal income by about 0.5 percentage points between 1975 and 2005. Since the employment rate in American Samoa remained unchanged, this meant that in terms of personal income growth the territory lost ground to the nation, all else being equal. In other words, had there been a similar rise in the employment rate, American Samoa personal income and per capita personal income would have been about 16 percent higher in 2005.

The pattern of migration in American Samoa, which has persisted for at least three decades, is unusual to say the least. It is as if American Samoa has a revolv-

* Figures 1–4 have been retained in committee files.

ing door, with relatively large numbers of people exiting and entering the territory at the same time.

Since 1975 many American Samoans have left the islands in search of better job and educational opportunities in other parts of the United States, such as Hawaii, California, and Washington. As a consequence, more American Samoans now live in the states than their in homeland. The out-migration of American Samoans is clearly a mixed blessing. On the one hand, it relieves the population pressures built up by the territory's high birth rate. On the other hand, the people who leave tend to be a young and industrious cohort of the labor force.

At the same time, foreign workers, mostly from independent Samoa, have come to American Samoa in search of higher pay. Even jobs in the canneries, considered second rate to government jobs by many American Samoans, offer wage rates two or three times the wage rates in independent Samoa. Currently, 80 percent of the employees in fish processing are foreign workers.

Table 6
American Samoa Employment, and Population, 1975-2005

	1975	1985	1995	2005	Change 1975-05	Annual Growth Rate (percent)
Employment	7,878	10,056	13,455	17,344	9,466	2.7
Population	29,660	39,100	53,300	65,500	35,840	2.7
Employment rate[1]	0.266	0.257	0.252	0.265	0.264	---

[1]Employment-population ratio.

AMERICAN SAMOA ECONOMY, 2002

The 2002 Economy.—The changes in the American Samoa economy over the past three decades are highly visible. Today, the territory is much more densely developed than it was in 1975. With twice as many people, there are many more houses and cars. With a more affluent population, there is a greater selection of stores and restaurants. The tuna cannery complex, which now provides work for about 5,000 people, looms much larger on the shores of the harbor. And several new government and commercial buildings dot the landscape.

This input-output analysis describes and explains in quantitative terms what is already apparent to the eye: largely supported by fish processing and federal financial aid, American Samoa has developed a growing and increasingly prosperous economy.

According to the 2002 input-output table, Gross Domestic Product (GDP) of American Samoa was $481.4 million in 2002 (Table 7). On a per capita basis, GDP amounted to $7,918. This was one-fifth the U.S. level ($36,277) but more than three times the per capita GDP of independent Samoa (approximately $2,400). There were similar differences in per capita personal income. In 2002, American Samoa per capita income stood at $6,146, also about one-fifth the U.S. level ($30,776).

American Samoa's trade statistics showed how much the economy depended upon the outside world. Exports represented 93.3 percent of total GDP in 2002, implying that trade was ten times more important to American Samoa than the United States. The input-output table shows that fish processing accounted for $438.3 million of the $449.0 million in total exports. Total imports amounted to $532.0 million, implying a trade deficit of $83.0 million.

Federal government grants totaled $126.8 million or 26.3 percent of GDP. This included funds to support the operations of the American Samoa Government and government authorities. Federal assistance amounted to $2,086 per person.

Personal consumption expenditures in the territory totaled $331.5 million. Consumer spending accounted for 68.9 percent of GDP, just below the U.S. share (70.2 percent). Private investment, which totaled $43.7 million, was relatively low (9.1 percent of GDP) compared to the United States (15.1 percent). On the other hand, the relative level of investment was much higher than it was in 1977 (5.6 percent of GDP). American Samoa government expenditures supported by local taxes and

charges totaled $62.4 million or 13.0 percent of GDP, slightly above the national share for state and local government spending (12.2 percent).

As shown in the input-output table, GDP equals the sum of value added in industry, households, and government (Figure 3). The biggest contributors to value added were fish processing (22.3 percent of total value added), services (23.1 percent), and government (20.8 percent). Counting the imputed value of agricultural and fish products for self-consumption, agriculture and fishing, two of American Samoa's traditional economic activities, accounted for 11.3 percent of value added.

Table 7
American Samoa Gross Domestic Product, 2002
(Millions of dollars)

	Gross Domestic Product	Percent of Total	U.S. Percent of Total
Personal consumption expenditures	331.5	68.9	70.2
Private investment	43.7	9.1	15.1
American Samoa government expenditures[1]	62.4	13.0	12.2[2]
Federal government expenditures	126.8	26.3	6.5
Exports	449.0	93.3	9.6
Imports	-532.0	-110.5	-13.7
Gross Domestic Product	481.4	100.0	100.0

[1]Expenditures funded by local taxes and charges.
[2]State and local government expenditures

Of the seventeen industries and governments identified in the input-output table, the largest employer was fish processing (Table 8). In 2002, the industry employed 5,538 workers and paid $49.4 million in labor income (wage and salary disbursements, proprietors' income, and other labor income). The canneries accounted for nearly one-third of the employment in the economy but only about one-sixth of the labor income. Annual labor earnings averaged $8,920 per employee, which was 35.9 percent below the average for the entire economy.

Not counting government authorities, the American Samoa government accounted for 23.5 percent of total employment in 2002, making it the second largest employer. With an average annual income of $18,916, the 4,187 workers earned a total of $79.2 million in labor income.

Other large employers included retail trade (1,854), professional and business services (900), transportation and warehousing (786), educational and healthcare services (766), construction (598), food services and drinking places (571), and agriculture, fishing, and mining (520).

Table 8
American Samoa Employment and Labor Income, 2002

	Employment	Percent of Total	Labor Income (mil. $)	Percent of Total	Average Labor Income ($)
Agriculture, fishing, and mining[1]	520	2.9	12.2	4.3	23,462
Construction	598	3.4	9.6	3.4	16,054
Fish processing	5,538	31.1	49.4	17.3	8,920
Other manufacturing	56	0.3	0.3	0.1	5,357
Wholesale trade	352	2.0	3.9	1.4	11,080
Retail trade	1,854	10.4	17.5	6.1	9,439
Transportation and warehousing	786	4.4	6.3	2.2	8,015
Information	294	1.7	4.4	1.5	14,966
Financial activities	327	1.8	6.4	2.2	19,572
Professional and business services	900	5.1	18.2	6.4	20,222
Educational and healthcare services	766	4.3	15.6	5.5	20,366
Accommodation	44	0.2	0.3	0.1	6,818
Food services and drinking places	571	3.2	4.2	1.5	7,356
Other services	351	2.0	3.9	1.4	11,111
Government authorities	496	2.8	9.3	3.3	18,750
American Samoa government	4,187	23.5	79.2	27.7	18,916
Federal government	158	0.9	6.9	2.4	43,671
Agriculture for self-consumption	---	---	38.0	38.0	---
Total	17,798	100.0	285.6	100.0	13,912[2]

[1]Employment classified by the North American Industrial Classification System.
[2]Excludes imputed value of proprietors' income from agriculture and fishing for self-consumption.

Economic Welfare.—Some observers contend that rapid growth has not substantially increased the economic welfare of the American Samoa people. A common assertion is that there has been no significant gain in real per capita income because of the territory's high inflation rate. But data from the 1977 and 2002 input-output studies indicate that the economic lot of American Samoans has greatly improved.

Measuring economic welfare, particularly in American Samoa, is problematic. A major stumbling block is a lack of data. Three common measures of economic welfare are the unemployment rate, per capita income, and GDP per worker. There is scant historical data on these variables, but the two input-output studies provide sufficient information to make reasonable estimates for 1977 and 2002.

Did the unemployment rate decline between 1977 and 2002? At the time of the first input-output study, the unemployment rate was approximately 15 percent. It had been boosted by a three-year decline in jobs. There is no official estimate of the unemployment rate in 2002. But two household surveys conducted around that time yielded estimates of 5.2 percent in 2000 and 8.6 percent in 2004. This suggests that the unemployment rate in 2002 was in the vicinity of 7 percent, roughly one-half the rate in 1977.

Did real per capita income increase over the 25-year period? In nominal dollars, personal income per capita rose from $1,290 in 1977 to $6,146 in 2002, as reported earlier. The 6.4 percent annual growth rate greatly exceeded the 4.6 percent inflation rate, as measured by the American Samoa consumer price index. This suggests that real per capita income grew at a 1.7 percent annual rate. Historically the consumer price index has tended to overstate the "true" inflation rate by about 0.4 percentage points, according to national data. Thus, it would appear that real per capita income rose at a 2.1 percent annual rate between 1977 and 2002, slightly faster than the 2.0 percent rate for the nation. With regard to American Samoa's "high inflation rate," it exceeded the national rate but only by 0.2 percentage points, 4.6 percent versus 4.4 percent.

Did real GDP per worker increase during this time period? GDP per worker is calculated by dividing total GDP by total employment (wage and salary employees and proprietors). Climbing at a 6.2 percent annual rate, nominal-dollar GDP per worker increased from $6,054 in 1977 to $27,048 in 2002. Making use of the U.S. GDP deflator and recognizing the territory's slightly higher inflation rate, the estimated American Samoa GDP deflator increased at a 3.8 percent annual rate. This

indicates that real GDP per worker rose at a 2.3 percent rate, in line with the growth of real per capita income, as one might expect.

IMPACT OF FISH PROCESSING AND THE FEDERAL GOVERNMENT

Fish Processing.—In 2002, the job impact of fish processing extended well beyond its 5,538 employees, since the industry's payroll and other operating expenditures created employment opportunities in other businesses and government through the so-called multiplier (re-spending) process.

Including the $49.4 million in labor income and $30.5 million in operating expenditures for goods and services produced by other local industries, the tuna canneries pumped $79.9 million into the American Samoa economy.

The tuna canneries supported an estimated 8,118 jobs (wage and salary employees and proprietors) in the economy, taking into account the multiplier effect. This constituted 45.6 percent of total employment. It meant that fish processing accounted for nearly one out of every two jobs in the territory in 2002 (Table 9).

Table 9
Fish Processing Impact on American Samoa Economy, 2002

	Fish Processing Economic Impact	Percent of American Samoa
DIRECT IMPACT		
Output (mils. $)	503.4	54.1
Exports (mils. $)	438.3	97.6
Employment	5,538	31.1
Labor income (mils. $)	49.4	17.3
TOTAL IMPACT		
Output (mils. $)	603.0	64.9
Employment	8,118	45.6
Proprietors	293	27.7
Wage and salary employment	7,825	46.7
Agriculture, fishing, and mining	62	22.1
Construction	40	7.1
Manufacturing	5,494	99.0
Wholesale and retail trade	549	27.8
Transportation and warehousing	231	38.0
Financial activities	85	28.5
Services and government authorities	874	28.0
Government	490	11.3
Labor income (mils. $)	87.6	30.7
Implied employment multiplier	1.47	---

The implicit employment multiplier was 1.47 (=8,188/5,538). This implies that every cannery job supported the equivalent of 0.47 jobs elsewhere in the economy. Most of these jobs were in wholesale and retail trade (549), transportation and warehousing (231), services and government authorities (874), and local government (490).

In 1977, with 1,410 employees, the fish processing industry accounted for a total of 2,180 jobs in the American Samoa economy, according to the 1977 input-output study. This represented 26.9 percent of total employment. The implied employment multiplier was 1.55. In light of the various problems associated with constructing input-output tables and estimating multipliers, the difference between the 1977 and 2002 multipliers should not be considered statistically significant.

According to the two input-output tables, the American Samoa economy created 9,688 jobs between 1977 and 2002. The impact analyses indicate that fish processing was responsible for 5,938 or 61.3 percent of these new jobs. As previously noted, the only major structural change in the economy over the past three decades has been the increasing importance of the tuna canneries.

Federal Government.—Federal grants totaled $126.8 million in 2002. This money directly supported 2,915 jobs in federal government, American Samoa government, and government authorities (Table 10).

Table 10
Federal Government Impact on American Samoa Economy, 2002

	Federal Government Economic Impact	Percent of American Samoa
DIRECT IMPACT		
Federal grants and expenditures (mils. $)	126.8	100.0
Employment[1]	2,915	16.4
Labor income (mils. $)	59.2	20.7
TOTAL IMPACT		
Output (mils. $)	164.8	17.7
Employment	6,615	37.2
Proprietors	393	37.1
Wage and salary employment	6,222	37.2
Agriculture, fishing, and mining	95	33.9
Construction	184	32.7
Manufacturing	38	0.7
Wholesale and retail trade	786	39.8
Transportation and warehousing	222	36.5
Financial activities	124	41.6
Services and government authorities	1,449	46.4
Government	3,325	76.5
Labor income (mils. $)	114.5	40.1
Implied employment multiplier	2.27	---

[1]Includes federal government, American Samoa government, and government authority employment supported by federal grants and expenditures.

The total impact of federal grants and expenditures amounted to 6,615 jobs or 37.2 percent of the total jobs in the territory. The implied employment multiplier was 2.27 (=6,615/2,915). This multiplier was higher than the fish processing multiplier primarily because of the relatively high-paying jobs in government. In 2002, American Samoa government jobs earned more than twice as much on average ($18,916) as fish processing jobs ($8,920).

In 1977, the total employment impact of federal government grants and expenditures amounted to 3,890 jobs. This meant that the federal government created 2,725 jobs between 1977 and 2002, which constituted 28.1 percent of all new jobs.

Combined, fish processing and federally-supported jobs accounted for 82.8 percent of American Samoa employment in 2002, taking into consideration the multiplier effect. In 1977, the combined impact was 74.9 percent. Between 1977 and 2002, tuna canneries and federal government financial aid accounted for 89.4 percent of the economy's new jobs.

Sources of Jobs.—The input-output model permits one to determine the ultimate sources of employment and labor income in the American Samoa economy. There are seven such sources: fish processing exports, other exports, visitor expenditures, private investment, federal grants and expenditures, transfer payments, and agriculture and fishing for self-consumption (Table 11 and Figure 4).

As noted above, fish processing and the federal government ultimately accounted 82.8 percent of the total jobs in 2002. But even that estimate is probably low, since the impact of these two sectors does not include the effect of induced private investment, which supported 5.6 percent of total employment. Induced investment is not counted as part of the impact because simple input-output models cannot depict the complex behavior of capital expenditures.

The only other significant source of jobs is transfer payments, which consist largely of government retirement and disability payments. In 2002, transfer payments

amounted to $39.5 million and indirectly generated 1,605 jobs or 9.0 percent of American Samoa employment.

Reflecting American Samoa's narrow economic base, exports other than canned tuna and visitor expenditures accounted for only 458 jobs or 2.6 percent of total employment in 2002.

PROSPECTS FOR THE AMERICAN SAMOA ECONOMY

The American Samoa economy faces an uncertain future. Much depends upon decisions made by the federal government with regard to the minimum wage, restrictions on foreign labor, and financial support. Even if the federal government continues its current level of financial aid, a rising minimum wage could spell the end of the fish processing industry and a calamity for the economy.

As a means of trying to sort things out, we posit three scenarios for the American Samoa economy (Tables 12 and 13). Each scenario is developed making use of the input-output model.

Table 11
American Samoa Employment and Labor Income by Source, 2002

	Employment	Percent of Total	Labor Income (mil. $)	Percent of Total
Fish processing exports	8,118	45.6	87.6	30.7
Other exports	274	1.5	4.8	1.7
Visitor expenditures	184	1.0	1.9	0.7
Private investment	1,002	5.6	15.0	5.3
Federal grants and expenditures	6,615	37.2	114.5	40.1
Transfer payments	1,605	9.0	23.8	8.3
Agriculture for self-consumption	---	---	38.0	13.3
Total	17,798	100.0	285.6	100.0

Bear in mind that this analysis is only suggestive, as it is difficult to predict what is actually in store for the economy over the next few years. Based on current developments, however, subjective probabilities of occurrence have been attached to each scenario.

The baseline scenario (30 percent) presumes "business as usual." It foresees modest increases in cannery employment and federal government aid. It also assumes that legislated increases in the minimum wage rate will not adversely affect the fish processing industry.

The high scenario (10 percent) calls for a major expansion of the tuna canneries, eventually resulting in about 6,000 workers, as well as substantial increases in federal support. As indicated by the subjective probability, the high scenario is considered to have little chance of happening.

Table 12
Economic Projections for the American Samoa Economy, 2000-2015

	2000	2005	2010	2015
BASELINE				
Employment	16,718	17,344	19,075	19,910
Fish processing	5,100	4,546	5,100	5,200
Other industries	6,618	6,734	7,366	7,730
Government	5,000	6,064	6,609	6,980
Personal income (mils. $)	340.7	488.0	648.9	800.2
Consumer prices index (1997.3=100)	104.2	127.2	148.9	170.1
Population (July 1)	57,700	65,500	72,000	75,200
HIGH				
Employment	16,718	17,344	20,100	22,003
Fish processing	5,100	4,546	5,600	6,200.
Other industries	6,618	6,734	7,682	8,381
Government	5,000	6,064	6,818	7,422
Personal income (mils. $)	340.7	488.0	678.5	871.7
Consumer prices index (1997.3=100)	104.2	127.2	148.9	170.1
Population (July 1)	57,700	65,500	74,400	80,000
LOW				
Employment	16,718	17,344	17,449	12,222
Fish processing	5,100	4,546	4,000	0
Other industries	6,618	6,734	6,974	5,877
Government	5,000	6,064	6,475	6,345
Personal income (mils. $)	340.7	488.0	594.0	538.5
Consumer prices index (1997.3=100)	104.2	127.2	148.9	170.1
Population (July 1)	57,700	65,500	67,100	55,600

The low scenario (60 percent) assumes that a rising minimum wage causes a complete shutdown of the tuna canneries by 2010. The full impact of the closure is not felt until 2015.

The baseline scenario portrays an expanding economy but at a rate below the historical trend. A modest upturn in tuna processing causes a short-term pick-up in the economy's annual employment growth rate. After averaging 0.7 percent between 2000 and 2005, the growth rate increases to 1.9 percent between 2005 and 2010, still well below the historical rate of 2.7 percent. During the subsequent five-year period, the economy loses steam again, as the tuna canneries reach production capacity and the rate of hiring in government slows down. The employment growth rate falls to 0.9 percent between 2010 and 2015. Consequently, by the end of the projection period, the American Samoa economy is somewhat larger but not substantially different than it is today.

In the high scenario, which is considered an unlikely case, the federal government not only continues to provide generous financial support for the American Samoa government, but it also reverses its current position on the minimum wage. The tuna industry reacts positively to the new wage policy, significantly expanding its operations and adding another 1,000 workers to its payroll. The surge in cannery and government employment at the end of the decade causes the territory's employment growth rate to jump to 3.0 percent between 2005 and 2010. Between 2010 and 2015, in response to a leveling off of cannery jobs, the growth rate falls to 1.8 percent. Although this is a healthy employment growth rate, the high scenario suggests that even under the best of circumstances American Samoa will have to cope with a slower growing economy.

Table 13
Economic Growth Rates for the American Samoa Economy, 2000-2015

	1995-00	2000-05	2005-10	2010-15
BASELINE				
Employment	4.4	0.7	1.9	0.9
Population	1.6	2.6	1.9	0.9
HIGH				
Employment	4.4	0.7	3.0	1.8
Population	1.6	2.6	2.6	1.5
LOW				
Employment	4.4	0.7	0.1	-6.9
Population	1.6	2.6	0.5	-3.7

The low scenario is a disaster for the American Samoa economy. In this case, the federal government begins the process of annually raising the minimum wage in 50-cent increments until it reaches the minimum wage established for the states. Fearing the worst, the canneries begin to trim operations almost immediately, causing the economy to go flat between 2005 and 2010. The economy starts to fall precipitously when the fish processing industry closes shop for good in 2010, but the full impact is not immediately felt. There are several reasons why the economy's response to the cannery shutdown takes time, perhaps as long as five years, to fully play out: various spending buffers (e.g., increased private and public spending from savings); job sharing (cutting hours but not employment); and the delayed reaction between employment loss and out-migration. In the end, however, the economic losses are massive. Compared to the baseline scenario, the economy has 7,700 fewer jobs in 2015. In other words, the closure of the canneries causes America Samoa to lose more than two out of every five jobs.

CONCLUSION

Relying almost exclusively on the tuna canneries and federal financial aid, the American Samoa economy has expanded rapidly over the past thirty years. Employment has doubled, the unemployment rate had fallen, and real per capita income has risen at about a 2 percent annual rate.

Perhaps because of its past success, the territory has not broadened its economic base. Since the 1970s there has been virtually no increase in American Samoa exports other than canned tuna. It is also apparent that, with exception of some recent hotel construction, the visitor industry has been allowed to languish.

The inability of the American Samoa economy to diversify has left it vulnerable to decisions by the federal government. In particular, if the recent legislated increases in the minimum wage were to cause a shutdown of the tuna canneries, American Samoa could lose two-fifths of its jobs. Such a calamity would prompt efforts to create employment opportunities in other economic activities, such as call centers and tourism. But even if these initiatives were successful, it would take years before the American Samoa economy would fully recover.

CHAPTER 2: AMERICAN SAMOA'S HISTORY, CULTURE, AND ECONOMY

The five larger US insular areas, or territories, have come under the sovereignty of the United States in various ways. Puerto Rico and Guam were ceded to the United States by treaty at the end of the Spanish-American War in 1898.[1] The Virgin Islands were purchased from Denmark in 1917. Following the renunciation by Great Britain and Germany of their claims to what is now American Samoa and the cession by the Samoan chiefs to the United States of these islands, the Congress in 1929, ratified the instruments ceding the eastern islands to the United States. The United States was responsible for administering the Northern Mariana Islands after World War II under a United Nations trusteeship agreement. Ultimately, a

[1] Portions of this background section were summarized from GAO/OGC-98-5, The U.S. Constitution and Insular Areas, November 1997.

covenant between the United States and the Northern Marianas established the islands as a commonwealth under the sovereignty of the United States.

Federal administrative responsibility for the CNMI, Guam, the Virgin Islands, and American Samoa is vested in the Department of the Interior. Puerto Rico is treated administratively as if it were a state. Any matters concerning the fundamentals of the U.S.—Puerto Rican relationship are referred to the Office of the President.

Since the United States established sovereignty over the five larger insular areas, each has pursued greater self government. The residents of all five of the larger insular areas enjoy many of the rights enjoyed by U.S. citizens in the 50 states. But some rights which, under the Constitution, are reserved for citizens residing in the states have not been extended to residents of the insular areas. For example, residents of the insular areas cannot vote in national elections, nor do they have voting representation in the final approval of legislation by the full Congress. As a consequence of the differences among the territories in geographic location, size and indigenous cultures, each insular area has its own political status arrangement with the US. As a further consequence, these differences complicate the administrative task of the US, and it makes it even more difficult for these small areas to convey their unique needs to the federal government. These territories require individually tailored, conscious approaches from Washington DC, or they could be swamped by the giant US ship of state. The US has not been very adept at this as is evidenced by the experience of Native Americans under federal administration. Nowhere is this more evident than in economic development.

SAMOAN HISTORY

About 1500 B.C., people (probably from Southeast Asia) arrived in the Samoan Islands, after having navigated the Pacific Ocean in rafts.[2] This astonishing achievement occurred at approximately the time of the Trojan War or the Exodus in Western history. Little is known about these people who were or were to become the Polynesians and who would populate the islands of the Central and Eastern Pacific from Hawaii to New Zealand and Samoa to Easter Island. It was not until 1973 that Samoan prehistory was dated back this far. In that year some pieces of clay pottery were discovered during a dredging project near Mulifanua in independent Samoa. These pottery shards were made from clay found in the same area. Radiocarbon dating revealed that the pottery was made in about 1200 B.C. Another interesting aspect of this find was that pottery making was never known to be a part of Samoan culture. In fact there was no word for pottery in the Samoan language. This Lapita form of pottery is found throughout the Western Pacific, from New Guinea to Samoa. It is named after an area in New Caledonia where the pottery was first discovered.

The itinerary of these early Polynesians is now thought to have been from Southeast Asia, through Melanesia and Fiji to Samoa and Tonga. By A.D. 400 the Lapita culture had evolved into a more recognizable Polynesian culture.[3] However, the greatest feats of navigation ever undertaken by early man were yet to come. The Polynesians would now undertake expeditions to Eastern Polynesian (Tahiti, Hawaii, New Zealand, the Marquises, Easter Island, and others). Early settlements in Eastern Polynesia begin to appear between A.D. 300 and 700. They were probably settled initially from Samoa or Tonga. This migration to Hawaii, Tahiti and other eastern islands was probably completed by A.D. 1100, after which isolation gave rise to different Polynesian cultures and languages as they are known today.

SAMOAN CULTURE

In many ways it is not possible to capture in language the standards, complexities and nuances of different cultures. For many reasons, however, the effort is worthwhile. This is especially the case where distinct cultures come together. There is a need to encourage understanding, tolerance and, in general, promote a useful and productive accommodation of different cultures in our society.

Samoans have adhered to the fundamental elements of their language and culture to an extent unprecedented in most parts of the world. This adherence to Samoan language and culture is not just ceremonial. The Samoan people, particularly in their own lands, strive to retain as much of their communal or aiga (family) land

[2] Portions of this part have been summarized from American Samoa's Comprehensive Economic Development Strategy, 2005.

[3] Peter Bellwood. *The Polynesians: Prehistory of an Island People*, London: Thames and Hudson, 1978.

and matai (chief) systems as possible. In this report the term "matai system" shall refer to American Samoa's extended family and land tenure systems as well.

The basic unit of Samoan society, the aiga or extended family group, is a group of people related by blood, marriage or adoption, varying in number from a few to several hundred who acknowledge a common allegiance to a particular matai. The matai possesses some authority over the members of his family and regulates some of their activities. Family resources, especially land, are under the authority of the matai. Traditionally, the matai consults the aiga before exercising his authority.

These family units represent quite close-knit groups with intense local pride and a close community of interest. It is common for a Samoan, when asked to give a family name for identification, to give the name of his matai who may or may not be his or her biological father.

In traditional Samoan society and to a large extent in American and independent Samoa today, people continue to view themselves as integral parts of the Samoan family, leadership and land system. This, of course, is changing as Samoans deal with the influences of Western society on their culture. In addition, the traditional leadership role of matais is changing. This is especially the case in U.S. society where their roles are becoming increasingly inapplicable in a Western context and where there are no communal lands to administer.

Samoa's land and matai systems are ancient and complex. Each contains nuances that are not well understood by outsiders. In modern Samoa, disputes concerning family lands and titles are adjudicated by special courts that rely substantially on Samoan oral history, tradition and custom. In this regard, the institution of communal land is especially perplexing to outsiders who are accustomed to the availability of fee simple (individual) land ownership. This is especially problematic because up to 90 percent of American Samoa's land is communally owned. ASG deals with this as well as it is able by expanding the industrial park and assisting potential investors in securing land.

It is the matai system that is at the core of Samoan society and which gives meaning to other Samoan institutions including the economy to a large extent. Again and again, from the deeds of cession to more recent deliberations on political status, Samoans express a very strong preference for and commitment to the preservation of the matai, extended family and communal land system. The matai system contains a sense of social continuity, structure and order. To some extent the matai title is independent of the holder. In addition, the rank of the title tends to order members of different descent groups. Most important, however, is that the system ties Samoans, their families, villages and other political subdivisions to Samoan society itself.

Cultural diversity was once thought of in the U.S. as a temporary condition that would ultimately result in full assimilation. There is some reason to believe that this is at least a serious oversimplification. What seems to be emerging is some cultural assimilation and continued cultural diversity, something more akin to a cultural mosaic than a cultural melting pot. This distinction is becoming more accepted, and it has important implications. With the assimilation concept, it was the responsibility of minorities to master the majority culture and adopt it. With the cultural diversity model, there is a responsibility on the part of the majority to understand the cultures of its minorities in order to develop tolerance and an appreciation for diversity.

AMERICAN SAMOA AND THE UNITED STATES

Samoa was first sighted by European explorers in 1722 and was visited again 1768 and 1787. However, it was not until 1831 that Westerners took up residence in the Samoan Islands, the beginning of modern or recorded history in Samoa.

The islands of eastern Samoa became part of the U.S. in 1900 and 1904 through treaties which are commonly referred to as the "deeds of cession." American Samoa, located in the Central South Pacific, is the only United States territory south of the equator. A central premise of ceding eastern Samoa to the US was to preserve the rights and property of the islands' inhabitants. American Samoa's constitution makes it government policy to protect persons of Samoan ancestry from the alienation of their lands and the destruction of the Samoan way of life and language and to encourage business enterprise among persons of Samoan ancestry.

American Samoa remained isolated in the early decades of its relationship with the US, and was administered by the U.S. Navy, which had a very limited presence outside of the harbor area. During World War II, American Samoa was transformed from a subsistence economy to a commercial economy. This new economic prosperity was short lived. The end of the war and the withdrawal of the US Navy caused severe economic distress in the late 1940's and early 1950's. In the early 1950's a large

part of American Samoa's limited work force migrated to Hawaii and the US mainland.

In the early 1960s, the lack of modern development in American Samoa became a minor scandal. In response, the federal government began a crash campaign to upgrade the school system, the hospital, the airport, the roads and the hospitality industry (i.e., building of the Rainmaker Hotel). By the early 1970s, the crash campaign was slowing down, but the era of extensive federal expenditures in American Samoa had taken firm root, as had the tuna canneries. Private sector development expanded accordingly.

In accepting the deeds of cession, the U.S. Congress placed responsibility for civil administration of the territory with the Executive Office. The U.S. Navy had this responsibility from 1900 to 1951. Since 1951 the territory has been administered by the U.S. Department of the Interior. American Samoa has made extraordinary progress in the last 40 years. In addition to building modern economic, education, health care and infrastructure systems, American Samoa became substantially self-governing under US jurisdiction. American Samoa has been electing its own governor since 1977. In addition, the territory has its own constitution, its own legislature, its own court system, and a non-voting representative in the U.S. House of Representatives. American Samoa has made very rapid progress in political self-determination.

CRITIQUE OF AMERICAN SAMOAN ASPIRATIONS FOR THE FUTURE

The deeds of cession speak of the promotion of the peace and welfare of the Samoan people, the establishment of a good and sound government, and the preservation of Samoan rights, lands, and culture. The deeds of cession, however, make no direct reference to the economy for the good reason that at the time there was only what could be described as a subsistence economy. This has changed, and the people of American Samoa quite understand that modern economic development has a very direct bearing on their ability to preserve their rights, lands and culture.

The following is a statement from the 1979 American Samoa Political Status Commission report, but it rings true today:

> The Commission is fully aware that the world cannot be kept away from American Samoa. Neither can American Samoa continue to stand apart forever from the rest of the world. New ideas cannot and must not be suppressed.... The Commission chooses to view it as the inevitable result of social change, which should neither be thoughtlessly embraced nor opposed. The new and the old must be mixed in a suitable blend. By retaining the fundamental principles of the old system and accepting a new, more democratic, political structure, American Samoa can gracefully become a part of the modern world, without casting its rich and long established heritage aside.

American Samoa's Constitution (Section 3) makes it the policy of the government to:

> protect persons of Samoan ancestry against alienation of their lands and the destruction of the Samoan way of life and language, contrary to their best interests. Such legislation as may be necessary may be enacted to protect the lands, customs, culture and traditional family organization of persons of Samoan ancestry and to encourage business enterprise by such persons....

In 1986 American Samoa's Constitutional Review Committee recommended adding the following language to Section 3 of the American Samoan Constitution:

> No new small business in whatever form, except businesses not in direct competition with existing businesses owned and operated by persons born of American Samoan ancestry, shall be permitted to engage in business in American Samoa unless the majority ownership and control of such business is vested in persons of American Samoan ancestry.

Though this provision was not adopted, it reflects a point of view that many American Samoans still hold today.

It has been proposed over the years that American Samoa place limitations on businesses not owned by American Samoans. The concept was that American Samoans should be given the first opportunity for business ownership, especially to serve the local market. Outside investment or ownership would be utilized primarily for firms or industries whose production or markets were too technical or specialized to be accommodated within such a limited population base. Some viewed this as a

logical extension of the protective language in the deeds of cession and the American Samoa Constitution.

This issue is raised because if economic development is seen as a threat to people, it will most likely be stymied one way or the other. At the same time, pursuing developments which could undermine culture and language preservation could be equally harmful and might promote further public opposition to development initiatives.

American Samoa's 1979 Political Status Commission probably put it quite correctly in stating that the world cannot be kept away from American Samoa; that change is inevitable; that retaining the fundamental principles of the old system and accepting a new, more democratic, political structure would permit American Samoa to become part of the modern world, without casting its rich and long established heritage aside.

As recently as January 2, 2007, the Final Report of the Future Political Status Study Commission stated that "American Samoa shall continue as unorganized and unincorporated territory and that a process of negotiation with the U.S. Congress for a permanent political status be initiated."

AMERICAN SAMOAN ATTITUDES TOWARD ECONOMIC DEVELOPMENT

Earlier in a discussion of American Samoa's aspirations for the future, concern was expressed about the role of American Samoans in that future. Reference was made to modernity threatening Samoan culture. There was also concern about this condition inhibiting development from local opposition. It is primarily in the economy where the preservation of culture and language is at risk. This takes several forms. Modern economies have their own standards that are not especially sensitive to indigenous culture and language preservation. Because most modern economies place efficiency and performance above indigenous norms, there are pressures on indigenous populations to conform to modern economic norms pertaining to language, behavior, and attitudes. As indicated earlier this is not an either or situation for American Samoans. "The new and the old must be mixed in a suitable blend." In addition, the ability of an indigenous population to preserve its culture and language depends to a large extent upon its economic influence in the society itself. The issue of American Samoans garnering their proportionate share of emerging economic opportunities to the greatest extent possible is examined below.

Table 14
Birthplace of American Samoa's Population, 2000

Place of Birth	Population	Percent Distribution
US American Samoan Born	32,470	56.7
US Other	3592	6.3
Samoa	17,712	30.9
Philippines	664	1.2
Korea	183	.3
Tonga	1146	2.0
Other	1524	2.7
Total	57,291	100.0

Source: 2000 Census Demographic Profile of American Samoa: Department of Commerce, American Samoa Government

In Table 14 American Samoa's population is shown by place of birth for purposes of comparing those population groups with business ownership, establishments, sales, payroll and employment. Tables 15 and 16 demonstrate that American Samoa has not maintained its proportionate share of the Territory's private sector economy. American Samoans accounted for 57 percent of the population in 2000, but they accounted for only 20 percent of sales, 26 percent of payrolls and 27 percent of employment in 2002. Interestingly, American Samoans accounted for 72 percent of the establishments indicating a disproportionately high level of business ownership but relatively low levels of average sales and employment.

Table 15
American Samoa Business Ownership Birthplace and Operations *Including* the Canneries, 2002
(Percent Distribution)

Ownership Birthplace	Population 2000	Establishments	Sales	Payroll	Employment
US American Samoan Born	56.7	72.2	20.5	25.9	27.3
US Other	6.3	12.2	63.7	57.9	57.4
Samoa	30.9	7.3	5.9	5.9	6.9
Philippines	1.2	.8	-	.2	.4
Korea	.3	2.6	2.9	1.8	2.4
Tonga	2.0	.8	.1	.1	.1
Other	2.7	4.0	8.1	8.2	5.6
Total	100.00	100.00	100.0	100.0	100.0

Source: US Census Bureau, 2002 Economic Census of Island Areas, IA02-00A-SAMOA, Issued April 2005.

Obviously, the canneries dominated the US Other sector with well over half of the sales, payrolls and employment in the Territory. However, even if the canneries are excluded from the analysis as in Table 16, the US American Samoan born population lags behind other groups. The US American Samoan population accounts for 57 percent of the Territory's population. However, it accounts for significantly lower shares of sales. The only groups whose share of economic activity exceeds their share of the population are US Other, Korean and Others, presumably others from other developed countries.

For example, US Other represents only 6.3 percent of the population but 12 percent of establishments, 16 percent of sales, 11 percent of payrolls, and 9 percent of employment. In other words, the share of economic activity of other US citizens is twice their share of the population. The Korean born share of sales exceeds its share of the population by 22 times.

Table 16
American Samoa Business Ownership Birthplace and Operations *Excluding* the Canneries, 2002
(Percent Distribution)

Ownership Birthplace	Population 2000	Establishments	Sales	Payroll	Employment
US American Samoan Born	56.7	72.2	47.7	55.1	58.3
US Other	6.3	12.2	15.5	10.6	9.0
Samoa	30.9	7.3	13.8	12.5	14.7
Philippines	1.2	.8	.1	.3	.8
Korea	.3	2.6	6.7	3.8	5.2
Tonga	2.0	.8	.2	.1	.2
Other	2.7	4.0	16.0	17.6	11.8
Total	100.0	100.0	100.0	100.0	100.0

Source: US Census Bureau, 2002 Economic Census of Island Areas, IA02-00A-SAMOA, Issued April 2005.

In considering culture and economic issues in Table 17, American Samoans voice considerable disapproval over the lack of development in their traditional industries, tourism and fishing. They do not think enough is being done to inform or assist them in economic development. They object to bringing in foreign workers which is consistent with their view that there are not enough jobs for people who are willing to work. That view is less consistent with their view that there are not enough qualified people to fill available jobs in the Territory.

There are issues with which the American Samoa public is in strong agreement in Table 18. Of course, they agree that the Territory is too dependent upon the federal government and the canneries. They also favor bringing in foreign industries. It is likely that there is no great inconsistency between this and the finding in the previous table that there is a general objection to bringing in foreign workers. This usually refers to bringing in workers to do work that could be performed by locals rather than workers with skills not available in American Samoa. Three-quarters of American Samoans favor protection of the environment and the culture.

Table 17
Issues with which American Samoa Public Disagrees

Issue	Percent Disagree or Strongly Disagree
1. Tourism provides jobs for the local community.	82.3
2. There are enough jobs for people willing to work	76.9
3. Government provides enough financial support to local business.	69.6
4. Government provides enough information on economic development.	67.5
5. Enough qualified people to fill jobs	64.5
6. American Samoa resources are fairly distributed.	63.4
7. Cost of government services is shouldered by everyone.	62.8
8. OK to bring in foreign workers for local job.	60.6
9. Community has enough voice in economic development.	56.3
10. Fishermen provide enough fish for the community.	52.5

Source: American Samoa Economic Advisory Commission, "Transforming the Economy of American Samoa: Volume III, Appendices" US Department of the Interior Office of Insular Affairs, Washington DC, 2002.

Table 18
Issues with which American Samoa Public Agrees

Issue	Percent Agree or Strongly Agree
1. American Samoa economy depends too much on US funding.	86.3
2. Exports should be understood by the public.	83.1
3. Environment should not be damaged by economic development.	78.7
4. Development should consider the impact on Samoan culture.	78.5
5. Community has become too materialistic	76.3
6. American Samoa economy depends too much on canneries	71.7
7. OK to bring in foreign industries	68.3
8. The community understands what economic development is.	64.1
9. Present infrastructure can support more industries	60.2
10. The community understands how development affects their lives.	60.0

Source: American Samoa Economic Advisory Commission, "Transforming the Economy of American Samoa: Volume III, Appendices" US Department of the Interior Office of Insular Affairs, Washington DC, 2002.

CHAPTER 3: SHORT TERM RESPONSE TO PRECIPITOUS CANNERY INDUSTRY DECLINE

The worst case scenario assumes a gradual phase-out of the canneries. This decline, however, could be more precipitous, causing more sudden and severe increases in unemployment and income losses. New job development is not likely to increase rapidly enough in the short term to offset these job losses. Therefore, American Samoa is likely to have to look elsewhere for temporary relief. Because ASG's revenues will fall with local incomes, it will not be in position to help much, except pos-

sibly to accelerate public works projects and the like. ASG will have to look to the federal government for intermediate temporary assistance.

Ordinarily, when economic disasters strike a region of the US, people begin migrating to other regions where employment prospects are better. This is a primary force of equilibrium or adjustment. This is not as strong an option for American Samoan workers. Some may move from American Samoa to the United States or independent Samoa. But, there are many reasons workers may not be able to relocate expeditiously.

1. American citizens or nationals may not have the education and training to transition effectively to the states, and foreign workers in American Samoa are not entitled to migrate to the US by virtue of their permission to work in American Samoa.
2. There might be few opportunities in Samoa for those who hold Samoan citizenship many of whom have strong and longstanding roots in American Samoa and who have children who were born in American Samoa and who are US nationals by birth.
3. It might be, for many reasons, uneconomic or impractical to relocate to the states or Samoa not the least of which is the expense of transportation and relocation as well as the disruption of family ties and obligations.

There is a strong possibility that e-conomic distress would remain very high in American Samoa for a long time in the form of very high rates of unemployment, business closures or cutbacks and precipitous declines in local ASG revenues. These conditions could have a variety of adverse effects on the community.

1. Increased family and social stress which often translates into criminal behavior including domestic violence.
2. Declining economic opportunities for youth entering the workforce.
3. Declining local revenues for health, education and general public welfare, as well as investments in capital projects and maintenance.
4. Rising economic dependence on the federal government.
5. Fewer resources to preserve Samoan culture and the physical environment.

AMERICAN SAMOA'S DEPENDENCE ON FEDERAL EXPENDITURES

It is clear that American Samoa is a much larger economy than it was just 30 years ago. Any precipitous decline will have adverse effects on larger numbers of people than in past downturns. In addition, the preceding economic analysis suggests that the decline in employment, incomes and tax revenues will limit local ability to deal with a downturn especially one the size of a large cannery employment cutback. Like most areas of the US, in the face of economic or natural disaster, American Samoa will look to the federal government for, at least, temporary recovery assistance. It is necessary to consider this in context.

In 2002 and 2005, the federal government spent more money, per capita, in every state in the union than it spent in American Samoa.[4] Unlike residents of the 50 states, residents of American Samoa do not pay federal income tax. However, even when federal taxes paid per capita are subtracted from federal expenditures per capita, there are usually a dozen or more states that receive more per capita federal aid than American Samoa.[5]

It is immediately obvious from Table 19 that American Samoa's per capita federal expenditures were only 56 percent of the US per capita amount in 2005. American Samoa did receive 64 percent more per capita than the US average in grants but less than one-half as much in all other federal expenditure categories.

It is true that the American Samoa Government is more dependent upon federal expenditures as a percent of its revenues. However, this has more to do with extraordinarily low per capita income levels in American Samoa, rather than extraordinarily high federal expenditures in the territory.

[4] U.S. Census Bureau. Consolidated Federal Funds Report for Fiscal Year. U.S. Government Printing Office. Washington, DC: Years 2000-2005.

[5] In 2002 there were fourteen such states and in 2005 approximately ten.

Table 19
Per Capita Federal Expenditures in the US and American Samoa, 2005

Federal Expenditure Categories	US ($)	American Samoa ($)	American Samoa as Percent of the US
Total Per Capita	7568	4203	55.5
Retirement/Disability	2348	790	33.6
Other Direct Payments	1676	133	7.9
Grants	1560	2561	164.2
Procurement	1222	554	45.3
Salaries and wages	762	164	21.5

Source: US Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2005*

American Samoa's per capita federal expenditures were only 41 percent of the US per capita in 2002 as shown in Table 20. American Samoa does reasonably well in the grants category in 2002 as well. However, in social spending categories in particular, American Samoa's per capita federal expenditures are only one-third the US average. This does not bode well for securing federal support in the event of a serious economic crisis in American Samoa.

Table 20
Per Capita Federal Expenditures in the US and American Samoa, 2002

Federal Expenditure Categories	US ($)	American Samoa ($)	American Samoa as Percent of the US
Total Per Capita	6527	2691	41.2
Retirement/Disability	2106	688	32.7
Other Direct Payments	1454	40	2.8
Grants	1410	1630	112.2
Procurement	882	231	26.2
Salaries and wages	675	102	15.1

Source: US Census Bureau *Consolidated Federal Funds Report for Fiscal Year 2002.*

Table 21 demonstrates the main sources of difference between the years 2002 and 2005. Total federal grant expenditures in American Samoa increased $55 million between 2002 and 2005. The increase was more than accounted for by increases in grants from the US Departments of Education, Transportation and Homeland Security as shown. (Federal expenditures do not correspond year to year with expenditures of grantees.)

Table 21
Total Federal Grants and Selected Federal Agency Grants 2002-2005
(Thousands $)

	2005	2002	2005 Less 2002
Total Federal Grant Expenditures	148,241	93,399	54,902
Department of Education	36,698	822	35,876
Department of Homeland Security	12,574	407	12,167
Department of Transportation	22,439	7217	15,222
Three Agency Total	71,711	8446	63,265

Source: US Census Bureau, *Consolidated Federal Funds Report for Fiscal Years 2002 and 2005*

Table 22 demonstrates that per capita federal expenditures in American Samoa have increased fairly steadily this decade, after some federal revenue instability in the 1990's. This has helped close the earlier referenced gap between American

Samoa and the US in per capita federal expenditures. However, American Samoa's General Operations grant and CIP grant have not gone up in many, many years, despite inflation and increases in population.

Table 22
Per Capita Federal Expenditures in American Samoa, 2000-2004
($)

Federal Expenditure Categories	2005	2004	2003	2002	2001	2000
Total Per Capita	4203	4528	3425	2691	1813	1749
Retirement/Disability	790	760	709	688	623	532
Other Direct Payments	133	243	211	40	10	14
Grants	2561	3078	1906	1630	909	929
Procurement	554	287	479	231	186	229
Salaries and wages	164	159	120	102	85	44

Source: US Census Bureau, *Consolidated Federal Funds Report for Fiscal Years 2000 – 2005*

Table 23 demonstrates that the per capita gains are due to rapid growth in federal expenditures in American Samoa rather than population changes. The total federal expenditure average annual growth rate was 17 percent between 2000 and 2005 which is probably not sustainable over the long run due to competing demands for federal resources. The federal expenditure growth trend was especially strong in other direct payments, grants, procurement and wages and salaries. Some of this growth was attributable to FEMA funds for hurricane damage in previous years.

Table 23
Total Federal Expenditures in American Samoa, 2000-2005
(Millions $)

Federal Expenditure Categories	2005	2004	2003	2002	2001	2000	Annual Percent Change 2000-2005
Total	243	262	198	154	116	112	16.7
Retirement/Disability	46	44	41	39	40	34	6.2
Other Direct Payments	8	14	12	2	1	1	51.6
Grants	148	178	110	93	58	59	20.2
Procurement	32	17	28	13	12	15	16.4
Salaries and wages	10	9	7	6	5	3	27.2

Source: US Census Bureau, *Consolidated Federal Funds Report for Fiscal Years 2000 –*

Although American Samoa still lags well behind the US average in federal receipts, the gap has been narrowed in recent years.

US WELFARE PROGRAMS IN AMERICAN SAMOA

American Samoa will probably never reach parity with the States because of its lack of participation or eligibility in some of the biggest federal program. The most prominent among them are the Unemployment Compensation Program determined in the Federal Unemployment Tax Act and the Supplemental Security Income program. The lack of a federal unemployment compensation program is especially difficult for American Samoa in serious economic downturns. In the US it not only offers temporary unemployment benefit periods, the US Congress often funds extended payments for unusually protracted recessions.

However, most social welfare programs available in the 50 States and the District of Columbia are also available in the territories in some form or under selected conditions.[6] They are of two basic forms. One makes direct payments to individuals and the others are joint or cooperative federal-state programs. For the latter programs, states and sometimes localities have a role in the design, administration, and often financing of benefits and services. For the territories to participate in the joint fed-

[6] US House of Representatives, Committee on House Ways and Means, 108th Congress. Section 12, Social Welfare Programs in the Territories, Green Book, 2004.

eral-state programs, federal law must make them eligible, but the territory's government must act to meet selected conditions for federal assistance.

The Food Stamp Program itself operates only in the Virgin Islands and Guam, with special grant programs operating in Puerto Rico, the Northern Marianas and American Samoa. The other nutrition programs generally apply in the territories. These are programs for which benefits are fully federally financed but administration is left to the states.

Most federal-state social welfare programs other than those discussed above are grant-in-aid programs by which the federal government helps finance benefits and services in state or local programs. Territories, like states, may choose not to participate in grant programs. Participation in a program entails accepting federal rules and guidelines and sometimes requiring state or local dollars to match federal dollars.

Table 24 provides more detail on the federal welfare programs available to American Samoa.

Table 24
Federal Funding for Selected Major Social Welfare Programs in American Samoa, 2002
(Thousands $)

Program	Status
Social Insurance:	
Social Security	$30,312
Medicare	1
Unemployment Compensation	NA
Public Assistance:	
SSI	NA
Aid to the Aged, Blind, or Disabled	NA
Temporary Assistance for Needy Families	NA
Child Support Enforcement	NA
Foster Care and Adoption	NA
Health Care for Low-Income Persons and Families:	
Medicaid	3,470
SCHIP	397
Social and Support Services:	
Social Services Block Grants	54
CCDBG	2,663
Older Americans Act	1,300
Nutrition Assistance:	
Food Stamps	NA
Nutrition Assistance Block Grant	5,300
Child Nutrition	UA
WIC	5536

1 – Less than $500
NA – Not Applicable because of ineligibility or not participating
UA – Data Unavailable
Source: US House of Representatives, Committee on House Ways and Means, 108th Congress. Section 12, *Social Welfare Programs in the Territories*, Green Book, 2004.

The more detailed Table 25 demonstrates the extent of American Samoa's exclusion from key US social welfare programs. American Samoa's ineligibility for Unemployment Compensation and Supplemental Security Income programs has been noted. American Samoa has a version of the food stamp program. However, Table 25 indicates that American Samoa does not participate in many other programs.

SUPPLEMENTAL SECURITY INCOME

The Social Security Amendments of 1972 (Public Law 92-603) ended matching grant programs to the 50 States and the District of Columbia for assistance to needy adults who were aged, blind, or disabled and replaced them with Supplemental Security Income (SSI). The new SSI Program provided a federal entitlement program of cash payments for individuals in these groups. However, SSI was not extended

to Puerto Rico, Guam, American Samoa and the Virgin Islands. The old grant programs for the needy aged, blind, and disabled authorized under four separate titles of the Social Security Act 3 continue in those areas. The territories determine benefit amounts. In contrast, the regular SSI Program has federally determined benefits (though States may supplement them). SSI also is fully federally financed. SSI is available in the Northern Marianas.

NUTRITION ASSISTANCE BLOCK GRANT FOR AMERICAN SAMOA

Among the territories, the regular Food Stamp Program operates only in Guam and the Virgin Islands. The Omnibus Budget Reconciliation Act of 1981 (Public Law 95-35) replaced the Food Stamp Program in Puerto Rico with a special Nutrition Assistance Block Grant. Puerto Rico was given a great deal of flexibility in program design. Funding is limited to an amount set in law, which for fiscal year 1998 is $1.204 billion, making it by far the largest Federal needs-tested program in the Commonwealth.

The Northern Marianas and American Samoa are also given fixed grants with which they administer food-stamp-like programs, though the program in American Samoa is limited to the elderly and disabled. The programs that operate instead of the regular Food Stamp Program in Puerto Rico, the Northern Marianas, and American Samoa were generally unaffected by the changes to the Food Stamp Program made in the 1996 welfare reform law. Additionally, the limits on food stamp eligibility for non-citizens do not apply in these programs. Instead, these territories are governed by the law's rules for public benefits that apply to needs-tested programs other than food stamps. That is, the territory may aid those who arrive after August 22, 1996, after they have resided in the United States for 5 years.

PUBLIC ASSISTANCE PROGRAMS

Combined federal funding for public assistance programs for Puerto Rico, Guam, and the Virgin Islands is capped at a maximum dollar amount. The cap for the territories covers (TANF). These caps are not subject to adjustment or increases under current law. TANF operates in three territories: Puerto Rico, Guam, and the Virgin Islands. American Samoa is eligible to operate TANF but has declined to participate because matching requirements would be disruptive to other local priorities.

It is clear from Table 25 that some of the most important short term economic recovery or assistance programs are not available or not utilized in American Samoa because of caps or other requirements. They are unemployment compensation and various forms of public assistance.

Table 25
Federal- State Social Welfare Programs in American Samoa, 2003

Program	Eligible	Participating
Unemployment compensation:	No	NA
Public assistance and related programs:		
Temporary Assistance for Needy Families	Yes	No
Aid to the Aged, Blind, or Disabled	No	NA
Child Support Enforcement	Yes	No
Foster Care and Adoption Assistance	Yes	No
Medical assistance:	Yes	Yes
Social and support services:		
Child Care and Development Block Grant	Yes	Yes
Social Services Block Grant (title XX)	Yes	Yes
Older Americans Act	Yes	Yes
Food and nutrition assistance:		
Food Stamp Program	No	NA
Nutrition Assistance Block Grant	Yes	Yes
Child nutrition	Yes	Yes
(WIC)	Yes	Yes
Education and training:	Yes	Yes
Child protection:		
Child welfare services	Yes	Yes
Promoting Safe and Stable Families	Yes	Yes
CAPTA	Yes	Yes

Source: US House of Representatives, Committee on House Ways and Means, 108th Congress. Section 12, *Social Welfare Programs in the Territories*, Green Book, 2004.

American Samoa is not in a strong position to benefit from existing federal programs if a serious economic crisis were to develop. Major cutbacks in cannery employment or closures would represent such a crisis. It is necessary to petition federal agencies as soon as possible to seek out, modify or create programs that could apply to American Samoa in the event of such an economic disaster.

CHAPTER 4: LONG TERM RESPONSE TO CANNERY INDUSTRY DECLINE

AMERICAN SAMOA'S POSITION IN THE US ECONOMIC SYSTEM

An important prerequisite for economic policy deliberations is to agree on some basic concepts about what is important and how to measure it. In one way or another economic development is related to everything else, but some factors are much more important than others. If we give everything equal weight then everything and nothing are important. Through study we develop models that help us sort out what is really important. Economic development is a complex issue, but there are ways to engage the subject productively.

There have been various assessments of the cause of American Samoa's economic problems. They range from the supposed negative influence of US largess and dependency to the supposed difficulty of blending the Samoan way with modern economics.

From an economic development standpoint, American Samoa is comparable to many rural, isolated areas in the United States. American Samoa is unique in many ways, especially culturally, but the challenge of economic development in American Samoa is in many ways similar to that faced by other rural, isolated communities in the US. There is one major difference. American Samoa is worse off economically. American Samoa has a lower per capita income than any of the 3141 counties in the US.[7] This could vary if cost of living or other adjustments were made, but American Samoa's per capita income would certainly remain among the lowest one per-

[7] Answers.com: http://www.answers.com/topic/lowest-income-counties-in-the-united-states. US Census of Population 2000.

cent of counties in the US. Furthermore, as earlier noted, American Samoa's per capita income is only one-fifth the US average.

It is in the magnitude of differences in productivity that separates American Samoa from most of the US. "Any examination of regional economic performance must begin with a clear framework for how to measure performance and its underlying causes. A region's standard of living is determined by the productivity of its economy. Productivity is measured by the value of goods and services produced per unit of labor, capital, and the natural resources employed. Productivity sets the wages that can be sustained and the returns to investment in the region—the two principal components of per capita income."[8] This, of course, is the skeletal argument pertaining to the minimum wage.

It is said that these poorest counties in the US are generally sparsely populated areas and isolated from larger faster growing metropolitan areas. In general the smaller and more isolated, the poorer they are and the lower their growth rates. It is said also that small size translates to smaller markets and labor forces. While labor might be cheaper because of the isolation, it is not likely to be as abundant or as varied and skilled. Isolation adds an element of higher costs. It is the cost of bringing goods in and exporting locally produced goods. These isolated areas are usually less populated from out-migration because of a dearth of opportunities for the young. On top of all of this is the remoteness from market and industrial centers which are thought to increase productivity through the concentration of knowledge and skills. Infrastructure may be inadequate for many development purposes. Small, isolated areas are everything that thriving metropolitan areas are not. Of course, there is the periodic exception of a remote rural area exploiting a valuable or abundant natural resource.

The issue of rural economies is an important one in the US. Two-thirds of the 3141 or so counties in the US are rural. The US has been trying to deal with these differential economic conditions and growth rates between rural and metropolitan areas for decades. Current policies to improve the disappointing economic performance of rural regions are often deemed, by and large, not working.[9] However, most might agree that this is something of an overstatement. It is fair enough to explain on economic grounds (i.e., remoteness, smallness, etc.) why rural areas cannot keep up with larger metropolitan areas. However, to then fault assistance programs which do not even purport to address those economic grounds for "not working" might be quite unreasonable. Those programs were never intended to eradicate the income and growth differentials between rural and metropolitan areas. In fact, even in their economic doldrums, rural areas might be performing close to economic expectations. In fact, they might be performing their economic roles quite effectively by channeling resources where they can secure the greatest productivity and return. The point of these remedial programs, of course, is to assist these areas in performing as well as they are able under difficult circumstances. After all, they are our communities, our people and our children.

The central point is this: If the federal government has had difficulty dealing with rural areas in the US in general, it should be no surprise that the federal government has had limited success with economic development in American Samoa and other outlying areas. Economically, the territory is an exaggerated case of rural areas in the US. If small size and isolation are the precursors of low incomes and economic growth rates, then the challenge facing American Samoa's economic development advocates is a big one. In fact, since physical isolation and size are primarily what these poorest counties in the US have in common, it might be said that American Samoa's performance is not unexpected.

This does not mean that American Samoa is doomed to economic deprivation for all eternity. However, it does mean that American Samoa will likely suffer from low average incomes and growth rates compared with the US average indefinitely. Furthermore, it does not mean that federal or local programs have been failures. Success cannot be defined as achieving average income and growth rates in rural areas equal to those of large metropolitan areas. A great deal can be done to narrow this income differential or to prevent it from worsening. We simply need to do the best we are able to stretch American Samoa's resources to their most productive potential.

---

[8] Michael E. Porter with, Christian H.M. Ketels, Kaia Miller, and Richard T. Bryden "Competitiveness in Rural U.S. Regions: Learning and Research Agenda" Institute for Strategy and Competitiveness, Harvard Business School, February 25, 2004 (page 6).

[9] Michael E. Porter with, Christian H.M. Ketels, Kaia Miller, and Richard T. Bryden "Competitiveness in Rural U.S. Regions" (page 3).

APPROACHES TO ECONOMIC GROWTH AND DEVELOPMENT

It is now necessary to determine how American Samoa can best advance its own economic interests, through programs and policies involving the private and other sectors.

Advances in economic theory are helpful in this regard. Typically, regional economic development has been primarily regarded as a promotion or sales effort to attract manufacturers. Economic development is still regarded as largely a matter of regions getting the word out about their location advantages and then opening a welcoming door to direct investment. This approach, by itself, is no longer regarded as an effective one particularly for smaller, rural areas. This is especially the case as manufacturing employment has been in decline all across the nation due to globalization and rapidly rising worker productivity. In recent years, economists have been getting a better handle on the economic growth process. There are improved concepts for how to achieve economic development.

Education and technology have been known for a long time to have a great influence on economic growth. However, there was never a very clear idea of how it worked or how to account for or measure it. Previously, economic development was viewed in a highly physical sense as in the use of land, labor and capital and the production of goods. Typically, the process was governed by competition, comparative advantage, and diminishing returns, all of which remain important. Increasingly, however, economists are coming to realize that while these concepts apply reasonably well to the production of goods, they apply much less well to the fastest growing sectors of the economy, which are technology and knowledge-based activities.

The new technology and knowledge-based activities defied older notions of diminishing returns. It became clear that innovation could provide what appeared to be almost unlimited growth potential! This notion has been called "New Growth Theory". According to a leading exponent, Paul Romer, "new technologies like biotech help demolish the old specter of diminishing returns, which led economic thinkers such as Ricardo and Keynes to suppose that growth had its limits. Instead, these new technologies create increasing returns, because new knowledge, which begets new products, is generated through undiminished research."[10]

"The centerpiece of New Growth Theory is the role knowledge plays in making growth possible. Knowledge includes everything we know about the world, from the basic laws of physics, to the blueprint for a microprocessor, to how to sew a shirt or paint a portrait. Our definition should be very broad including not just the high tech, but also the seemingly routine."[11] In other words, knowledge includes everything from the most sophisticated technological advances to the everyday innovations of millions of workers.

"Recent economic developments have underscored the relevance of increasing returns in the world of business. Software and the Internet, both relatively new inventions, have very high initial or fixed costs (the cost of developing the first disk or initially programming a website) but very low (or nearly zero) costs of serving an additional customer or user. The first copy of Microsoft windows might cost tens of millions of dollars to make, but each additional copy can be made for pennies."[12]

The central point is this. Economic growth has traditionally been defined as more people producing more goods and services of the same form and by the same means. However, the New Growth Theory recognizes that economic growth also occurs when people (a larger or smaller number) produce more goods and services by more efficient means.

Romer likens the economic growth process to a kitchen operation in which we mix inexpensive ingredients together according to a recipe. The cooking one can do is limited by the supply of ingredients. If economic growth could be achieved only by doing more and more of the same kind of cooking, we would eventually run out of raw materials. Human history teaches us, however, that economic growth springs from better recipes and equipment, not just from more cooking. New recipes generally produce fewer unpleasant side effects and generate more economic value per unit of raw material.

Romer summarizes: "Every generation has perceived the limits to growth that finite resources and undesirable side effects would pose if no new recipes or ideas were discovered. And every generation has underestimated the potential for finding

[10] Kevin Kelly. Paul Romer: The Economics of Ideas (http://www.versaggi.net/ecommerce/articles/romereconideas.htm).

[11] Joseph Cortright "New Growth Theory, Technology and Learning: A Practitioners Guide" Reviews of Economic Development Literature and Practive No. 4, 2001.

[12] Ibid. pp.4.

new recipes and ideas. We consistently fail to grasp how many ideas remain to be discovered."

Romer cites a more mundane example for which there are unlimited opportunities. "In most coffee shops, you can now use the same size lid for small, medium, and large cups of coffee. That wasn't true as recently as 1995. That small change in the geometry of the cups means that a coffee shop can serve customers at lower cost. Store owners need to manage the inventory for only one type of lid. Employees can replenish supplies more quickly throughout the day. Customers can get their coffee just a bit faster. Such big discoveries or inventions as the transistor, antibiotics, and the electric motor attract most of the attention, but it takes millions of little discoveries like the new design for the cup and lid to double average income in a nation."

New Growth Theory has much to say about how to succeed in an economy based extensively on knowledge and innovation. There are recommendations on the role of government in education, research, and the legal infrastructure regarding monopoly and intellectual property rights.

There are several important conclusions from this analysis from American Samoa's standpoint. One is that economic growth is not necessarily tied to population growth, nor does it rely on continued access to declining natural resources. Because economic growth today is largely knowledge based, we can achieve higher income growth without a growing population.

The second is that when we refer to a knowledge-based economy that can produce more and more with less and less through unending innovations, we are not just talking about the role of the private sector. This includes the public sector as well. The obvious examples are improved education and support for research. However, also included are the everyday innovations of government managers and workers and improvements in skills, systems and general management. Dealing with government can be pleasant and efficient, or it can be distasteful and costly. A business cost is a business cost regardless of whether it is generated by the private sector or the public sector. Hence, efficiency in government is translatable to efficiency in the private sector.

Moreover, financial control problems can directly affect federal funding for economic development projects by delaying or prohibiting funding for such projects. Investors, whether local or from off-island, can be discouraged by an inability to obtain essential information, permits, licenses, etc.

Most of the ideas for new development directions will come from the private sector which is in a stronger position to recognize opportunities and to set them on a course to fruition. It is the government's job to accommodate the process.

THE EVOLUTION OF AMERICAN SAMOA'S PRIVATE SECTOR

It has been less than 50 years since American Samoa began the transition from a traditional subsistence economy to a modern commercial economy. In the early 1960s, the population of the territory was only about 20,000 and the residents were still primarily engaged in a subsistence lifestyle based on fishing and agriculture. The government and the fledgling tuna industry, which got underway in 1954, employed only a small percentage of the workforce and there was no other basic economic activity.

With the exception of the extraordinary WW II years, modern ways of living had not yet arrived in American Samoa. From the end of WW II to the early 1960s, the U.S. government did not seek to integrate American Samoa into the United States or world economy. As a result, the private sector was limited and undeveloped.

The territory's transition to a modern economy did not begin in earnest until the middle of the 1960s when federal officials made a conscious decision to modernize American Samoa. It did this with a new airport, four-star hotel, new hospital, new schools, new roads and a wide range of other improvements, including increasing local political self-determination and modern forms of governance.

Starting with the modernization push in the 1960's, both the government and the tuna industry have gotten much larger and more sophisticated. The growth in the basic economy inevitably fueled growth in the secondary private sector, as companies stepped up to fill the expanding demand for local goods and services.

As recently as the 1980's, there were still large gaps in the goods and services provided by the private sector. Shopping was often a hit and miss affair, and many things were simply not available. Twenty years ago, there was no modern movie theater, no fast food chains, no daily newspaper, a single radio station, no cable television or private television channels (and no same-day TV programming at all), bare produce sections in the stores, no big box store, and a limited selection of building materials and consumer goods.

Today, American Samoa's consumers and businesses can reliably find a wide array of basic and not-so-basic goods and services, due to the private sector's aggressive exploitation of emerging commercial opportunities and improvements to telecommunications and freight transport.

In addition to catering to the demands and desires of the general populace, many of today's leading businesspeople became successful by providing goods and services specifically required by the tuna industry and the fleet of fishing boats supporting the canneries. They supplied a wide range of services, including warehouses, bus services, welding, construction, stevedoring, cafeteria services, night clubs, fuel and lubricants, salt, travel agencies, rental housing, and many other goods and services.

Despite the blossoming of the secondary private sector, there have been limited efforts to develop new forms of export-oriented economic activity. (e.g., garment manufacturing by BCTC and Daewoosa, manufacturing by Bulova watches, and tourism) but none of those took hold.

But if the canneries close or reduce employment significantly, the associated job and income losses will have to be replaced with other export activity to maintain American Samoa's standard of living and to provide jobs for the displaced workers that remain in the territory.[13]

This replacement export activity can come from new export-oriented companies moving in, or from new export activities undertaken by today's existing private sector.

CHAPTER 5: PRIVATE SECTOR ROLE IN AMERICAN SAMOA'S FUTURE DEVELOPMENT

THE PRIVATE SECTOR SURVEY

The consulting team visited American Samoa in May, June and September 2007 to involve the private sector and to determine their views about the challenges ahead. The group held formal meetings with a diverse group of approximately 30 private sector leaders employing more than 600 workers. (See Appendix B for survey methodology.)

The sample included managers and owners involved in a range of business activities, including retailers and wholesalers, professionals, banks, insurers, shippers, manufacturers, and service providers. Most interviewees were business owners and most have long tenure in American Samoa.[14] The businesspeople were asked what future they foresaw for their companies and the canneries, and how American Samoa should pursue a more diverse and stronger economy.

This research was carried out amidst daily front page headlines about proposed, and then confirmed, significant increases in the federal minimum wage law. About half of the interviews took place before the unexpected news that American Samoa's minimum wage would increase $.50 each year from 2007 on until it reached the US minimum wage level of $7.25 per hour. The other interviews took place after the new provisions of the Fair Labor Standards Act were signed into law by President George W. Bush in late May 2007.

Throughout this period, rumors swirled throughout the community concerning the possible effect the new minimum wage law would have on the canneries. Soon after the U.S. minimum wage law went into effect, the media reported that StarKist had decided abruptly to shelve its highly publicized pouch project, which would have provided 300 new jobs and moved the cannery in the direction the tuna industry is heading.[15] Samoa Packing announced during the same week that it would be laying off 200 workers (9 percent of its workforce) in response to the new minimum wage law.

As a result, the atmosphere in the interviews evolved from an exploration of a hypothetical future to a more tense exploration of what was beginning to seem more like the inevitable. Even though many private sector people had been anticipating closure of the canneries in the future, few people have been actively addressing the possibility with advance planning. None had given any thought to how they or others in the economy would respond to cannery closures at the same time they were absorbing significant annual wage increases in their own businesses.

---

[13] American Samoa's standard of living seems to already be under pressure, even without the loss of the canneries. According to the government's 2005 State of the Economy Report, It states that American Samoa's per capita income remains only about 20 percent of the US average.

[14] In addition to the formal interviews, scores of informal conversations were conducted with other business people, workers, residents, government employees, retirees, etc.

[15] In August 2007, StarKist announced it was proceeding with a scaled down pouch project, which would require 150 workers.

CANNERY INDUSTRY VIEWS ON ITS FUTURE

In correspondence with the study authors, the two canneries provided information about their employment rolls, local expenditures and various other matters. Increases in productivity (due in large part to automation and a shift towards loining from whole fish processing) has accounted for the decrease in total employment at the canneries over the past five years. The canneries have found recruitment and retention of workers an ongoing challenge, which led to their support for the more liberal 2007 guest worker legislation.

Regarding the future of the canneries in American Samoa, the two companies said that elimination of the automatic $.50 per hour minimum wage escalator clause is essential if they are to continue full operations in American Samoa, especially in light of other trends in the worldwide tuna industry, such as a lowering of American tariff provisions in the name of free trade.

Both canneries presently receive significant tax incentives from the American Samoa Government, and they both indicated that their continued presence depends on such incentives being extended beyond their March/April 2008 expiration dates.

The canneries both seek some form of federal tax credit to replace Section 936, but they differ on the preferred form of such a credit.

They also mentioned the need for a reduction in their costs for fuel and electricity in American Samoa. They claim that such costs are many times higher than in other locales where tuna is processed (e.g., Thailand and the Philippines).

Lacking substantial relief of the type mentioned above, the canneries indicate that they will begin planning for a transfer of production from American Samoa to more favorable locations which are eager and able to accept tuna processing industry growth. Once a decision is made to transfer production from American Samoa, action would probably soon follow and it would probably be very difficult to reverse the decision.

PRIVATE SECTOR VIEWS ON THE CANNERY INDUSTRY

The canneries have dominated American Samoa's private sector economy for a long time. Thanks to their presence and the economic activity they generate, American Samoa enjoys many benefits. For example, the canneries require frequent sea freight service, and thus the territory enjoys sea freight service levels much higher than its population would otherwise justify, at rates lower than would otherwise prevail.

The availability of frequent and relatively economical sea freight service has allowed the private sector to overcome some of the difficulties associated with American Samoa's remote location and has thus materially affected their fortunes for the better.

The same dynamic applies to a wide range of public services and facilities. The presence and needs of the canneries has directly justified the development of high capacity infrastructure, which many companies and residents enjoy the benefits of. With the canneries to support, it has been possible and necessary to improve the commercial harbor, the petroleum farm, ASPA's electrical and water systems, telecommunication systems, and environmental systems.

As previously indicated, many local businesses upgraded their capacity to take advantage of the commercial opportunities presented by the canneries. They mobilized to offer welding, plumbing, electrical and construction services. They added machine shops, rewiring shops, nightclubs, restaurants, rental car agents, bus owners, taxi drivers, food purveyors, petroleum agents, travel agents, real estate owners and literally hundreds of other goods and services.

The canneries spent $30.5 million a year in the local economy on goods and services in 2005. This was in addition to the $49.4 million they paid to their employees. The injection of $80 million into the American Samoa economy directly and indirectly supports approximately half the jobs in the territory. For these reasons and more, most members of the private sector support efforts to retain the canneries in American Samoa.

However, there is also some unhappiness with the price American Samoa pays to host the canneries. Some members of the public are unhappy with the negative environmental impact of cannery operations; others decry the negative social impact of an economy that is dependent on low wage, unskilled, foreign workers. Some people think the canneries get more than they give, thanks to favorable government treatment (such as tax exemptions and inexpensive land leases) and their reliance on foreign workers who pay low taxes and receive extensive public services (e.g., free education and heavily subsidized medical care) for themselves and their families.

Others simply note that the canneries presence and growth has stifled other forms of economic development. For example, some visitor industry leaders believe Pago

Pago Harbor with its dramatic beauty and calm waters could be a huge tourist draw. However, as long as the canneries are still operating there, the Harbor's appeal will be neutralized for tourism purposes. The legacy of pollution they will leave behind when they depart might make it difficult to capitalize on the Harbor's tourism potential.

The growth of an economy dependent on a low skill, low wage jobs (fish cleaning) has also had the effect of contributing to out-migration, as local youth prefer to move off-island than to take the jobs available locally.

The growth of the tuna industry has helped the secondary private sector grow and prosper, but that same growth has also made the economy more dependent on the canneries than is economically healthy. Entrepreneurial businesspeople have for many years prospered by tapping opportunities created by the canneries' presence and few have pursued riskier export-oriented opportunities.

It is not surprising that an industry as prominent as the canneries has become a major target for criticism and dissatisfaction. For example, many business leaders resent the way the canneries sometimes use their influence to push their agenda at the political level, and businesspeople wish the canneries would change some of their business practices. For example, it is hard on the community-at-large and local companies when the canneries furlough their workforce with little advance notice.

After years of "the-sky-is-falling" talk about the canneries scaling down or leaving, most private sector members remain determined to try and help the canneries find a way to stay in American Samoa as long as possible. However, they are also aware that the canneries are likely to scale down or leave some day. As much as the private sector members dread the financial pain that will ensue, most believe a post-cannery era is inevitable and are encouraged that the government wants to prepare for the impacts before they appear, and to help ensure a smooth transition to a post-cannery era.

In the meantime, the Chamber of Commerce has taken a very active role in support of measures that will extend the canneries' tenure in American Samoa. For example, the Chamber strongly supports efforts to extend federal tax benefits for the canneries and to roll back the automatic minimum wage increases. The Chamber also supported the local guest worker legislation approved in 2007 which makes it easier for the canneries to hire foreign nationals.

PRIVATE SECTOR VIEWS OF CANNERY INDUSTRY FUTURE

Concerns about Canneries.—The views of the private sector interviewees who participated in the formal survey process are summarized in the following section (See Appendix B). The vast majority of respondents said they have given "a lot of thought" to what impact they will experience from closure of the canneries. A small minority said they had given such impacts only "a little thought". There was no respondent who had not given the matter at least "a little thought". A majority of the respondents were "very worried" about the possible departure of the canneries. Those who were not "very worried" were "concerned" or a little worried. There was no respondent who was simply "not worried."

Responses to Cannery Contingencies.—About half the leaders interviewed said they had not altered their business decisions in the past year due to fears of the canneries leaving. The other businesses said they had taken steps to reduce their risk and exposure in the event of a further downturn in the local economy. Most business leaders felt that 2006 and 2007 were slow years for the American Samoa economy compared to the few years immediately prior to those. Some businesses had done less new hiring than they would have otherwise. Some businesses had not taken on debt or avoided investments that they would have otherwise. Some businesses were taking their profits out of American Samoa and investing them in other locations where they perceived a brighter economic future, such as Samoa. Some businesses are striking out in new or altered directions to become less dependent on direct or spin-off cannery business. For example, one business that historically sold "entry level" used clothing that is affordable to cannery workers has discontinued importing used clothing and up-scaled its product offerings in a conscious effort to appeal to a more affluent clientele, such as government workers. Some businesses were engaged in strategic planning or contingency planning for changing their business model or exiting American Samoa entirely. It was clear that many or most businesses are becoming increasingly conservative and are increasingly reluctant to commit themselves to the kind of normal business risks (e.g., expansion, updating of equipment) they would ordinarily take in a more stable business environment.

Probability of Cannery Closures.—Virtually all respondents felt the canneries would be operating in American Samoa in a similar manner to their present oper-

ation at the end of 2008. However, about one-third felt the canneries would be scaled back or closed by the end of 2009. Some American Samoa residents, including business leaders, do not think the canneries will leave for many years. They think American Samoa offers so many important advantages to the canneries that they will remain despite the loss of federal tax credits, increases in the minimum wage, and reduced tariff protection.

Effects on Business Income.—If the canneries were to close or scale down, most business leaders anticipate significant drops in their revenue and the number of workers they employ. Cannery-related businesses obviously expect huge declines in their operations, even possible closures. Businesses that more generally serve the community anticipate drops in their revenues ranging from 3 percent to 70 percent. Revenue drops of 25-50 percent are routinely expected by many observant, experienced businesspeople. There is a sense that revenue declines at the lower end (i.e., 25 percent) will reflect reduced buying power directly due to cannery closures. Revenue declines at the higher end (i.e., 50 percent) are anticipated to result from consumer/business worries over the general prospects for the economy, more than actual financial hardships experienced by the general population. For example, a media company fears that businesses will cut back their advertising more than they "should" out of an erroneous belief that the economy and consumers are worse off than they really are. Such cutbacks could create a self-fulfilling prophecy because a reduction in advertising will result in a slowdown in business, which will result in a further reduction in advertising, etc. Such a "snowballing effect" that feeds on itself could significantly, and unnecessarily, add to the economic woes of American Samoa in the event of a cannery cutback or closure.

Effects on Employment.—Most businesses expect to reduce their workforce in relation to the revenue drops they anticipate. In general, the workforce reductions would be smaller percentages than the revenue reductions. For example, a 25 percent drop in revenues might result in only a 15 percent drop in employment levels. Most companies felt they were already operating in a "lean" manner, and there was little fat to cut out of their staffing levels. Business leaders said they were operating in a lean manner due to a slow economy in 2006 and 2007, and fears for further slowdowns in the years ahead.

Effects on Business Survival.—Although some business leaders do not believe they will be able to stay in business as a result of the impact of cannery closures, most companies expect to adjust, adapt and survive. They have guarded unspecific optimism that it will work out for their businesses and for American Samoa's economy. Local companies are more committed to adjusting and adapting than off-island companies. Off-island companies are understandably more willing to contemplate withdrawing from the American Samoa market if it shrinks too much. One local businessperson spoke for many others when he said, "our company will survive, but it will be smaller and we will look at doing business differently to be viable." Significantly, both commercial banks (as well as the government-owned Development Bank) expressed a firm commitment to stay and be part of the solution, not the problem. "We will not cut (our losses) and run," one commercial bank official said, and the other bank said much the same thing in different words. Both commercial banks noted that their long history and involvement in the Pacific Islands gave them the perspective and tools to weather the economic storm that might hit American Samoa. Banks would, however, obviously take steps that will make it more difficult to borrow money (e.g., raising the credit bar higher). Many business people believe at least one bank has already tightened its lending criteria to limit its exposure.

Effects on Indebtedness.—Despite the predictions of significant drops in revenue, few respondents believe that a closure of the canneries would affect their ability to repay their loans, though a restructuring of their debt might be necessary.

Effects on Local Prices.—Virtually all businesses expect they will have to raise their prices if the canneries close, mainly due to increased costs of doing business (e.g., shipping and utilities) as well as decreases in the economies of scale. Some expect to maintain current levels of product offering and customer service, while others anticipate a reduction in the same.[16]

PRIVATE SECTOR VIEWS ON CANNERY CLOSURE IMPACTS

Most respondents believe that the role played by the government, both territorial and federal, will have a huge impact on the transition to a post-cannery era. How-

[16] Some of the indirect impacts of a cannery reductions or closures relate to shipping, utilities and petroleum, as the loss of cannery business will lead to increased costs to be borne by the remaining customer base.

ever, businesspeople suggested no specifics as to what form of assistance would be most welcome for a smooth and successful transition.

Private sector leaders identified immigration policy as one area where government has an important role to play. Currently, about 70 percent of the private sector workforce, including the tuna cannery industry, is foreign-born. The present-day economy depends on foreign workers to fill the jobs companies need filled. In a time of widespread unemployment, the foreign workers might choose to return home, or might be compelled to leave by their sponsors or by the government's enforcement of immigration laws. The departure of the foreign workers might reduce the labor pool to such a large extent that potential new employers might be concerned that they would be unable to staff an American Samoa operation. On the other hand, the departure of many low-income workers might help ease the government's financial burden and reduce some of the problems of high population growth rates in the territory (e.g., traffic jams, teacher and classroom shortages, long waits at the hospital, etc.)

Thus, many different facets of migration are seen as big issues: from the question of what will happen to unemployed foreign cannery workers with limited skills, to the need for an appropriate labor force for American Samoa's economy, to the concerns about a brain drain of American Samoa's middle class and educated young people.

Businesspeople believe that government actions and laws, as well as the private deliberations of individuals and families, will all have a direct influence on these issues.

Also, though American Samoa now controls its own immigration laws and borders, local leaders are aware that federal officials and lawmakers want to take similar local authority away from the Commonwealth of the Northern Marianas Islands. There is, therefore, a concern that the federal government might exercise its right to assert immigration and customs control authority over American Samoa. Such an action would have huge implications for American Samoa's business community and future, given that 70 percent of the private sector workforce is composed of foreign nationals admitted into the territory under local, not federal, authority.

Businesspeople are uncertain as to what will happen to the foreign workers who lose their jobs. They are aware that there are many different categories of foreign workers and generalizations are difficult to make.

For example, the skilled unmarried tradesman from the Philippines who is sponsored by a company and living in a rented apartment is in a very different situation than the unskilled Samoan couple with five minor children born in American Samoa with U.S. National status, all of whom live in a house they built on land that belongs to the relative who serves as their sponsor.

Most people expect that foreign workers with weak attachments to American Samoa will return home if they lose their jobs (or that they will be sent home by their sponsor). However, no-one knows how many people fit that category, just as no-one knows how many unemployed foreign workers will seek to remain in the territory and get by somehow while waiting for new jobs to materialize.

A large number of unemployed workers would obviously cause a great deal of stress on the territory, and it is unclear what role the government will play in influencing or mandating what happens to unemployed foreign nationals. There is no clear indication what actions the business community wants the government to take in relation to unemployed foreigners who stay in the territory after losing their jobs.

A related private sector concern involves American Samoans, and whether there will be a substantial increase in the number of American Samoans who decide to migrate to the United States during a period of general economic weakness or high unemployment.[17]

Business leaders note that migration debates will also take place in the households of American Samoans who have not become unemployed but are discouraged by the lack of economic opportunity that might follow cannery reductions or closures and which may last for many years. For example, some parents told us that they are urging their children living off-island to stay there and get an education and work experience because there are no jobs in their fields in American Samoa. That advice is being given now; imagine how much more common such advice will be at a time of widespread unemployment.

---

[17] The consultants heard many anecdotal tales of American Samoan parents advising their children, especially their college-educated children, to stay in the United States and obtain valuable job experience in their chosen fields. The parents harbor a permanent hope that their children will one day be able to return to American Samoa and achieve their career goals.

It seems likely that cannery reductions or closures could intensify the "brain drain" of young American Samoans who are vital to the prospects for strengthening and diversifying the territorial economy in the future.

PRIVATE SECTOR PERSPECTIVES ON FUTURE ECONOMIC DEVELOPMENT DIRECTIONS

As part of the private sector survey, business leaders were asked what sort of industries or new directions they believed were good fits for American Samoa. They were specifically asked their opinion on the recommendations made in 2002 by the American Samoa Economic Advisory Commission, which identified five promising sectors: tourism, light manufacturing, information technology/call centers, agriculture and fisheries.

Virtually all the respondents felt that each of the sectors had merit, although some people were explicitly pessimistic about tourism. This was based on the territory's past lack of success with tourism and the oft-cited obstacles to developing a thriving visitor industry (e.g., expensive and limited air links to potential markets).

Regarding the other possibilities, agriculture's potential was thought to be limited, but most respondents thought there was a basis for successful development in the areas of information-based activity, manufacturing and fisheries.

Most people felt that American Samoa's small size required a focused approach instead of trying to pursue all possible avenues for economic diversification. Most businesspeople think that manufacturing and information industry companies offer the most promise when it comes to replacing the thousands of jobs now provided by the tuna industry. But private sector leaders believe there is potential in the other sectors and hope that there will be progress on developing tourism, fisheries, and agriculture sectors as well.

Legalized gambling was the only other specific economic opportunity endorsed by several respondents. However, many other respondents disagreed that gaming is a promising direction for American Samoa for a variety of reasons, ranging from the socio-political to the strategic. . Moreover, Governor Togiola Tulafono has recently expressed his opposition to allowing a gaming industry in the territory.

Several respondents had specific ideas for new economic ventures that they thought were promising, including ship/barge building, fulfilling military contracts, data processing, furniture manufacturing, development of a marina, liquor distilling, beer brewing, bottled water, food processing, pet food manufacturing, mattress manufacturing, candle manufacturing, airport handling manufacturing, electric vehicle manufacturing, etc. Their ideas generally fell into one of the five categories mentioned previously.[18]

Even though the relationship between American Samoa and the United States is central to American Samoa's economic present and future, no respondent mentioned a different political status for American Samoa during the open-ended interviews. Some respondents mentioned specific political matters, like the cabotage rule affecting air transport, or the American Samoa land tenure and immigration systems. The recent work of the Future Political Status Commission did not appear to be a matter of interest to the business community, despite the widespread publicity it has received. That might be because the Commission's core recommendation was to maintain the status quo.

Just as the recently rejuvenated Chamber of Commerce is fighting to extend the canneries' presence in the territory, it is also fighting to diversify the economy and promote new forms of economic development through an improved business climate.[19]

The Chamber has prepared "white papers" and formed committees to achieve its goals. It has increased communication with the Governor, the Fono and the Congressman in an effort to start forging public-private ties that will be crucial to accomplishing economic development progress. In 2007, the Chamber formed PEACAS, the Private Economic Advisory Council of American Samoa, "whose main objectives are to promote all forms of economic development within the Territory, and to facilitate and promote public/private partnership opportunities with the ASG."

---

[18] An example of one idea that did not fit into one of those five categories was off-shore banking, but that is not considered a realistic idea by the consultants. Other suggestions that were disregarded included forestry (not feasible or environmentally appropriate) and hosting a U.S. Navy base (probably not feasible given American Samoa's small size and non-strategic location).

[19] The Chamber's website, www.amsamoachamber.com, contains useful information about American Samoa's private sector economy and the Chamber's efforts to improve same.

PRIVATE SECTOR ECONOMIC DEVELOPMENT CONSTRAINTS

As mentioned previously, if the canneries closed down or scaled down, new export-oriented economic activities would be needed to replace the lost jobs and help maintain the standard of living of American Samoa residents.

History and analysis reveal that it will be a challenge to attract new companies to the island, or for existing companies to successfully expand and transform themselves into exporters. In the sections that follow, the disadvantages and advantages American Samoa offers to the potential investor are reviewed, followed by a discussion of what sort of economic opportunities American Samoa might successfully exploit.

Disadvantages.—While all communities face constraints to achieving their goals of economic diversification and growth, the challenge in American Samoa is decidedly more daunting. The following is an outline of economic development disadvantages that American Samoa must work within or remedy to more successfully promote and achieve job creation and economic development.

1. Physical infrastructure

a. American Samoa lacks an international fiber optic cable link. This limits the quality and quantity of low-cost telecom, internet, etc. The government and private parties are working to bring a fiber optic cable to American Samoa in 2008, but that will require a major capital investment.

b. Major roads are congested and some are in poor condition.

c. There is a general lack of reliability (e.g., internet service, electrical service). This means that operations might be compromised, or the expense of redundancy might be necessary.

2. Social infrastructure and business environment

a. Land tenure system makes securing land cumbersome and unpredictable.

b. Limited access to capital, and higher borrowing costs, compared to other locales.

c. Regulatory environment is stricter than other locales, yet government is often behind on taking care of basic public services (e.g., condemnation of derelict buildings, installation of traffic control, etc.)

d. Limited air links, expansion of which is problematic due to U.S. cabotage laws, which prevent foreign carriers from flying between two U.S. airports).

e. Health care services below U.S. standards. High levels of health problems (e.g., diabetes, high blood pressure).

3. Concerns of business community regarding business climate

a. Playing field may be tilted by political considerations.

b. Difficulty obtaining a business licenses in a timely manner.

c. High taxes, duties and fees.

d. Higher tax scheme for foreign corporations.

e. No title insurance and limited financial infrastructure.

f. Federal government indifference.

g. Loss of historic federal advantages (e.g., Section 936, special minimum wage provisions and declining importance of duty-free access to the U.S.).

h. Perceived lack of urgency or interest amongst local population as it relates to business development.

i. Negative publicity from Daewoosa and other corruption issues.

4. Human capital

a. Limited local labor pool.

b. Lack of immigration security for foreign labor.

c. Wages that are higher than what must be paid in competing locations, yet wages that are so low that they lead to a "brain drain" in many areas (e.g., nurses, teachers, and other skilled workers).

d. Limited number of CPAs or equivalent.

e. American Samoa students have lowest scores in United States in national assessment tests. Problem affects efficacy of Community College, which must enroll almost all new students in developmental classes. Low ASVAB test scores prevent many school leavers from achieving their desire of enlisting in U.S. armed forces.

f. Low levels of higher education attainment.

5. Geography

a. Long distance to markets and sources of supply, compounded by not being located near major transpacific shipping lanes.
b. Remoteness makes for expensive shipping.
c. Remoteness and small size contributes to expensive electricity.
d. Remoteness and small size makes for expensive telecommunications (and lack of redundancy).
e. Limited sea and air transportation.
f. Subject to hurricanes.

6. Natural resources

a. Limited land mass and developable land.
b. Limited arable land.
c. Few and small beaches.
d. Few world class dive or surf spots.

PRIVATE SECTOR ECONOMIC DEVELOPMENT OPPORTUNITIES

The list that follows summarizes many of the advantages American Samoa can extend to companies considering locating a plant or office in the territory.[20] (See also the government's promotional brochure, "American Samoa: Pacific's Best Investment Bet").

Advantages

1. Physical infrastructure

a. Extensive commercial freight docks in a protected deep-draft harbor.
b. Dock-side container storage yard.
c. International airport.
d. Industrial electricity.
e. U.S.-grade water, wastewater and solid waste systems.
f. Roads.
g. Industrial park.
h. Cannery operations, including buildings and infrastructure. Food grade facility.

2. Social infrastructure and business environment

a. Security and stability of being part of the United States family.

i. Presence of FBI, FAA, TSA and U.S. Postal System.
ii. Part of U.S. court system and U.S. banking system.
iii. USDA food inspectors.
iv. USEPA drinking water standards and other environmental standards apply.
v. Participation in federal grant programs, including those promoting development in rural areas, undeveloped areas, and amongst minority populations.
vi. Stable base of federal financial support.
vii. Represented in the U.S. House of Representatives by a locally elected Delegate.
viii. Goodwill in the Pentagon and Congress from Samoans' service in U.S. military.
ix. Free enterprise capitalism.
x. US Essential Air Service law applies.
xi. Federal telecommunications regulation and subsidies.
xii. National Park of American Samoa.
xiii. Fagatele Bay National Marine Sanctuary.

3. U.S. style tax code
4. U.S. trade advantages

a. Headnote 3(a) tariff protection, Jones Act, Nicholson Act.
b. "Made in America" labeling.

[20] Many of the items featured as "advantages" on this list also appear in the preceding section as "disadvantages". Roads are an example. American Samoa has a decent road structure and portions of the main road have been rebuilt to a high standard in the past few years. But some portions of the road are in poor shape, the roads are narrow and have low posted speed limits, and they are congested, so the roads can also be seen as a disadvantage. Similarly, American Samoa has a good telecommunications infrastructure with competing companies, which is an advantage, but the cost of telecommunications is high and the reliability and voice quality of local and off-island links is not up to mainland standards, which is a disadvantage.

5. Long history of success with tuna processing
    a. Support for large-scale industrial operations.
6. ASG business incentives.
    a. Tax exemptions possible (local control over taxation).
    b. Job training assistance available.
    c. Small business counseling and other forms of assistance.
    d. No property tax.
7. Intact society/culture.
8. Lower wages relative to the US and other industrialized places.
9. Close ties to USA, including military services.
10. Friendly and welcoming people.
11. Human capital
    a. Skilled personnel and management at canneries and elsewhere.
    b. Unskilled labor pool.
    c. Access to wider labor pool through immigration. (Local control over immigration).
    d. English speaking population.
    e. U.S.-based education system.
12. South Pacific location
    a. Proximity to fishing grounds.
    b. Located between United States and Australasia.
13. Natural resources
    a. Deep and protected harbor.
    b. Ocean resources.
    c. Plentiful fresh water.
    d. Natural beauty/low pollution.
    e. A few areas with good diving, surfing, fishing, etc.

NEW ECONOMIC FOUNDATIONS FOR AMERICAN SAMOA

Many in the private sector, while fearing the pain of cannery closures, are looking forward to building a new economic foundation for American Samoa. These hopes can be realized.

To begin with, there is a firm consensus in American Samoa in favor of transitioning to a diverse private sector-based economy. There is widespread agreement on the desired characteristics of a new economic foundation for American Samoa:

- It is not dependent on one industry or company.
- It increases local standards of living by being export-based.
- It provides jobs and business opportunities for school leavers with limited education and training.
- It provides local jobs and business opportunities for Samoans who have obtained high levels of education or job experience, locally or off-island.
- It provides sufficient income and job opportunities so that Samoans do not feel compelled to move off-island.
- It does not injure American Samoa's environment or cultural integrity.
- It facilitates shipping and telecommunication links to the wider world.

That's what American Samoans want. Can those desires be matched with commercially viable economic activities? Despite the longstanding lack of diversification, there are fundamental reasons to be optimistic that an economically healthy post-cannery era can be realized if a coordinated effort leverages known opportunities and overcomes known obstacles.

To attract new industries, American Samoa (or any other locale) must demonstrate a competitive advantage that will give prospective investors an edge in comparison to other locales where they might otherwise place their operations.

That American Samoa can provide impressive competitive advantages is evidenced by the fact that it has accommodated StarKist and Chicken of the Sea in profitably producing billions of dollars of product in American Samoa over the past fifty years.

The tuna canneries have steadily increased their activities in American Samoa over the past 20 years because the territory provided compelling competitive advantages to San Pedro (California) and Puerto Rico, and to all the other locales where tuna has been produced. The elements of the tuna canneries' competitive advantage

have been eroded recently and are likely to be eroded further in the next few years. But it does not follow that American Samoa cannot attract other kinds of economic activity.

American Samoa can be an excellent location for certain investors including:

- Those who seek to produce goods and services on U.S. soil to enjoy one advantage or another (e.g., tariff protection, legal conformity, goodwill, etc.),
- Those who are sensitive to the cost of labor and have a high labor component in their cost structure, and
- Those who are not bound by geography/proximity, or for whom American Samoa's location between Australasia and the U.S. west coast is an advantage.[21]

When companies compare the cost of operating in American Samoa with the cost of operating in the United States or other developed nations (e.g., New Zealand, Australia), they will find that some economic activities can be more profitably located in American Samoa. Though American Samoa might find it difficult to compete for jobs against such locales as China or Fiji, American Samoa's competitive advantage greatly expands if American Samoa is competing against Toledo or Tacoma.

American Samoa can attract new industries that benefit from the territory's status as American soil with a lower wage structure than the 50 states. Though remote, American Samoa has an excellent commercial port and airport that can handle the flow of physical goods required for manufacturers, while advances in telecommunications will render the territory's geographical isolation practically irrelevant to call centers and other Information Age activities.

Though American Samoa wages may be higher than wages paid elsewhere in the South Pacific or in third-world countries,[22] they are nevertheless lower than the wages which are generally paid in the USA or other first world countries. American Samoa's U.S. affiliation provides investors with a high level of confidence in the stability and security of their investments (This sort of confidence has become more important given political events and trends in places as diverse as Fiji and Ecuador and China.).

SPECIFIC ECONOMIC DEVELOPMENT OPPORTUNITIES

With these considerations in mind, it is clear why call center operators might wish to establish a call center industry in American Samoa. An American Samoa call center can accommodate clients who want to be located on American soil and employ workers who speak standard American English, but are sensitive to labor costs. Physical proximity to the United States mainland is irrelevant to such clients so long as American Samoa offers telecommunication links of sufficient quality, quantity and economy.

Call Centers.—Call centers, and other information processing activities, require higher skills than tuna processing, and this is reflected in a higher wage structure. Another bonus is that they are non-polluting and are less dangerous than manufacturing jobs. According to the company considering establishing a call center in American Samoa in 2008, the total per hour "per seat" cost of a call center in American Samoa would be lower than the comparable figure in India and the 50 United States.

Manufacturing.—Just as some call center operators need a U.S.-based location to satisfy corporate strategy or legal concerns, the same is true for some manufacturers. For example, some military items must be produced on American soil, and trade laws (e.g., anti-dumping listees, countervailing duties, Headnote 3(a), the Jones Act) provide significant advantages for certain types of manufacturing to locate on American soil.[23] Since the average manufacturing wage in the U.S. is many times higher

[21] By the same token, if a businessperson has no special need for U.S. affiliation, it is unlikely American Samoa would be a good candidate for a major business initiative that could be located elsewhere, where wages might be less and natural resources more abundant and logistics less hampered by remoteness and small size.

[22] Sources: http://www.bls.gov/news.release/ichcc.t02.htm, https://www.dol.gov/esa/whd/AS/PDF/EconomicReport-2007.pdf, http://www.boi.go.th/english/how/labor_costs.asp

[23] Two examples include barge building and military procurement. A large number of double-hulled barges for the US market have to be built to comply with the new rules. Under the Jones Act, the keels must be laid in the USA (American Samoa included). All the shipyards in the USA that can build these barges are backed up with long waiting lists. The barges could be built in American Samoa at the Ronald Reagan marine Railway, using precut steel. The topside work can be done in Samoa to make the business proposition even more favorable. In military procurement, many things the military buys must be must be produced in the USA (including

Continued

than in American Samoa, a competitive advantage exists in American Samoa's favor for such operations.[24]

Manufacturing creates a need for both inbound and outbound ocean freight and provides jobs for adults and future school leavers inadequately prepared to take information age jobs. Thanks to the tuna industry, American Samoa has an excellent and lengthy track record as a factory locale, with an impressive level of physical and social infrastructure.

Although American Samoa is remote, the competitive "penalty" for its South Pacific location might be quite low for certain forms of manufacturing that involve adding value or transforming inputs from South Asia, Australia, New Zealand or the South Pacific region that are bound for the U.S. market.

This could include raw inputs from regional neighbors such as cocoa from Samoa and vanilla from Tonga. This especially applies to goods that would be subject to a U.S. tariff (e.g., canned tuna).

Even better would be to produce and add value to local products, especially for export, but even for sale to the local market. Examples of such opportunities include a range of agricultural products (e.g., flowers, traditional Samoan foodstuffs) and fishery products (including aquaculture), as well as bottled drinking water.

Visitor Industry.—Although tourism does not rely on actually exporting goods and services, it is nevertheless an export industry from an economic base standpoint, as it brings in new dollars from outside the territory just as manufacturing exports do.

American Samoa is blessed with great scenic beauty, a tropical climate, and a living culture with great appeal to tourists. However, the experience of the past 40 years has revealed, if nothing else, that much work remains to be done to create a viable tourism industry. On one level, the problem can be defined as the "chicken or the egg" conundrum involving which comes first: additional air transport capacity or additional tourism attractions (starting with hotels). But the problems go deeper, involving such things as access to land, polluted beaches, littered landscapes, a lack of community support for tourism, domination of the economic landscape by the tuna industry, and better value destinations elsewhere in the region to name a few. Previous studies and tourism planning documents have identified the challenges and opportunities inherent in promoting tourism in American Samoa.

It should be noted that Samoa has succeeded in strengthening its tourism industry over the past 20 years, to the point that American Samoa's tourism market "niche" might now be to serve as an adjunct to Samoa tourism. Also, there are untapped opportunities to provide visitor industry amenities to non-tourist visitors who are staying in American Samoa for business reasons, to visit friends or relatives, or other non-tourist reasons.

CHAPTER 6: AMERICAN SAMOA GOVERNMENT ROLE IN ECONOMIC DEVELOPMENT

The previous section is replete with references to issues for which the government is primarily responsible. There was reference to the respective roles of the private sector and government. There is sometimes tension between the two arising primarily from the private sector's concern about efficiency, profitability and survival and the government's concern with meeting the needs of the populace in general. The private sector is interested in the availability, convenience and cost of government provided public services and utilities. It is also interested in the efficiency and fairness in the entire area of licenses, permits and regulation.

It is important that this healthy tension not escalate to the detriment of the economy. The government must appreciate the importance of a thriving private sector. The private sector must appreciate the broader role of government.

There is a very widespread sentiment within the business community that the American Samoa Government makes a difficult selling proposition much more difficult. According to this sentiment, ASG often seems indifferent to business needs and does not provide the kind of transparent and level playing field that is conducive to healthy economic development.

This perception is extensively documented in the 2006 report published by the Department of Interior: "A Private Sector Assessment for American Samoa".[25] Accord-

---

American Samoa). Processed albacore is an example. Plus the military is obligated to give work to properly credentialed minority contractors and veteran contractors. A local company could conceivably be credentialed as both military and veteran and thus gain a distinct advantage in seeking federal contracts, military and non-military.

[24] The average wage for a tuna worker in American Samoa was $3.60 in 2006, and the average hourly wage for a manufacturing worker in the USA was $17.19.

[25] Jocelyn L.M. Doane and Sara E. Gray. A Private Sector Assessment for American Samoa. US Department of the Interior, Island Fellows Program. Washington DC: August 2006. (http://www.doi.gov/oia/reports/IslandFellows2006PSAASDBCfinaledites.pdf).

ing to the assessment, which was based on interviews with private sector leaders, there are several areas in which policy changes are needed to improve the business climate:

Greater transparency.—This is especially required by local government in such areas as procurement, conflicts of interest, immigration, corruption, and auditing.

Less complex business licensing procedures.—This would reduce the cumbersome and costly burden that falls heavily on Samoan and especially non-Samoan businesses.

Lower and less complex taxes.—This would help blunt the existing competitive disadvantage American Samoa presently suffers from due to its complex tax structure with higher tax rates than the United States and other non-American locales where corporate income tax rates are often much lower. Reform is especially important for non-U.S. businesses operating in the territory. In addition, the current tax incentive program needs to be reformed.

A more skilled labor pool.—This would include better educated and more experienced workers to fill a wide range of needs, from the vocational to the managerial. American Samoa needs a well-run immigration program to allow guest workers to fill easily labor pool gaps.

Other changes.—Among them are improved postal and courier service (e.g., a street address system), utility rate restructuring, telecommunications privatization, request a federal cabotage waiver, improved healthcare, improved roads, business-minded modifications to local laws (e.g., creating a bankruptcy statute, adopting laws protecting intellectual property, adopting a Uniform Commercial Code, improving access to federal court system, creation of a legal search system). Also important were making commercial land more easily available, greater development bank funding, and an improved climate for insurers.

PRIVATE SECTOR VIEWS ON THE AMERICAN SAMOA GOVERNMENT

Despite the government's success at promoting and managing the rapid growth of the canneries for the past 50 years, the private sector nevertheless believes the American Samoa Government must do more to accommodate business if the islands' economy is going to thrive.

On the one hand, the private sector wants government to do more, such as build more infrastructure, facilitate new industries, control immigration, improve job training and general education, increase access to land for commercial purposes, and address social problems. On the other hand, they want government to also do less, as in less regulation, less red tape, fewer public sector employees, less spending, less fees and taxes, and other issues for which governments the world over decry. As suggested earlier there is much merit here. However, as indicated earlier, Government has more to concern itself with than simply meeting the needs of business. It does tax and regulate. Hence, the earlier reference to a natural tension between the public and private sectors.

Under military and then civilian rule, the American Samoa Government has maintained strong control over life in the territory for over a 100 years. Whether overseen by naval officers, appointed governors or elected governors, the government has been ever mindful of its mandate to protect the Samoan way of life.

Though there has been an increase in respect for the private sector in the past few decades, the American Samoa community still holds fast to deep-seated feelings that government, along with traditional cultural leaders and the churches are the institutions that hold natural authority in the hierarchy of Samoan society.[26]

Doing business in American Samoa requires patience, persistence, and cultural and political sensitivity. The successful private sector companies in American Samoa devote a great deal of time and effort to tasks that are far more simple and straightforward elsewhere (e.g., obtaining business license renewals, land leases, building permits, payments for services rendered, etc.).

In some cases, the success of a company can be primarily attributed to their ability to get things done with ASG more easily than their competitors. This is not untypical of small communities, but American Samoa will find it difficult to meet its economic development goals when businesses must devote extra-ordinary re-

[26] Some businesspeople point to Samoa as an example of how a private sector economic blossoming has resulted from a conscious effort of the Samoan government to become more transparent, more accountable, and more business-friendly, while retaining a strong protectionist interest in the Samoan way of life.

sources to non-productive activities. The government has long been attuned to the needs of the tuna industry and many times it has risen to the challenges necessary to keep the industry strong and growing in the territory. From building infrastructure to modifying immigration laws, ASG has responded to the cannery needs.

Should the canneries scale down or close, ASG will have to learn to respond to a different set of needs as it pursues the community's desire for a more diverse economic future. In many instances, the government has shown itself sensitive to the private sectors needs. Over the past year, for example, Governor Togiola Tulafono has moved forward on some of the economic development recommendations made by the American Samoa Chamber of Commerce (e.g., creation of a private sector-driven Visitor's Bureau, business tax reform, etc.).[27]

In addition, Governor Togiola has publicly led the Chamber-endorsed effort to get American Samoa connected to the rest of the world with a sub-marine fiber optic cable. Such a cable is a prerequisite to the development of a call center industry. It is the potential catalyst for a host of economic development opportunities for American Samoa.

COLLABORATION KEY TO AMERICAN SAMOA'S DEVELOPMENT POTENTIAL

It is unlikely that the government or the private sector will have much success transforming the American Samoa economy without working closely together.

In larger, more mature economies than American Samoa, the private sector can make things happen without a coordinated public-private program. Conversely, there are places where the government can make things happen by unilateral action.

But American Samoa is probably too small and resources are too limited for large-scale success to be achieved unless the government and the private sector collaborate on strategy and coordinate their activities.

An excellent example of the value of collaboration and coordination is the ongoing discussions about creating a call center industry in American Samoa. A private sector company out of Hawaii is eager to create such an industry in American Samoa, but it has requirements that can only be satisfied by the government.

Some of those requirements involve physical infrastructure (e.g., fiber optic cable) and some involve social infrastructure (e.g., a guest worker program, general education and job training in the local schools, tax incentives, and land leases).

The government can't provide the call centers and commercial contracts, but it can provide much of the infrastructure. Conversely, the Hawaii investors can't provide the entire infrastructure, but it can provide the jobs. If the government and the call centers work together, an industry just might be conceived, birthed, nurtured and grow to be a healthy entity.

The same dynamic applies to agriculture, fisheries, manufacturing, tourism, or most any other sector. It is not going to be enough for the private sector to be anxious and ready to proceed. It is not going to be enough for the government to be anxious and raring to proceed.

For a new venture to have a reasonable chance to succeed, the government and the private sector must play complementary and coordinated roles. It is not the government's role to create the jobs, nor is it the private sector's role to create the infrastructure.[28]

The importance of a business-friendly social infrastructure to economic development has been recently highlighted by the World Bank. According to the Bank, a nation's "intangible capital" can be many times more valuable than its produced capital (e.g., physical infrastructure) or natural resources capital.[29]

Moreover, in countries with few natural resources, such as American Samoa, the importance of intangible capital is amplified in comparison to countries that can rely on the value of their natural resources.

The most valuable forms of intangible capital, according to the bank, are human capital (e.g., schooling, workplace skills, health and wellbeing) and the quality of formal and informal institutions (e.g., rule of law, government transparency, clear

[27] Other Chamber of Commerce recommendations include reforming immigration to make it less difficult for expatriate business people to maintain their legal immigrant status, guest worker programs to help the canneries fill vacancies, efforts by the government to make it easier for businesses to gain access to land suitable for commercial purposes, privatizing various government operations, and strengthening commercial ties with Samoa.

[28] Infrastructure refers to not only capital improvements, but also human capital and social infrastructure, which are all essential components of a business environment.

[29] See The International Bank for Reconstruction and Development/The World Bank. Where is the Wealth of Nations? Washington DC: 2006. (http://siteresources.worldbank.org/INTEEI/214578-1110886258964/20748034/All.pdf

property rights, predictability, trust among people, effective government, efficient judicial system, and other markers of civil society).

Objective data reveals American Samoa's low levels of human capital (e.g., low educational achievement and attainment, high rates of chronic disease), but there are no reliable measures of the quality of the territory's formal and informal institutions. However, private sector members have identified many such markers as areas where they are frustrated with the American Samoa Government.

Notwithstanding these frustrations, the interviews with private sector leaders conducted in 2007 revealed that business leaders hope that government officials will exercise confidence-inspiring and effective leadership through the dark days of a cannery closure period and the transition to a diversified, post-cannery era. Few businesspeople offered specifics as to exactly what they expected of the government. One thing did stand out, however, and that was the need for clear communication between the private sector and the government (executive and legislative), as well as helpful communication with the general public and all affected parties. Private sector leaders expect government leaders to minimize the negative impacts of cannery reductions or closures by inspiring public confidence in American Samoa's ability to adapt and move forward.

Although there are many obstacles to developing a stronger and more diverse economy in American Samoa, it does not follow that the challenge is impossible or that opportunities are lacking.

Governor Togiola Tulafono has recognized the advantages of strong public-private ties by forming an Economic Advisory Council in late 2007, comprised of leading members of the government and the private sector.

CHAPTER 7: FEDERAL ROLE IN AMERICAN SAMOA'S ECONOMIC DEVELOPMENT

FEDERAL ECONOMIC DEVELOPMENT PROGRAMS AND POLICIES

Over the years, the US federal government has devised programs to assist small, low income or low growth areas in economic development. Most of these programs have been applied to the US territories as well. There were a few programs in the 1930's which were more responsive to the Great Depression in general. In addition, the State of Mississippi experimented with industrial development revenue bonds in the 1930's. The first modern rural economic development program was enacted in 1961. It was the US Area Redevelopment Administration. It became the Economic Development Administration (EDA) in 1965.

American Samoa is familiar with these programs and has benefited greatly from the US Economic Development Administration which has been active in the territory since the 1960's. Its programs were instrumental in American Samoa's modern development especially in establishing a local economic development agency, financing the Rainmaker Hotel, the industrial park, and many other public works, development and planning projects. EDA programs have remained much the same since 1965, but there have been many improvements especially in the requirement for the preparation of Comprehensive Economic Development Strategies for communities and jurisdictions.

In addition American Samoa has benefited from the Community Development Block Grant program of the U.S. Department of Housing and Urban Development (HUD). HUD annually allocates seven million dollars of CDBG funds to the US territories in proportion to the populations of the eligible territories. The program is administered by HUD's Field Offices in Puerto Rico and Hawaii. The CDBG insular areas program provides grants for economic development, housing rehabilitation, public facilities rehab, construction or installation for the benefit of low to moderate income persons, or to aid in the prevention of slums. The HUD idea of designing a special program for the territories is not the federal norm. In general, US territories have to find ways to fit into the requirements of these large and often complex federal programs.

The US Department of Agriculture has several private sector community based economic development programs. They include guaranteed business loans, rural enterprise grants, economic development loans and grants, and community support facilities grants and loans.

Of course, the US Department of the Interior, Office of Insular Affairs is responsible for ensuring that the responsibilities of the Secretary of the Interior regarding the territories and freely associated states of the United States are carried out. This includes serving as a focal point for the coordination of the development and implementation of policies pertaining to the territories and providing financial oversight to ensure that federal funds provided to the territories are used consistent with

their authorized purposes. This is spelled out in the executive order establishing OIA in 1995.[30]

This executive order called attention to the meagerness of the resources dedicated by the federal government to the development of the US territories or the insular areas. The staff dedicated to the Office of Insular Affairs was 25. Currently, the Department of the Interior has administrative responsibility for coordinating federal policy in the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, and oversight of federal programs and funds in the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

OIA sponsors private sector-led economic development programs and conferences in or for the territories. There have been three such conferences to date, along with three trade missions. The first conference in 2003 was held in Washington D.C. with an attendance of about 550 people. The second conference in 2004 was in Los Angeles with over 1000 attendees. The third conference in Honolulu held in 2006 and limited to 500 people actually had over 700 participants. The first Business Opportunities Mission went to Guam, Saipan and Palau. The second went to the U.S. Virgin Islands, and the third was to American Samoa. OIA also sponsors fellowship research programs which have dealt with general business climate conditions in the territories and background information for the business opportunities conferences. OIA also funds technical assistance grants for a variety of development purposes. OIA serves as liaison to the Congress, the four territorial and three freely associated state governments, other federal agencies, the media and the public.

OIA in recent years has been more active than it has ever been in private sector development programs. While short term results for such programs are often difficult to evaluate, such programs do enhance networking and contacts with the private sector and encourage territorial governments to prepare the requisite conditions for meeting the needs of investors and economic location information.

FEDERAL ROLE IN TERRITORIAL DEVELOPMENT

There is one serious economic development deficiency that OIA, the territories, other federal agencies and the Congress have not been able to deal with very effectively. That is the problem of adverse influences on the territories of federal legislation, policies and programs. The problem has included US trade and investment policies which have erased some territorial economic advantages in favor of vastly larger and lower cost developing countries. More recently, the US Congress has legislated to remove federal corporate tax incentives and raise extraordinarily the minimum wage in American Samoa and the CNMI.

This problem has been referenced for decades in studies of the territories. In 1985 the US GAO reported on issues affecting US territorial development.[31] It concluded the following.

A US Policy for the Territories.—U.S. policy should be more clearly defined, particularly for economic development and treatment of territories under federal laws and programs. GAO found the issues involving federal territorial relations, such as appropriate levels of representation, treatment under federal laws and programs, and economic and social development strategies, are becoming increasingly complex with no simple or ready-made solutions.

Increased Territorial Self-reliance.—The United States has helped to finance and build schools, hospitals, housing, roads, utilities, and other infrastructure and provided health, educational, and other social services which have enhanced the well-being of territorial residents. Notwithstanding these efforts, most of the territories have made little progress toward becoming economically self-reliant and remain highly dependent on federal assistance. Most of the territories face many indigenous constraints—such as geographic isolation from U.S. and world markets, limited natural and manpower resources, small land areas, limited infrastructure to support development and attract investment, and large public sectors—which make economic self-reliance an unlikely prospect for the foreseeable future.

Consideration of the Territories in US Trade Policy.—GAO found that there is no federal policy which details how the territories should be treated in formulating and extending laws and programs. Territory officials identified instances when federal policies, laws, and programs have constrained economic and social development because they were inconsistently applied, insensitive to unique territorial cir-

[30] Secretary of Interior Order No. 3191 - Subject: Abolishment of the Office of Territorial and International Affairs and Establishment of an Office of Insular Affairs. August 4, 1995.

[31] US Government Accountability Office. Issues Affecting US Territorial and Insular Policy. NSIAD-85-44. Washington DC: February 7, 1985.

cumstances and needs, or inappropriate for local conditions. Examples cited included the Caribbean Basin Initiative provisions affecting the rum industry and the tuna industry in the Virgin Islands and American Samoa, respectively.

Territorial Advocacy at the Federal Level.—Many territory officials also criticize the institutional capacity of the Department of Interior to meet their needs. For example, they believe Interior does not have sufficient influence to represent them in the budget agencies. Within Interior, there is some disagreement on its role vis-á-vis the territories in terms of federal oversight, program and policy coordination, and territory advocacy.

A High Level Federal Interagency Group for the Territories.—Many support the concept of a high-level interagency group to handle policy-related matters and address major territorial concerns. Establishment of a formal interagency policy group authorized to address major policy matters in a comprehensive fashion or a legislatively authorized office attached to the White House, might provide the representative focal point wanted by many territorial leaders.

Interior supports GAO's conclusion that its role as a direct authority over territorial government has diminished, and that its role is primarily as a provider of technical assistance and territory advocate.

The Governor of American Samoa (at the time) supported the idea of developing a long-term economic development and financial assistance agreement. He also recommended establishment of an organization within the Office of the President or a separate organization to handle territorial affairs.

GAO believes policymakers in Congress and the executive branch are likely to face greater pressure from the territories to establish a policy framework which addresses these issues. However, they believe better federal policy coordination is needed to systematically address development needs when formulating individual agency policies.

In 1994 GAO was even more forceful about federal policy toward the insular areas.

> Although federal funding supports actions designed to enhance economic development in the insular areas, the federal government has not articulated a clear policy about the goals it wants to achieve in the areas and does not always coordinate activities among agencies. We endorse the creation of an interagency committee charged with, among other things, (1) defining U.S. goals and objectives in the insular areas and developing an overall insular area strategy to guide federal activity toward achieving its goals, including supporting economic development and self-sufficiency and (2) establishing a mechanism to coordinate federal activity, including consolidating data on economic development expenditures in the insular areas.
>
> US policy overall is to support the economic development of the insular areas. However, the U.S. government has no specific objectives for its development programs; no clear overall strategy to achieve its goals; and no formal mechanism for coordinating the activities of the numerous federal agencies with programs in the islands. While the Department of Commerce reported that U.S. direct federal expenditures or obligations in the insular areas included in our review totaled about $1.5 billion in fiscal year 1992, the U.S. government has no consolidated data on federal spending on economic development in the insular areas. The Secretary of the Interior has proposed establishing an interagency committee that would coordinate federal policy and activities. We believe an interagency group focusing on policy, strategy, and U.S. government coordination could play an important role in helping to improve economic conditions in the insular areas and U.S. government management of resources provided to the areas.[32]

The GAO appears to have got it right on almost all counts. While economic, political and social conditions undoubtedly have improved over the period, concern remains about federal policy and the territories. GAO issued a report in 2006 documenting how the territories are being adversely affected by federal actions concerning federal taxes and trade. It refers specifically to the loss of the possessions tax credits Under IRS Section 936, international trade and investment agreements reducing tariffs or quotas on apparel and tuna canneries, and most recently dramatic increases in the US minimum wage in American Samoa. There is no doubt that the interests of American Samoa and the other territories were sacrificed at every turn regarding these issues. This is not to say that territorial representatives

[32] US Government Accountability Office. US Insular Areas Development Strategy and Better Coordination Among US Agencies Needed. GAO/NSIAD-94-62. Washington DC: 1994 (pp 1and 6).

did not do everything humanly and practically possible to mitigate the effects of these actions. They may just have been overpowered politically. Nevertheless, the issue of involving the voice of the territories in such negotiations is still unresolved. OIA may have been right that "there is no federal policy which details how the territories should be treated in formulating and extending laws and programs." There is an Interagency Group for Insular Affairs, but it does not yet appear to have the authority envisioned by GAO as "authorized to address major policy matters in a comprehensive fashion or a legislatively authorized office attached to the White House."

In 2006 and 2007 GAO seemed to take a new tack in focusing more on fiscal issues rather than economic development issues.[33] GAO continued in its view that the U.S. insular areas of American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands, face long-standing economic, fiscal, and financial accountability challenges. The economic challenges stem from dependence on a few key industries, scarce natural resources, small domestic markets, limited infrastructure, shortages of skilled labor, and reliance on federal grants to fund basic services. To help diversify and strengthen their economies, OIA sponsors conferences and missions to the areas to attract U.S. businesses; however, there has been little formal evaluation of these efforts.

This GAO report recommended that the Secretary of the Interior direct the Deputy Assistant Secretary for Insular Affairs to:

- Increase coordination activities with officials from other federal grant-making agencies on issues of common concern relating to the insular area governments, such as late single audit reports, high-risk grant designations, and deficiencies in financial management systems and practices.
- Conduct formal periodic evaluation of OIA's conferences and business opportunities missions, assessing their impact on creating private sector jobs and increasing insular area income.
- Develop a framework for OIA employees to use in conducting site visits to help ensure objectives are achieved, to assure that relevant information is shared with the responsible officials, and to allow more efficient and effective monitoring of issues.
- Develop and implement procedures for formal evaluations of progress made by the insular areas to resolve accountability findings and set a time frame for achieving clean audit opinions.
- The GAO, at least in this report, focuses primarily on administrative matters rather than the substantive economic development issues it has stressed over the last few decades.

The GAO has studied this matter over the years, and the US Department of the Interior has generally agreed with the overall need. In fact OIA has made some progress in mobilizing federal coordination and cooperation especially in economic development. However, it is no easy task.

As recently as 2002 the American Samoa Economic Advisory Commission published its report.[34] The following is a summary of the Commission's recommendations concerning the federal government.

> 1. The Commission recommends the United States Government and American Samoa governments allocate and maintain the necessary resources to develop a systematic method to record, track, and analyze data related to GDP and other economic indicators in order to properly measure and guide the American Samoa's economic growth. There has been considerable progress on this.
>
> 2. In fact, it recommends that both the United Sates Government and the American Samoa Government assume the role of facilitating and promoting economic development by creating a favorable economic environment that encourages entrepreneurial activities in the territory.
>
> 3. The Commission urges the Department of the Interior be more resourceful and to devote more resources to coordinating federal policy for American Samoa. At a minimum OIA could add perspective to the discussions and debate. But it can do more by becoming an advocate for American Samoa within the Federal government.

---

[33] US Government Accountability Office. US Insular Areas: Economic, Fiscal, and Financial Accountability Challenges. GAO-07-119. Washington DC: December 12. 2006.

[34] American Samoa Economic Advisory Commission. Transforming the Economy of American Samoa: Volume III, Appendices. US Department of the Interior Office of Insular Affairs, Washington DC: 2002.

4. It is important for the Interior Department to assist the territory in keeping track of, and finding applications for technological advances. In addition, it can also help to monitor global trends that greatly impact the territory such as transportation, telecommunications, and trade.

5. The federal government not only has a legal and moral obligation to assist the territory but also possesses the power to create economic opportunities for American Samoa in ways she cannot do on their own. Many of the economic challenges the territory continues to struggle with are situations that the federal government either created or influenced (tax and trade issues, international trade agreements, minimum wage, air transport, matching requirements, etc.)

6. American Samoa should be afforded better economic treatment and opportunities than the most favored trading and political partners of the United States.

7. The Commission recommends that the United States Government and the American Samoa Government organize and fund a Public—Private Working group.

8. The Commission recommends that a Federal-Territorial Task Force consisting of the United States Government, American Samoa government, and members of the American Samoa business community be established and funded.

9. The Commission believes the United States Government should support American Samoa's efforts to forge or strengthen strategic economic alliances with her Pacific Island neighbors.

10. The US Department of State should regularly consult with the American Samoa Government when international policies, treaties, and agreements affecting the territory are being developed or negotiated.

11. The United States Government and the American Samoa Government should work together to address such issues as extending the territory's exclusive fishing rights for "alia" boats owned by local fisherman and favorable terms in the various international fishing agreements that are being negotiated.

12. The Commission encourages the United States Government to take a more active role in assisting the Territory with identifying and securing financial capital.

Finally, the US Congress in 2006 in considering the extension of federal corporate tax incentives for the canneries required a study of a Congressional policy for American Samoa.

> The two-year credit allowed by the provision is intended to provide additional time for the development of a comprehensive, long-term economic policy toward American Samoa. It is expected that in developing a long-term policy, non-tax policy alternatives should be carefully considered. It is expected that long-term policy toward the possessions should take into account the unique circumstances in each possession.[35]

OIA and ASG have made considerable progress on a number of these matters over the years as has been indicated. However, there has been little effective progress on the primary issue of cooperation and coordination on federal policies, programs, and statutes that require close coordination with the territories.

The fact of the matter is that American Samoa's worsening cannery industry problems are due in large part to issues that were not adequately considered by the federal government as to their potential impacts on American Samoa. Those issues are removal of the federal corporate tax incentive for the territories, dramatically escalating the minimum wage in American Samoa, and phasing out tariffs on canned tuna in various international trade agreements. For these reasons, it is necessary to revisit this issue of federal-territorial coordination, cooperation and consultations.

Establish a Formal Federal Role in Territorial Development.—It is recommended that a formal federal role in territorial development be established in view of the massive influence of the federal government on American Samoa's economic development. This is needed to guide in the formulation, application and implementation of federal laws, policies and programs affecting the US territories. The U.S. government has no specific objectives for its territorial development programs; no clear overall strategy to achieve its goals; and no formal mechanism for coordinating the activities of the numerous federal agencies with programs in the territories.

---

[35] U.S. House and Senate Joint Committee on Taxation. Technical Explanation of H.R. 6408, Tax Relief and Healthcare Act of 2006, December 7, 2006.

Establish the Form this Formal Federal Role Could Take.—Examples include an enhanced Office of Insular Affairs in the Department of the Interior; a restructured Pacific Basin Development Council; or a restructured Interagency Group for Insular Affairs. Others might include a legislatively authorized office attached to the White House, some form of Regional Commission (e.g., Appalachian Regional Commission), or an organization specifically designed for this purpose.

Establish the Agenda and Work Program for this Federal Effort.—

- Clearly define U.S. goals and objectives in the insular areas and develop an overall insular area strategy to guide federal activity toward achieving its goals, including supporting economic development and greater economic self-sufficiency.
- Issues that might be addressed include federal taxes and incentives, immigration and customs, minimum wage, international trade, transportation, federal grant requirements, federal laws and programs, consolidating data on federal economic development expenditures in the insular areas, OIA's conferences and business opportunities missions, and others.
- Develop procedures for formal evaluations of progress made by the insular areas in economic development programs.

APPENDIX A.—INPUT-OUTPUT MODEL TECHNICAL REPORT/AMERICAN SAMOA INPUT-OUTPUT TABLE

INTRODUCTION

The 2002 American Samoa input-output table, which is the methodological centerpiece of this study, serves two purposes. First, through a systematic accounting of transactions among industries, government, households, and other sectors of final demand (investment, exports, and imports), the input-output table describes the structure of the American Samoa economy. As a set of accounts, the input-output table provides important measures of economic activity, such as Gross Domestic Product. Second, the input-output data provide the factual basis for estimating output, income, and employment multipliers. Used in economic impact analyses, multipliers estimate the total change in production, labor earnings, and jobs in the economy resulting from a given change in economic activity, such as an increase in tuna cannery exports or federal government grants and expenditures.

The rest of this appendix, which is divided into four major parts, describes the input-output table and how it is used in this study. The first two parts discuss input-output definitions and conventions and the construction of the input-output table. The third section describes the 2002 American Samoa input-output table. Also discussed in this part are the adjusted direct coefficients table and the adjusted inverse coefficients table, which constitute the input-output model. The input-output table (Table A-2), the adjusted direct coefficients table (Table A-3), and the adjusted inverse coefficients table (Table A-4) are found at the end of the appendix. The final section illustrates how the input-output model is used to estimate the impact of the fish processing industry on American Samoa employment.

DEFINITIONS AND CONVENTIONS

Base Year

The input-output table is estimated for calendar year 2002. This year is selected because it is the latest year for which there is complete information on the American Samoa economy. To some readers, an input-output table for 2002 may seem outdated. With respect to the levels of activity in the American Samoa economy, this is certainly true. But the age of the table should be judged in light of the use to which it is put. For applications that make use of the input-output coefficients, such as impact analysis, the 2002 estimates should remain useful for a number of years, since evidence with other input-output tables indicates that these coefficients are relatively stable over time (Conway, 1977, and Conway, 1980).

Sectors

The American Samoa input-output table identifies fifteen industrial groups (agriculture, fishing, and mining; construction; fish processing; other manufacturing; wholesale trade; retail trade; transportation and warehousing; information; financial activities; professional and business services; educational and healthcare services; accommodation; food services and drinking places; other services; and other government authorities). In addition, there are six components of final demand (personal consumption expenditures; private investment; American Samoa government expenditures; other federal government expenditures; visitor expenditures; and other exports). Finally, there are three final payment sectors (labor income, which is di-

vided into wage and salary disbursements, proprietors' income, and other labor income; other value added; and imports).

Four government authorities are included as part of the industrial sector: American Samoa Telecommunications, which is part of information; Lyndon B. Johnson Hospital, which is part of educational and healthcare services; American Samoa Power Authority, which is part of other government authorities; and American Samoa Community College, which is also part of other government authorities.

Following are brief definitions of the input-output sectors. The North American Industrial Classification System (NAICS) code is shown in parentheses for each industry:

1. Agriculture, fishing, and mining (11, 21). Value of products for commercial sales and the imputed value of products for self-consumption.
2. Construction (23). Value of new construction put in place and maintenance and repair. Output covers private and public construction by local and non-local contractors.
3. Fish processing (3117). Value of sales.
4. Other manufacturing (other 31, 32-33). Value of sales.
5. Wholesale trade (42). Value of the difference between wholesale sales and the cost of goods purchased for resale (i.e., the value of the wholesale margin).
6. Retail trade (44-45). Value of the difference between retail sales and the cost of goods purchased for resale (i.e., the value of the retail sales margin).
7. Transportation and warehousing (48-49). Value of revenue.
8. Information (51). Value of revenue.
9. Financial activities (52-53). Value of operating revenue less interest expenses for financial institutions. Value of premiums received less value of benefits paid for insurance companies. Value of revenue from selling, renting, and managing property for real estate establishments.
10. Professional and business services (54-56). Value of revenue.
11. Educational and healthcare services (other 61, 62). Value of revenue.
12. Accommodation (721). Value of revenue.
13. Food and drinking places (722). Value of revenue.
14. Other services (71, 81). Value of revenue.
15. Other authorities (22, part 61). Value of revenue.
16. Personal consumption expenditures. Value of goods and services purchased for personal use.
17. Private investment. Value of private capital expenditures for housing, nonresidential structures, software, and equipment. Also included is the value of the change in private inventories.
18. American Samoa government expenditures. Value of operating and capital expenditures by the American Samoa government, including expenditures funded by federal government grants.
19. Other federal government expenditures. Value of operating and capital expenditures by the U.S. federal government, including grants to the government authorities.
20. Visitor expenditures. Value of expenditures by tourists, business travelers, and other visitors.
21. Other exports. Value of exported goods and services.
22. Labor income. Value of wage and salary disbursements, proprietors' income, and other labor income.
23. Other value added. Value of rent, net interest payments, indirect business taxes, capital consumption allowance, and profits.
24. Imports. Value of imported goods and services.

Transactions on Current and Capital Account

Transactions in the input-output table cover expenditures on both current and capital account. However, the transactions among industries are on current account only. Viewing them from the standpoint of purchases, these transactions represent the annual operating expenses of industry.

The purchases of capital goods by the private sector are shown in the investment column of final demand. They include the value of the additions to housing, plant, software, and equipment that are charged to fixed asset accounts. In the accounting of current production costs, only the annual capital consumption allowance (the current depreciation charge for the services of capital) is considered to be a purchased input. The capital consumption allowance is shown as part of other value added.

Producers' Prices

Input-output transactions are valued at producers' prices. Each transaction represents the revenue earned by the producer and not the cost incurred by the pur-

chaser. To arrive at purchasers' prices, it would be necessary to add the value of trade and transportation margins to producers' prices.

According to input-output accounting conventions, the costs of distributing a commodity are shown as direct sales of services from trade (wholesale trade and retail trade) and transportation services (trucking and warehousing, water transportation, air transportation, and miscellaneous transportation services) to the sector purchasing the commodity. For example, in the American Samoa input-output table, the large purchase by households from retail trade is the mark-up earned by retail establishments acting as intermediaries between producers and consumers.

As a consequence of the producers' price convention, input-output tables do not literally trace the flows to and from the trade industry. If the buying and reselling of commodities by trade establishments were shown, one would lose the valuable information on the linkages between producers and consumers, since virtually all commodities would then flow from a single source, namely trade.

CONSTRUCTION OF THE INPUT-OUTPUT TABLE

Sectoring Plan

The initial step in building the American Samoa input-output table entails drawing up a sectoring plan. Choosing the number of sectors for the table entails an assessment of the trade-off between the usefulness of a more disaggregated table and the availability and reliability of detailed input-output information. The sectoring plan also attempts to highlight the important basic activities in the American Samoa economy, such as fish processing.

Control Totals, Labor Income, and Employment

Control totals refer to the total expenditures and sales of each industry (e.g., the total input and output of fish processing). Control totals also include the total value of each final demand sector (e.g., total personal consumption expenditures) and the total value of each final payments sector (e.g., total value added). The quality of the input-output table depends in large part upon the accuracy of the control total estimates. With the exception of agriculture, fishing, and mining and other government authorities, the control totals for each industry, final demand sector, and final payments sector were obtained directly from two published sources: 2002 Economic Census of Island Areas: American Samoa and "Annual Nominal and Constant Dollar Estimates of Gross Domestic Product in American Samoa, 1999 to 2005" (Rubin, 2007).

A reliable input-output model also requires accurate estimates of income and employment by sector. The economic census provided estimates of wages and salaries, payroll employment, and proprietors for most of the industries. Other related information came from the agricultural and population censuses and the annual statistical yearbooks. Payroll and employment data were in turn used to develop estimates of labor income and value added by sector.

Intersectoral Transactions

Some input-output tables, such as the Washington input-output table (Bourque and Conway, 1977) have relied upon surveys of industry and government to obtain information on the transactions among the sectors of the economy. The American Samoa input-output table benefited greatly from information regarding the distribution of industry sales published in the 2002 economic census. The input-output table also made use of other published data, knowledge of the markets for particular goods and services, and U.S. input-output data.

On occasion, there were contradictory estimates of particular intersectoral transactions, necessitating a search for additional information. In a few instances, a reconciliation of conflicting information was not possible, and the estimates were made judgmentally.

Accuracy

There is no way of knowing for sure the degree of accuracy of the American Samoa input-output table. Nevertheless, since the table is largely constructed from data published in the economic census and the Gross Domestic Product (GDP) accounts, which appear to be reasonably accurate, the quality of the input-output estimates is deemed sufficient for the purpose of this study.

One test of the validity of the data published in the economic census and the GDP accounts is their ability to fit compatibly within the two-way accounting system of the input-output table. For example, is the estimate of total exports derived from the sales data reported in the economic census in line with the estimate of total exports reported in the GDP accounts? In general, the input-output table was able to

fully incorporate the data from these two sources of information without creating any substantial problem in ultimately balancing the input-output table.

Of course, there is always room for improving the input-output estimates. The next study would benefit from a more comprehensive survey of businesses, government, and households to obtain more detailed information on sales and purchases. Such an effort would require a substantial investment of time and money. In the meantime, users of the current input-output table should keep in mind its potential shortcomings.

AMERICAN SAMOA INPUT-OUTPUT TABLE

Input-Output Table

As previously noted, the American Samoa input-output table for 2002 is shown in Table A-2 at the end of this appendix. Also called the transactions table, the input-output table shows the purchases and sales of private and public sectors in the American Samoa economy. Transactions are measured in millions of dollars.

Sectors listed across the top of the table are purchasers of inputs. Sectors listed down the left-hand side of the table are sellers of output. Numbers down a column are the 2002 purchases of inputs from the sectors named at the left that are required to produce the output of the sector named at the top. Conversely, numbers across a row are the sales from the sector named at the left to the sectors named at the top. According to input-output accounting conventions, total purchases (input) equals total sales (output) for each industrial sector.

Table A-2 also shows employment (wage and salary employment and proprietors) by sector. Although employment is not part of the input-output table, it is an important variable in the input-output model.

As shown in the input-output table, transactions occur among industries, the final demand sectors, and the final payments sectors of the American Samoa economy. More specifically, industries sell their products to other local industries and the sectors of final demand (consumption expenditures, investment, government expenditures, visitor expenditures, and other exports). Industries purchase their inputs to production from other local industries and the final payments sectors (labor income, other value added, and imports).

As an example, consider the transactions of the fish processing industry. In 2002, its total output (and thus its total input) was $503.4 million, most of which was exported ($438.3 million). To meet its input requirements, the fish processing industry made purchases amounting to $0.7 million from construction for maintenance and repair and $1.6 million from information primarily for telecommunications services. Including a $60.4 million intra-industry transaction, total purchases from American Samoa businesses came to $90.9 million. The industry paid $48.2 million in wages and salaries to its 5,538 employees and $305.2 million for imported goods and services, mostly tuna. Valued added in fish processing amounted to $107.3 million.

In addition to showing detailed industry sales and purchases, the input-output table has an estimate of American Samoa Gross Domestic Product (GDP), which can be calculated in two ways:

$$GDP = C + I + G + X - M$$

or

$$GDP = VA$$

where

C = personal consumption expenditures
I = private investment
G = American Samoa and other federal government expenditures
X = visitor expenditures and other exports
M = imports
VA = total value added for all sectors

According to the input-output table, GDP or total value added in 2002 was $481.4 million:

$$GDP = 331.5 + 43.7 + 150.3 + 38.9 + 4.3 + 444.7 - 532.0 = 481.4$$
$$GDP = VA = 481.4$$

This is the estimate of GDP reported in the American Samoa Gross Domestic Product accounts.

ADJUSTED DIRECT COEFFICIENTS TABLE

Table A-3 is the adjusted direct coefficients table. Each direct coefficient is the direct input required from the sector named at the left by the sector named at the top as a fraction of the purchasing sector's total input (output). The direct coefficient for the purchase of maintenance and repair by fish processing is 0.00139, which is calculated by dividing $0.7 million by $503.4 million.

The direct coefficients, along with the other coefficients shown in Table A-3 (e.g., the employment coefficients, which measure jobs required in an industry per million dollars of output) make up the parameters of the input-output model.

The direct coefficients of three sectors have been adjusted in an attempt to provide more precise calculations of the impacts estimated in this study:

1. Agriculture, fishing, and mining.—Agricultural output includes the imputed value of production for self-consumption, which presumably would be unaffected by a change in the market economy, such as the shutdown of a tuna cannery. Thus, in order to avoid overestimating the indirect impacts on agriculture, agricultural production for self-consumption should be removed from the input-output table prior to calculating the direct coefficients.

Effectively eliminating this activity from consideration in economic impacts entails reducing agricultural output and input, agricultural proprietors' income, and agricultural sales to households by $38.0 million, the imputed value of agricultural production for self-consumption. Thus, the adjusted direct coefficient for the purchase of wholesale trade services by agriculture, fishing, and mining is 0.01154 (=0.3/[64.0-38.0]), while the adjusted labor income direct coefficient is 0.46923 (=[50.2-38.0]/[64.0-38.0]). The adjusted employment coefficient is 20.000 (=520/[64.0-38.0]).

2. Fish processing.—Of the $49.4 million in wages and salaries and other labor income earned by employees in the fish processing industry, an estimated $9.0 million were remitted to places outside of American Samoa. This implies that the input-output model must show that, while labor income in fish processing is still $49.4 million, the $9.0 million for remittances has no indirect impact on the local economy.

This is accomplished in the following way: while leaving the labor income coefficient (labor income in millions of dollars per job) unchanged, reduce fish processing labor income by $9.0 million before calculating the adjusted labor income direct coefficient (labor income per dollar of output). The labor income coefficient is 0.00892 (=49.4/5538), in which the $49.4 million in labor income includes the $9.0 million in remittances. The adjusted labor income direct coefficient is 0.08025 (=[49.4-9.0]/503.4), which incorporates the deduction for remittances. The fish processing employment coefficient is 11.001 (=5538/503.4).

3. Consumption and government expenditures.—Calculation of the adjusted direct coefficients for the consumer/government sector (the last column of the adjusted direct coefficients table) involves two considerations: the incorporation of the government sector into the input-output model; and the choice of the income variable for the coefficients' divisor.

Input-output models typically treat households like an industry, thereby incorporating the impact on the economy of labor earnings and consumer spending. This is termed a Type II input-output model.

A Type III model, which yields somewhat higher multipliers, also includes local government as an endogenous sector. This inclusion is warranted to the extent that government is supported by locally generated revenues, such as taxes and fees. The American Samoa input-output model combines consumer spending with that part of American Samoa government expenditures supported by local taxes and fees. In 2002, it is estimated that 41.5 percent of government expenditures were supported by locally generated revenue. The remaining part was financed by federal government funds.

With regard to the second consideration, various income divisors have been used to determine the direct coefficients in the consumer or consumer/government sector of an input-output model, among them total value added, personal income, and total labor income. In this study, the divisor is total labor income plus transfer payments. This concept of income presumes that transfer payments (principally, government payments for retirement and disability), like proprietors' income from agricultural production for self-consumption, are unaffected by changes in the economy. This choice for the income divisor has two beneficial features for this analysis. It permits one to estimate the impact of transfer payments on the American Samoa economy without double-counting. It also results in middle-range estimates of multipliers. Using labor income as the

income divisor would result in higher multipliers, while using personal income would result in lower multipliers.

The income divisor for the consumer/government sector is further modified to take into account the exclusion of agricultural production for self-consumption and remittances by fish processing workers from the input-output model, as shown below.

The adjustments to the direct coefficients for the consumer/government sector are illustrated with the coefficient for agriculture, fishing, and mining. The estimated coefficient is 0.06942 (=[57.1-38.0+0.2]/[285.6+39.4-38.0-9.0]), where $57.1 million is the total value of household expenditures for agricultural and fish products, $38.0 million is the imputed value of agricultural products for self-consumption, $0.2 million is the part of American Samoa government purchases for agricultural and fish products supported by local taxes and fees, $285.6 million is total labor income, $39.4 million is total transfer payments, as reported in the Gross Domestic Product accounts, and $9.0 million is fish processing industry remittances.

The input-output model also requires employment and labor income coefficients for the government sector. The employment coefficient is defined with respect to the above income divisor. The employment coefficient is 6.234 (=1733/[285.6+39.4-38.0-9.0]). The labor income coefficient is the average earnings of government workers in 2002. The estimate is 0.01893 (=32.8/1733). In both calculations, 1,733 is the estimated number of American Samoa government employees supported by local revenue.

The adjustments to the direct coefficients are made for two reasons. First, the adjustments are required to eliminate double-counting. Second, the adjustments permit one to break down the American Samoa economy into its basic components (i.e., activities that bring money into the economy and support jobs through the multiplier or re-spending process): fish processing; visitor expenditures; other exports; American Samoa government supported by federal funds; private investment; transfer payments; and other federal government expenditures. In other words, with this formulation of the input-output model, one can assign all output, employment, labor income, and value added in the American Samoa economy to one of these sources. As a result, it is possible to express the relatively importance of each basic activity to the economy.

ADJUSTED INVERSE COEFFICIENTS TABLE

Table A-4 is the table of adjusted inverse coefficients. Derived from the adjusted direct coefficients, the adjusted inverse coefficients represent the core of the American Samoa input-output model.

The adjusted inverse coefficients show the value of output in dollars from the sector named at the left required directly and indirectly to support a dollar of output delivered from the sector named at the top. For example, to support a dollar of fish processing output, the retail trade inverse coefficient of 0.03225 indicates that about 3.2 cents of output is required directly and indirectly from retail trade. The adjusted direct coefficients table shows that the direct requirement by fish processing from retail trade is approximately 0.3 cents (0.00258). This implies that the indirect requirement from retail trade amounts to 2.9 (=3.2-0.3) cents. Much of the indirect impact on retail trade stems from the spending of fish processing employee wages and salaries for consumer goods and services.

The inverse coefficients table is therefore a table of output multipliers, representing the repercussions on the output of each industrial sector from changes in the output of a given sector. The labor income row of the inverse coefficients table gives the labor income multiplier for each sector. Employment multipliers are derived from the output multipliers and corresponding labor coefficients, as shown in the following illustration.

FISH PROCESSING OUTPUT AND EMPLOYMENT IMPACT

A central issue in this study is the importance of the fish processing industry to the American Samoa economy. One measure of its importance is the number of jobs in American Samoa directly and indirectly supported by the tuna canneries. Table A-1 shows the calculations of the output and employment impacts of fish processing exports. Note that each of the numbers in the calculation can be found in the input-output table (Table A-2), the adjusted direct coefficients table (Table A-3), or the adjusted inverse coefficients table (Table A-4).

In 2002, tuna cannery exports amounted to $438.3 million, which represented 87.1 percent of total fish processing output ($503.4 million). An estimated 4,822 (=5538[438.3/503.4) workers earning $43.0 (=4822[0.00892]) million in labor income

were required to produce the exports. In the terminology of impact analysis, these numbers are called the direct impact.

Table A-1
Fish Processing Output and Employment Impact, 2002
Based on Exports of $438.3 Million

	Inverse Coefficients	Output Impact[1] (mils. $)	Employment Coefficients	Employment Impact
Agriculture, fishing, and mining	0.01316	5.77	20.00	115
Construction	0.00713	3.13	13.53	42
Fish processing	1.13883	499.15	11.00	5,491
Other manufacturing	0.00026	0.11	112.00	13
Wholesale trade	0.00716	3.14	28.39	89
Retail trade	0.03225	14.14	37.23	526
Transportation and warehousing	0.01345	5.89	50.71	299
Information	0.01310	5.74	15.72	90
Financial activities	0.02418	10.60	8.77	93
Professional and business services	0.04489	19.68	14.42	284
Educational and healthcare services	0.01267	5.56	24.79	138
Accommodation	0.00006	0.03	44.00	1
Food services and drinking places	0.01154	5.06	28.13	142
Other services	0.01478	6.48	19.18	124
Government authorities	0.04223	18.51	9.71	180
Labor income/Government employment[2]	0.17947	78.66	6.23	490
Total		602.97[3]		8,118

[1]The output impact is calculated as the product of the corresponding inverse coefficient and the value of fish processing exports, which is $438.3 million.

[2]The output impact is the estimated labor income generated in the American Samoa economy by the fish processing industry. The employment impact is the number of American Samoa government jobs supported by the industry. The government job impact is based on the labor income impact.

[3]The total output impact excludes labor income.

The next step in the analysis is to estimate the total output impact, taking into account the multiplier effect. The fish processing adjusted inverse coefficients from Table A-4 are given in the first column of Table A-1. These output multipliers are each multiplied by the value of tuna cannery exports to obtain the direct and indirect impact on the output of the industries named at the left. Thus, tuna cannery exports indirectly generated $5.8 (=0.01316[438.3]) million of output in agriculture, fishing, and mining, where 0.01316 is the corresponding adjusted inverse coefficient. The total impact on fish processing output was $499.2 (=1.13883[438.3]) million, which represented nearly all of the industry's output in 2002. The impact of fish processing exports on the total industrial output of the American Samoa economy amounted to $603.0 million.

The employment impact on a given industry is simply the output impact multiplied by the industry's employment coefficient. On average 20.00 workers (wage and salary employees and proprietors) were required to produce one million dollars of agricultural, fishing, and mining output in 2002 Thus, the fish processing industry indirectly supported 115 (=20.00[5.77]) jobs in agriculture, fishing, and mining. As shown in Table A-1, the greatest job impact outside of fish processing occurred in retail trade, where 526 (=37.23[14.14]) jobs were indirectly supported by the canneries. Altogether, the fish processing industry accounted for an estimated 8,118 jobs, which represented 45.6 percent (=8118/17798) of total American Samoa employment.

The output multiplier implied by this analysis is the total output generated in the economy per dollar of fish processing exports. Thus, the output multiplier is 1.38 (=603.0/438.3). The employment multiplier is the total employment supported in the

economy per export job in the tuna canneries. The implied employment multiplier is 1.68 (=8118/4822).

According to the 1977 American Samoa input-output study, the fish processing employment multiplier was 1.55. Thus, it appears that the multiplier has risen over time, but this is not necessarily the case. The 2002 and 1977 input-output models have slightly different specifications. In particular, the 2002 model has been reformulated in two ways that has affected the size of its multipliers. The denominator used to calculate the direct coefficients in the consumer/government sector is now labor income plus transfer payments (not just labor income, as in the 1977 model), which effectively reduces the size of the multipliers. On the other hand, the inclusion of the part of government expenditures supported by local appropriations as an endogenous variable in the 2002 input-output model has the effect of raising the multipliers. In general, the difference between the 1977 and 2002 employment multipliers for the fish processing industry, whether real or due to the reformulation of the model, is not large enough to be considered significant. It certainly has no bearing on the general conclusions drawn from the input-output analysis conducted for this study.

Table A-2
American Samoa Input/Output Table, 2002
(Millions of dollars)

	1 Agriculture, fishing, and mining	2 Construction	3 Fish processing	4 Other manufacturing	5 Wholesale trade	6 Retail trade
1 Agriculture, fishing, and mining (11, 21)	0.5	0.0	0.0	0.0	0.0	0.0
2 Construction (23)	0.1	0.1	0.7	0.0	0.0	0.2
3 Fish processing (3117)	0.0	0.0	60.4	0.0	0.0	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.0	0.0
5 Wholesale trade (42)	0.3	1.1	0.8	0.0	0.1	0.3
6 Retail trade (44-45)	0.1	1.8	1.3	0.0	0.0	0.2
7 Transportation and warehousing (48-49)	0.1	0.4	2.1	0.0	1.1	0.6
8 Information (51)	0.1	0.5	1.6	0.0	0.2	0.6
9 Financial activities (52-53)	0.1	0.9	0.7	0.0	0.9	1.8
10 Professional and business services (54-56)	0.1	11.1	8.4	0.0	3.0	5.4
11 Educational and healthcare services (other 61,62)	0.0	0.0	0.0	0.0	0.0	0.1
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.0	0.0
13 Food services and drinking places (722)	0.0	0.0	0.0	0.0	0.0	0.0
14 Other services (71, 81)	0.1	1.3	3.0	0.0	0.1	0.4
15 Government authorities (22, part 61)	0.2	0.2	11.9	0.0	0.2	2.6
16 Total intermediate input	1.7	17.4	90.9	0.0	5.6	12.2
17 Value added	54.3	12.3	107.3	0.4	5.5	31.1
18 Labor income	50.2	9.6	49.4	0.3	3.9	17.5
Wage and salary disbursements	3.2	8.5	48.2	0.1	3.6	14.6
Proprietors' income	46.8	0.9	0.0	0.2	0.2	2.5
Other labor income	0.2	0.2	1.2	0.0	0.1	0.4
22 Other value added	4.1	2.7	57.9	0.1	1.6	13.6
23 Imports	8.0	14.5	305.2	0.1	1.3	6.5
24 Total input	64.0	44.2	503.4	0.5	12.4	49.8
Employment	520	598	5538	56	352	1854
Wage and salary employees	280	563	5538	12	345	1628
Proprietors	240	35	0	44	7	226

Table A-2 (continued)
American Samoa Input/Output Table, 2002
(Millions of dollars)

	7 Transportation and warehousing	8 Information	9 Financial activities	10 Professional and business services	11 Educational and healthcare services	12 Accommodation
1 Agriculture, fishing, and mining (11, 21)	0.0	0.0	0.0	0.0	0.2	0.0
2 Construction (23)	0.0	0.1	0.5	0.1	0.2	0.0
3 Fish processing (3117)	0.0	0.0	0.0	0.0	0.0	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.0	0.0
5 Wholesale trade (42)	0.1	0.1	0.1	0.4	0.4	0.0
6 Retail trade (44-45)	0.1	0.0	0.1	0.2	0.1	0.1
7 Transportation and warehousing (48-49)	2.5	0.1	0.0	0.4	0.3	0.0
8 Information (51)	0.3	1.6	0.3	1.3	0.2	0.0
9 Financial activities (52-53)	0.5	0.3	1.0	1.4	1.0	0.0
10 Professional and business services (54-56)	1.9	0.4	0.5	1.5	1.5	0.0
11 Educational and healthcare services (other 61, 62)	0.0	0.0	0.1	0.2	0.2	0.0
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.0	0.0
13 Food services and drinking places (722)	0.0	0.0	0.0	0.0	0.3	0.1
14 Other services (71, 81)	0.2	0.2	0.8	0.5	0.3	0.0
15 Government authorities (22, part 61)	0.2	0.3	0.6	0.8	0.6	0.1
16 Total intermediate input	5.8	3.1	4.0	6.8	5.3	0.3
17 Value added	9.2	8.7	23.5	36.8	17.0	0.5
18 Labor income	6.3	4.4	6.4	18.2	15.6	0.3
Wage and salary disbursements	4.2	3.9	4.9	12.4	13.8	0.1
Proprietors' income	2.0	0.2	1.4	5.5	1.1	0.2
Other labor income	0.1	0.3	0.1	0.3	0.7	0.0
22 Other value added	2.9	4.3	17.1	18.6	1.4	0.2
23 Imports	0.5	6.9	9.8	18.8	8.6	0.2
24 Total input	15.5	18.7	37.3	62.4	30.9	1.0
Employment	786	294	327	900	766	44
Wage and salary employees	608	290	298	806	739	26
Proprietors	178	4	29	94	27	18

Table A-2 (continued)
American Samoa Input/Output Table, 2002

(Millions of dollars)

	13 Food services and drinking places	14 Other services	15 Government authorities	16 Total intermediate demand	17 Personal consumption expenditures	18 Private investment
1 Agriculture, fishing, and mining (11, 21)	0.5	0.0	0.1	1.3	57.1	0.0
2 Construction (23)	0.1	0.0	0.2	2.3	1.1	24.0
3 Fish processing (3117)	0.1	0.0	0.0	60.5	2.5	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.4	0.0
5 Wholesale trade (42)	0.8	0.4	0.5	5.4	4.3	1.2
6 Retail trade (44-45)	0.1	0.1	0.1	4.3	43.7	0.6
7 Transportation and warehousing (48-49)	0.2	1.2	0.8	9.8	4.7	0.1
8 Information (51)	0.2	0.3	0.5	7.7	7.2	0.0
9 Financial activities (52-53)	0.8	0.8	1.0	11.2	24.4	0.4
10 Professional and business services (54-56)	0.9	0.4	0.5	35.6	18.2	0.0
11 Educational and healthcare services (other 61, 62)	0.0	0.1	0.2	0.9	16.2	0.0
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.1	0.0
13 Food services and drinking places (722)	1.0	0.0	0.0	1.4	16.7	0.0
14 Other services (71, 81)	0.1	0.2	0.4	7.6	7.2	0.0
15 Government authorities (22, part 61)	0.2	0.1	1.9	19.9	10.7	0.0
16 Total intermediate input	5.0	3.6	6.2	167.9	214.5	26.3
17 Value added	7.0	8.6	20.5	342.7	38.7	0.0
18 Labor income	4.2	3.9	9.3	199.5	0.0	0.0
Wage and salary disbursements	3.5	2.7	8.4	132.1	0.0	0.0
Proprietors' income	0.6	1.1	0.0	62.7	0.0	0.0
Other labor income	0.1	0.1	0.9	4.7	0.0	0.0
22 Other value added	2.8	4.7	11.2	143.2	38.7	0.0
23 Imports	8.3	6.1	24.4	419.2	78.3	17.4
24 Total input	20.3	18.3	51.1	929.8	331.5	43.7
Employment	571	351	496	13453	0	0
Wage and salary employees	510	255	496	12394	0	0
Proprietors	61	96	0	1059	0	0

Table A-2 (continued)
American Samoa Input/Output Table, 2002

(Millions of dollars)

	19 American Samoa government expenditures	20 Other federal government expenditures	21 Visitor expenditures	22 Other exports	23 Total final demand	24 Total output
1 Agriculture, fishing, and mining (11,21)	0.5	0.0	0.1	5.0	62.7	64.0
2 Construction (23)	14.8	2.0	0.0	0.0	41.9	44.2
3 Fish processing (3117)	2.1	0.0	0.0	438.3	442.9	503.4
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.1	0.5	0.5
5 Wholesale trade (42)	0.5	1.0	0.0	0.0	7.0	12.4
6 Retail trade (44-45)	0.3	0.5	0.2	0.2	45.5	49.8
7 Transportation and warehousing (48-49)	0.5	0.2	0.1	0.1	5.7	15.5
8 Information (51)	3.2	0.6	0.0	0.0	11.0	18.7
9 Financial activities (52-53)	1.3	0.0	0.0	0.0	26.1	37.3
10 Professional and business services (54-56)	7.1	0.5	0.0	1.0	26.8	62.4
11 Educational and healthcare services (other 61 ,62)	6.0	7.8	0.0	0.0	30.0	30.9
12 Accommodation (721)	0.0	0.0	0.9	0.0	1.0	1.0
13 Food services and drinking places (722)	0.2	0.0	2.0	0.0	18.9	20.3
14 Other services (71, 81)	3.4	0.0	0.1	0.0	10.7	18.3
15 Government authorities (22, part 61)	11.7	8.8	0.0	0.0	31.2	51.1
16 Total intermediate Input	51.6	21.4	3.4	444.7	761.9	929.8
17 Value added	92.4	7.6	0.0	0.0	138.7	481.4
18 Labor income	79.2	6.9	0.0	0.0	86.1	285.6
Wage and salary disbursements	75.9	6.0	0.0	0.0	81.9	214.0
Proprietors' income	0.0	0.0	0.0	0.0	0.0	62.7
Other labor income	3.3	0.9	0.0	0.0	4.2	8.9
22 Other value added	13.2	0.7	0.0	0.0	52.6	195.8
23 Imports	6.3	9.9	0.9	0.0	112.8	532.0
24 Total input	150.3	38.9	4.3	444.7	1013.4	1943.2
Employment	4187	158	0	0	4345	17798
Wage and salary employees	4187	158	0	0	4345	16739
Proprietors	0	0	0	0	0	1059

Table A-3
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	1 Agriculture, fishing, and mining	2 Construction	3 Fish processing	4 Other manufacturing	5 Wholesale trade	6 Retail trade
1 Agriculture, fishing, and mining (11,21)	0.01923	0.00000	0.00000	0.00000	0.00000	0.00000
2 Construction (23)	0.00385	0.00226	0.00139	0.00000	0.00000	0.00402
3 Fish processing (3117)	0.00000	0.00000	0.11998	0.00000	0.00000	0.00000
4 Other manufacturing (other 31,32-33)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
5 Wholesale trade (42)	0.01154	0.02489	0.00159	0.00000	0.00806	0.00602
6 Retail trade (44-45)	0.00385	0.04072	0.00258	0.00000	0.00000	0.00402
7 Transportation and warehousing (48-49)	0.00385	0.00905	0.00417	0.00000	0.08871	0.01205
8 Information (51)	0.00385	0.01131	0.00318	0.00000	0.01613	0.01205
9 Financial activities (52-53)	0.00385	0.02036	0.00139	0.00000	0.07258	0.03614
10 Professional and business services (54-56)	0.00385	0.25113	0.01669	0.00000	0.24194	0.10843
11 Educational and healthcare services (other 61,62)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00201
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
13 Food services and drinking places (722)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
14 Other services (71,81)	0.00385	0.02941	0.00596	0.00000	0.00806	0.00803
15 Government authorities (22,part 61)	0.00769	0.00452	0.02364	0.00000	0.01613	0.05221
16 Labor income	0.46923	0.21719	0.08025	0.60000	0.31452	0.35141
Employment coefficient (jobs./$ mils.)	20.000	13.529	11.001	112.000	28.387	37.229
Wage and salary employment coefficient (jobs/$ mils.)	10.769	12.738	11.001	24.000	27.823	32.691
Proprietors coefficient (jobs/$ mils.)	9.231	0.792	0.000	88.000	0.565	4.538
Labor income coefficient ($ mils./job)	0.02346	0.01605	0.00892	0.00536	0.01108	0.00944

Table A-3 (continued)
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	7 Transportation and warehousing	8 Information	9 Financial activities	10 Professional and business services	11 Educational and healthcare services	12 Accommodation
1 Agriculture, fishing, and mining (11,21)	0.00000	0.00000	0.00000	0.00000	0.00647	0.00000
2 Construction (23)	0.00000	0.00535	0.01340	0.00160	0.00647	0.00000
3 Fish processing (3117)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
4 Other manufacturing (other 31,32-33)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
5 Wholesale trade (42)	0.00645	0.00535	0.00268	0.00641	0.01294	0.00000
6 Retail trade (44-45)	0.00645	0.00000	0.00268	0.00321	0.00324	0.10000
7 Transportation and warehousing (48-49)	0.16129	0.00535	0.00000	0.00641	0.00971	0.00000
8 Information (51)	0.01935	0.08556	0.00804	0.02083	0.00647	0.00000
9 Financial activities (52-53)	0.03226	0.01604	0.02681	0.02244	0.03236	0.00000
10 Professional and business services (54-56)	0.12258	0.02139	0.01340	0.02404	0.04854	0.00000
11 Educational and healthcare services (other 61,62)	0.00000	0.00000	0.00268	0.00321	0.00647	0.00000
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
13 Food services and drinking places (722)	0.00000	0.00000	0.00000	0.00000	0.00971	0.10000
14 Other services (71,81)	0.01290	0.01070	0.02145	0.00801	0.00971	0.00000
15 Government authorities (22,part 61)	0.01290	0.01604	0.01609	0.01282	0.01942	0.10000
16 Labor income	0.40645	0.23529	0.17158	0.29167	0.50485	0.30000
Employment coefficient (jobs/$ mils.)	50.710	15.722	8.767	14.423	24.790	44.000
Wage and salary employment coefficient (jobs /$ mils.)	39.226	15.508	7.989	12.917	23.916	26.000
Proprietors coefficient (jobs/$ mils.)	11.484	0.214	0.777	1.506	0.874	18.000
Labor income coefficient ($ mils. /job)	0.00802	0.01497	0.01957	0.02022	0.02037	0.00682

Table A-3 (continued)
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	13 Food services and drinking places	14 Other services	15 Government authorities	16 Consumption and government expenditures
1 Agriculture, fishing, and mining (11,21)	0.02463	0.00000	0.00196	0.06942
2 Construction (23)	0.00493	0.00000	0.00391	0.02554
3 Fish processing (3117)	0.00493	0.00000	0.00000	0.01187
4 Other manufacturing (other 31 ,32-33)	0.00000	0.00000	0.00000	0.00144
5 Wholesale trade (42)	0.03941	0.02186	0.00978	0.01619
6 Retail trade (44-45)	0.00493	0.00546	0.00196	0.15755
7 Transportation and warehousing (48-49)	0.00985	0.06557	0.01566	0.01763
8 Information (51)	0.00985	0.01639	0.00978	0.03058
9 Financial activities (52-53)	0.03941	0.04372	0.01957	0.08957
10 Professional and business services (54-56)	0.04433	0.02186	0.00978	0.07590
11 Educational and healthcare services (other 61 ,62)	0.00000	0.00546	0.00391	0.06727
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00036
13 Food services and drinking places (722)	0.04926	0.00000	0.00000	0.06043
14 Other services (71,81)	0.00493	0.01093	0.00783	0.03094
15 Government authorities (22,part 61)	0.00985	0.00546	0.03718	0.05576
16 Labor income	0.20690	0.21311	0.18200	0.11799
Employment coefficient (jobs/$ mils.)	28.128	19.180	9.706	6.234
Wage and salary employment coefficient (jobs/$ mils.)	25.123	13.934	9.706	6.234
Proprietors coefficient (jobs/$ mils.)	3.005	5.246	0.000	0.000
Labor income coefficient ($ mils./job)	0.00736	0.01111	0.01875	0.01893

Table A-4

American Samoa Input/Output Table, 2002

Adjusted Inverse Matrix

	1 Agriculture, fishing, and mining	2 Construction	3 Fish processing	4 Other manufacturing	5 Wholesale trade	6 Retail trade
1 Agriculture, fishing, and mining (11,21)	1.07760	0.04109	0.01316	0.07023	0.05531	0.04990
2 Construction (23)	0.02760	1.02014	0.00713	0.02845	0.02424	0.02532
3 Fish processing (3117)	0.01100	0.00779	1.13883	0.01332	0.01048	0.00944
4 Other manufacturing (other 31,32-33)	0.00114	0.00081	0.00026	1.00138	0.00109	0.00098
5 Wholesale trade (42)	0.03264	0.04281	0.00716	0.02460	1.03095	0.02562
6 Retail trade (44-45)	0.13256	0.13322	0.03225	0.15545	0.12431	1.11520
7 Transportation and warehousing (48-49)	0.03380	0.03875	0.01345	0.03280	0.13665	0.04161
8 Information (51)	0.04017	0.04594	0.01310	0.04234	0.06094	0.04778
9 Financial activities (52-53)	0.09651	0.09784	0.02418	0.10950	0.17318	0.12105
10 Professional and business services (54-56)	0.10913	0.34462	0.04489	0.12027	0.36244	0.20451
11 Educational and healthcare services (other 61,62)	0.05511	0.04024	0.01267	0.06662	0.05369	0.05003
12 Accommodation (721)	0.00029	0.00020	0.00006	0.00035	0.00027	0.00025
13 Food services and drinking places (722)	0.05107	0.03618	0.01154	0.06186	0.04868	0.04386
14 Other services (71,81)	0.03645	0.05649	0.01478	0.03852	0.04463	0.03850
15 Government authorities (22,part 61)	0.06879	0.05485	0.04223	0.07238	0.08108	0.10892
16 Labor income	0.79409	0.56232	0.17947	0.96198	0.75676	0.68164

Table A-4 (continued)
American Samoa Input/Output Table, 2002

Adjusted Inverse Matrix

	7 Transportation and warehousing	8 Information	9 Financial services	10 Professional and business services	11 Educational and healthcare services	12 Accommodation
1 Agriculture, fishing, and mining (11,21)	0.06575	0.03327	0.02371	0.03815	0.07262	0.04895
2 Construction (23)	0.02777	0.01974	0.02362	0.01767	0.03399	0.02026
3 Fish processing (3117)	0.01246	0.00630	0.00449	0.00723	0.01251	0.00933
4 Other manufacturing (other 31,32-33)	0.00129	0.00065	0.00047	0.00075	0.00129	0.00091
5 Wholesale trade (42)	0.03279	0.01849	0.01239	0.02075	0.03798	0.02241
6 Retail trade (44-45)	0.15398	0.07412	0.05595	0.08795	0.14951	0.20337
7 Transportation and warehousing (48-49)	1.22738	0.02491	0.01411	0.02775	0.04610	0.02740
8 Information (51)	0.06975	1.11530	0.02479	0.04744	0.04976	0.03233
9 Financial activities (52-53)	0.14853	0.07249	1.06742	0.08547	0.14080	0.08352
10 Professional and business services (54-56)	0.26844	0.08625	0.06116	1.09537	0.17230	0.09916
11 Educational and healthcare services (other 61,62)	0.06315	0.03182	0.02549	0.03965	1.06927	0.04447
12 Accommodation (721)	0.00032	0.00016	0.00012	0.00019	0.00032	1.00023
13 Food services and drinking places (722)	0.05788	0.02927	0.02086	0.03359	0.06813	0.14578
14 Other services (71,81)	0.05459	0.03128	0.03629	0.03051	0.04817	0.02817
15 Government authorities (22,part 61)	0.08785	0.05361	0.04261	0.05441	0.09054	0.15873
16 Labor income	0.89989	0.45508	0.32394	0.52179	0.89946	0.63122

Table A-4 (continued)
American Samoa Input/Output Table, 2002
Adjusted Inverse Matrix

	13 Food services and drinking places	14 Other services	15 Government authorities	16 Consumption and government expenditures
1 Agriculture, fishing, and mining (11,21)	0.06048	0.03408	0.02800	0.11705
2 Construction (23)	0.02002	0.01477	0.01503	0.04742
3 Fish processing (3117)	0.01234	0.00645	0.00491	0.02220
4 Other manufacturing (other 31,32-33)	0.00067	0.00067	0.00051	0.00231
5 Wholesale trade (42)	0.05530	0.03557	0.02015	0.04100
6 Retail trade (44-45)	0.08143	0.08174	0.05987	0.25908
7 Transportation and warehousing (48-49)	0.03464	0.09849	0.03380	0.05466
8 Information (51)	0.03551	0.04250	0.02833	0.07057
9 Financial activities (52-53)	0.10238	0.10507	0.06424	0.18250
10 Professional and business services (54-56)	0.12301	0.09977	0.06274	0.20045
11 Educational and health care services (other 61,62)	0.03274	0.03817	0.02884	0.11104
12 Accommodation (721)	0.00017	0.00017	0.00013	0.00058
13 Food services and drinking places (722)	1.08179	0.03002	0.02285	0.10310
14 Other services (71,81)	0.02675	1.03290	0.02382	0.06420
15 Government authorities (22,part 61)	0.04952	0.04458	1.06695	0.12063
16 Labor income	0.46611	0.46593	0.35463	1.60329

Appendix B-Private Sector Survey Background

Interviews were conducted with approximately 60 businesspeople and other knowledgeable people in May, June and September 2007. With a very few exceptions, the interviews were conducted in person.

Most interviewees were provided a letter explaining the purpose of the research and report. The letter is included below. Approximately 14 interviewees were asked an identical series of questions, many of them open-ended. The questions are included below, as well as a compilation of the results. The "results" are not statistically valid since the methodology employed was designed to elicit open-ended conversation and did not conform to quantitative research protocols.

Most of the other interviews focused on one or more specific aspect of the report's scope and a formal survey instrument was therefore not used. Formal presentations were made to the Chamber of Commerce twice (6/5/07 and 9/20/07), Rotary Club (5/18/07) and members of the general public (9/26/07). In addition to the interviews and presentations, the report was the topic of an even larger number of informal conversations with American Samoa residents and observers that took place during the eight weeks the consulting team spent in American Samoa in 2007.

Numerous newspaper stories about the project were published in the three American Samoa newspapers, and the project was highlighted on the radio (KHJ) and television (411 show, early June). The public meeting on September 26 was promoted with newspaper and radio advertisements.

Summary of Interviewees for Cannery Analysis

Name of Person Interviewed	Position of Person at time of interview	Was Survey Answered (# of Employees)
Carlos Sanchez	Fishing boat owner, former cannery senior management	No
John Suisala	General Manager, Polynesian Shipping	Yes (13)
David Robinson	President, Chamber of Commerce. President, Panamex Pacific	Yes (14)
Ben Solaita	General Manager,Southwest Marine	Yes (30)
Isabel Hudson	Area Representative, Hamburg Sud. Proprietoress, Le Falepule and Le Moana o Sina	No. Discussion focused on shipping.
John Newton	Call Center consultant (InfoTech)	No. Discussion focused on call center industry.
Sione Kava	Manager, American Samoa Petroleum Cooperative	No. Discussion focused on petroleum.

Gary Ayre	CEO, Amerika Samoa Bank	No. Discussion focused on banking environment.
Utu Abe Malae	CEO, Development Bank of American Samoa	No. Discussion focused on banking environment and role of DBAS.
Chuck Warren	CFO, GHC Reid. Chairman, AS Medical Center Authority Board of Directors	No. Discussion focused on health care costs.
Alex Galeai (now deceased)	Owner, Alamai Samoa and Checkers	Yes (>50)
Edmung Helg	Owner, Lavalava Samoa	Yes (12)
Robin Annesley	Publisher, Samoa News. Member, Territorial Planning Commission. Chairwoman, American Samoa Development Corporation.	Yes (24)
Sepp Steffany	Owner, Sepp's Paint, Sepp's Furniture, Pacific Marketing	Yes (>100)
Brian Glass	Manager, Bank of Hawaii (AS branch)	Yes (34)
Fofo Sunia	Historian	No.
Xavier Faletoi	Owner, Fax Cargo service	No. Discussion focused on air shipping.
Robert Uhrle	Toa Communications	No.
Fagafaga Daniel Langkilde	Manager, Malama TV	Yes (7)
Dave Haleck	Principal, Haleck Enterprises	Yes (>300)
Vince Haleck	Principal, Haleck Enterprises	Yes (see above)
Eni Faleomavaega	U.S. Congressman	No.
Jens Jensen	Manager, Polynesian Line	No. Discussion focused on shipping.
Patricia Tindall	CEO, LBJ Tropical Medical Center	No. Discussion focused on health care costs.
President Lolo Moliga	American Samoa Senate	No.
Speaker Savali Talavou Ale	American Samoa House of Representatives	No.
I'u Joe Pereira	American Samoa Legislature	No.
Honorable John Ward, III	Judge, American Samoa Family Court	No. Discussion focused on social impact of unemployment.
Larry Fuss	Owner, South Seas Broadcasting	Yes (7)
Olivia Reid	Principal, GHC Reid	Yes (135)
Michael Reid	Principal, GHC Reid	Yes (see above)
Lealaifuaneva Reid	Principal, GHC Reid	Yes (see above)
Roy Hall	Attorney	No.
Herman Gebauer	Former manager, Samoa Packing	No. Discussion focused on cannery workforce.

Tasi Tuiteleleapaga	Governor's Legal Counsel	No.
Terry Conden	Port Engineer	No. Discussion focused on ship building.
Andra Samoa	CEO, ASPA	No. Discussion focused on public utilities.
Michael Keyser	Legal Counsel, ASPA	No. Discussion focused on public utilities.
Governor Togiola Tulafono		No.
Vai Filiga	Chief Statistician, Department of Commerce	No.
Dr. Papalii Failautusi Avegalio	Pacific Business Center, University of Hawaii	No. Discussion focused on workforce study.
Dr Luciana Minerbi	Pacific Business Center. American Samoa Workforce Study	No. Discussion focused on workforce study.
Dr. Robert Doktor	Pacific Business Center. American Samoa Workforce Study	No. Discussion focused on workforce study.
Mark Hunsaker	Principal, proposed call center/InfoTech. CPA with Bowen, Hunsaker, Hirai.	No. Discussion focused on proposed call center industry.
Barry Rose	President, Blue Sky	Yes (65)
Barry Forsgren	Principal, Forsgren businesses	No.
Susan Jackson	DelMonte/StarKist Samoa	No.
Willem Martins	Samoa Packing	No.
Tom Drabble	Owner, Sadies and Rubbles and Transpac	No. Discussion focused on tourism.
Dean Hudson	Manager, Fletcher Construction	No.
Pete Gurr	Farmer. Deputy Director of Department of Agriculture.	No.
Afoa Lutu	Attorney	No.
Jason Thomas	Manager, NPI Insurance. Chamber of Commerce Board member.	No.
Tolani Teleso	Businessman	No.
Lydia Faleafine	Field Representative, U.S. Department of Interior.	No.
Sam Vaouli	Recruiter, U.S. Army	No. Discussion focused on youth aspirations and capabilities.
Sili Sataua	Former senior government official	No.
Paul Ratterman	Owner, Samoa Pacific Shipping	No. Discussion focused on shipping.
Dan King	Accountant. Chamber of Commerce Board member.	No.

Survey Instrument

Company Profile

How many employees?

What % of your business is directly cannery-related?

How many years in business?

Market Share?

Nationality of employees (roughly)

1. Have you given much thought to the impact the canneries leaving will have on your business, your family, and American Samoa? (Yes, a lot of thought. No, just a little thought. No, not at all).
2. Are you concerned that the canneries will leave and affect your business? (Yes, very worried. No, not really very worried. No, not worried).
3. Has the possibility of the canneries leaving affected your business decisions the last year? (E.g., did not undertake expansion, held off on investment, changed direction of company).
4. Do you think the canneries will still be operating in American Samoa at the end of 2008; at the end of 2009? (Yes, no).
5. If the canneries both closed, what do you think would be the impact on your business (express in percentages, where applicable)?
   a. Revenues
   b. Profits
   c. Employment (if down, will employees stay in AS or leave, and if leaving, where will they go?)
   d. Future status (would your business survive? Would you retool in some way?)
   e. Ability to repay your loans or leases?
6. How will goods and services and prices that people have come to expect from your company be affected if the canneries closed?
7. Do you experience notable changes in your business when the canneries have temporary closures?
8. Are there programs or policies that you think will help your business and community to cope with the departure of the canneries?
9. What sort of industries or directions do you think might be successful in helping the A.S. economy get stronger and more diversified?
10. Do you look forward at all to the canneries leaving? If so, why?

Compiled Results

The 14 survey respondents represented about 900 employees, or about 15% of the non-cannery private sector.

Eight of the 13 (61%) said they had given a lot of thought to the canneries leaving. Two (15%) said they had only given a little thought to the prospect of the canneries leaving. The other three had given some thought to the canneries leaving (more than a little, less than a lot).

Nine of the 13 (69%) said they were very worried about the canneries leaving. The other four were a little worried or concerned, but not overly so.

Only two of the 13 respondents reported that the prospect of a cannery reduction/closure had not affected their business decisions in the past year. The other eleven (85%) said they had held back on investments or initiatives or hiring or expansions due to their concerns about the canneries' future. A few indicated they had pro-actively sought to diversify or adjust their business lines.

As to whether respondents thought the canneries would still be operating in American Samoa at the end of 2008, 12 of the 13 expect the canneries to be still operating at that time. But as to whether the respondents thought the canneries would still be operating in American Samoa at the end of 2009, the number of respondents who expressed a firm belief that the canneries would still be operating dropped from 12 to five. Several respondents expressed their belief that the canneries would depart if the newly-amended minimum wage law was not modified, but would likely remain if the law were amended again to keep wages from rising too fast.

The estimates as to how much revenues companies would lose if the canneries closed varied widely, from a low of 3% to a high of 75%. On a weighted average basis (weighted by size of work force), the estimated percentage decrease was 20%.

Twelve of the 13 respondents indicated their businesses would survive the impact of a cannery closing, though they all anticipated significant changes in their businesses, including down-sizing, price increases, and reduction of business lines.

Letter of Introduction

May 15, 2007

Dear Friend,
A government-sponsored study is now underway to determine the economic impact on American Samoa of a closure of the tuna canneries.
The canneries have not announced any plans for closing, but the American Samoa Government has commissioned the study to help it prepare for the future.
The study is being conducted by Malcolm McPhee and Associates. It is being supervised by the ASG Department of Commerce. It is being paid for with a Technical Assistance grant from the U.S. Department of Interior. The final report will be complete by the end of 2007.
The study will include four parts:

1. A computer simulation model of American Samoa's economy which will allow government officials to estimate the effects of changes in the economy. For example, the model would show the effects on income, jobs, and other economic measures that would most likely result from closure of the canneries.
2. A narrative report on the impacts foreseen by individuals representing families, companies, organizations and government agencies.
3. A narrative report with ideas for policies, programs, legislation, and actions that could be used to minimize the pain of the canneries departure.
4. A narrative report with ideas for how the American Samoa economy can become more diversified and healthy, especially in a post-cannery era.

The computer model is being prepared by an economics expert from the University of Washington who has done similar work in American Samoa, Saipan and elsewhere.

The narrative report will be prepared by Malcolm McPhee and Lewis Wolman and will be based in large part on original research being conducted from May to October, 2007.

The research team will be meeting with a wide variety of people in American Samoa and elsewhere to gather information and ideas that will help make the narrative reports (items 2-4 above) as accurate and useful as possible.

Your cooperation is truly appreciated and will contribute to forging the tools American Samoa will need to rise to the formidable challenge that closure of the canneries will pose for the territory, its companies and its people.

Thank you,

Malcolm McPhee and Associates

APPENDIX 2.—PROPOSAL ON MINIMUM WAGE ADJUSTMENT

PROPOSAL

Sec. 1. Applicability of the Minimum Wage to American Samoa.

(a) Biennial Adjustment of Minimum Wage Rate.—Section 8103(b)(2)(C) of Public Law 110-28 is amended by inserting in place thereof the following:

increased by $0.50 an hour (or such lesser amount as may be necessary to equal the minimum wage under section 6(a)(1) of such Act), beginning 2 years after the date of the first increase in paragraph (B) and every 2 years thereafter until the minimum wage applicable to American Samoa under this paragraph is equal to the minimum wage set forth in such section, if the Secretary of Labor determines, through the Bureau of Labor Statistics, that an increase under this paragraph will not have an adverse impact on the economy of American Samoa.

(b) Bureau of Labor Statistics Report.—Section 8104 of Public Law 110-28 is amended by inserting at the end thereof the following new subsection:

(c) Bureau of Labor Statistics Report.—To provide the documented basis for the biennial adjustment under section 8103(b)(2)(C) until the minimum wage applicable in American Samoa is equal to the minimum wage under section 6(a)(1) of such Act, the Bureau of Labor Statistics shall conduct a study and issue a timely determination on the economy of American Samoa.

Sec. 2. Data Collection.

(a) The Bureau of Labor Statistics shall collect and publish monthly data on the labor market conditions in American Samoa similar to the data collected and estimates provided for the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands in the monthly survey of employers.

(b) The Bureau of Labor Statistics and the Census Bureau shall collect and publish monthly data on households in American Samoa similar to the data collected and the estimates provided for the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands in the Current Population Survey.

Sec. 3. Effective Date.

(a) Effective Date.—The amendments made by this section shall become effective on the date of enactment.

EXPLANATION OF PROPOSAL

Under this proposal, if the Secretary of Labor (through the Bureau of Labor Statistics acting in consultation with the Secretary of Interior and the Government of American Samoa) finds that a subsequent 50 cent an hour increase will not adversely impact the economy of American Samoa, the increase will take effect on the 2-year anniversary of the first increase under Public Law 110-28. The Bureau shall provide its biennial analysis in a timely fashion to allow a 60 day notice period before each increase in the minimum wage. Should the Secretary of Labor find that such increase will have an adverse impact on the territory's economy, the increase will not take effect. The Department's review and determination will continue every 2 years until the minimum wage for all industry sectors in American Samoa matches the regular Federal minimum wage rate of $7.25.

To provide the data necessary to make such a determination, the Bureau of Labor Statistics and the Census Bureau shall collect and publish monthly data on labor market conditions and on households similar to the data collected and estimates provided for the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands in the monthly survey of employers and the Current Population Survey.

APPENDIX 3.—PROPOSAL ON ECONOMIC ACTIVITY CREDIT

PROPOSAL

To amend the Internal Revenue Code of 1986 to expand, and extend for 10 years, the American Samoa economic development credit.

Section 1. Expansion and Extension of American Samoa Economic Development Credit

(a) In General.—Subpart B of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

'SEC. 30D. AMERICAN SAMOA ECONOMIC DEVELOPMENT CREDIT.

'(a) Allowance of Credit.—In the case of a qualified domestic corporation, there shall be allowed as a credit against the tax imposed by this chapter an amount equal to the portion of the tax which is attributable to the taxable income, from sources without the United States, from—

'(1) the active conduct of a trade or business within American Samoa, or

'(2) the sale or exchange of substantially all of the assets used by the taxpayer in the active conduct of such trade or business.

'(b) Limitation.—The amount of the credit determined under subsection (a) for any taxable year shall not exceed the sum of the following amounts (determined by treating American Samoa as the only possession of the United States):

'(1) 60 percent of the sum of—

'(A) the aggregate amount of the qualified domestic corporation's qualified possession wages for such taxable year, plus

'(B) the allocable employee fringe benefit expenses of the qualified domestic corporation for such taxable year.

'(2) The sum of—

'(A) 15 percent of the depreciation allowances for the taxable year with respect to short-life qualified tangible property,

'(B) 40 percent of the depreciation allowances for the taxable year with respect to medium-life qualified tangible property, and

'(C) 65 percent of the depreciation allowances for the taxable year with respect to long-life qualified tangible property.

'(c) Qualified Domestic Corporation.—For purposes of this section, the term 'qualified domestic corporation' means any domestic corporation which meets the conditions of both paragraphs (1) and (2) of section 30A(b).

'(d) Credit Not Allowed Against Certain Taxes.—The credit provided by subsection (a) shall not be allowed against any tax referred to in a paragraph of section 30A(c).

'(e) Treatment of Certain Foreign Taxes.—For purposes of this title, any tax of a foreign country or a possession of the United States which is paid or accrued with respect to taxable income which is taken into account in computing the credit under subsection (a) shall not be treated as income, war profits, or excess profits taxes paid or accrued to a foreign country or possession of the United States, and no deduction shall be allowed under this title with respect to any amounts so paid or accrued.

'(f) Administrative Provisions.—For purposes of this title—

'(1) the credit under this section shall be treated in the same manner as the credit under section 936, and

'(2) a corporation to which this section applies shall be treated in the same manner as if it were a corporation electing the application of section 936.

'(g) Denial of Double Benefit.—Any wages or other expenses taken into account in determining the credit under this section may not be taken into account in determining the credit under section 41.

'(h) Application of Section-This section shall apply to taxable years beginning after December 31, 2007, and before January 1, 2019.'.

(b) Conforming Amendments.—

(1) Paragraph (1) of section 55(c) of such Code is amended by striking 'and the Puerto Rico economic activity credit under section 30A' and inserting 'the Puerto Rico economic activity credit under section 30A, and the American Samoa economic development credit under section 30D'.

(2) Subclause (I) of section 56(g)(4)(C)(ii) of such Code is amended by inserting '30D,' after '30A,'.

(3) Subclause (VI) of section 56(g)(4)(C)(iii) of such Code is amended to read as follows:

'(VI) Application to Sections 30A and 30D Corporations.—References in this clause to section 936 shall be treated as including references to sections 30A and 30D.'.

(4) Subsection (b) of section 59 of such Code is amended by inserting ', 30D,' after '30A' each place it appears, including the heading.

(5) The table of sections for subpart B of part IV of subchapter A of chapter 1 of such Code is amended by adding at the end the following new item:

'Sec. 30D. American Samoa economic development credit.'.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after the date of enactment of this bill.

EXPLANATION

I. Present and Prior Law

A. In General

For taxable years beginning before January 1, 2006, certain domestic corporations with business operations in the U.S. possessions were eligible for the possession tax credit. This credit offset the U.S. tax imposed on certain income related to operations in the U.S. possessions. For purposes of the credit, possessions included, among other places, American Samoa. Subject to certain limitations described below, the amount of the possession tax credit allowed to any domestic corporation equaled the portion of that corporation's U.S. tax that was attributable to the corporation's non-U.S. source taxable income from (1) the active conduct of a trade or business within a U.S. possession, (2) the sale or exchange of substantially all of the assets that were used in such a trade or business, or (3) certain possessions investment.

No deduction or foreign tax credit was allowed for any possessions or foreign tax paid or accrued with respect to taxable income that was taken into account in computing the credit under section 936. The section 936 credit generally expired for taxable years beginning after December 31, 2005, but a special credit, described below, was allowed with respect to American Samoa.

To qualify for the possession tax credit for a taxable year, a domestic corporation was required to satisfy two conditions. First, the corporation was required to derive at least 80 percent of its gross income for the three-year period immediately preceding the close of the taxable year from sources within a possession. Second, the corporation was required to derive at least 75 percent of its gross income for that same period from the active conduct of a possession business.

The possession tax credit was available only to a corporation that qualified as an existing credit claimant. The determination of whether a corporation was an existing credit claimant was made separately for each possession. The possession tax credit was computed separately for each possession with respect to which the corporation was an existing credit claimant, and the credit was subject to either an economic activity-based limitation or an income-based limitation.

B. Qualification As Existing Credit Claimant

A corporation was an existing credit claimant with respect to a possession if (1) the corporation was engaged in the active conduct of a trade or business within the possession on October 13, 1995, and (2) the corporation elected the benefits of the possession tax credit in an election in effect for its taxable year that included October 13, 1995.

A corporation that added a substantial new line of business (other than in a qualifying acquisition of all the assets of a trade or business of an existing credit claimant) ceased to be an existing credit claimant as of the close of the taxable year ending before the date on which that new line of business was added.

C. Economic Activity-Based Limit

Under the economic activity-based limit, the amount of the credit determined under the rules described above was not permitted to exceed an amount equal to the sum of (1) 60 percent of the taxpayer's qualified possession wages and allocable employee fringe benefit expenses, (2) 15 percent of depreciation allowances with respect to short-life qualified tangible property, plus 40 percent of depreciation allowances with respect to medium-life qualified tangible property, plus 65 percent of depreciation allowances with respect to long-life qualified tangible property, and (3) in certain cases, a portion of the taxpayer's possession income taxes.

D. Income-Based Limit

As an alternative to the economic activity-based limit, a taxpayer was permitted to elect to apply a limit equal to the applicable percentage of the credit that otherwise would have been allowable with respect to possession business income; in tax-

able years beginning in 1998 and subsequent years, the applicable percentage was 40 percent.

E. Repeal and Phase Out

In 1996, the section 936 credit was repealed for new claimants for taxable years beginning after 1995 and was phased out for existing credit claimants over a period including taxable years beginning before 2006. The amount of the available credit during the phase-out period generally was reduced by special limitation rules. These phase-out period limitation rules did not apply to the credit available to existing credit claimants for income from activities in Guam, American Samoa, and the Northern Mariana Islands. As described previously, the section 936 credit generally was repealed for all possessions, including Guam, American Samoa, and the Northern Mariana Islands, for all taxable years beginning after 2005, but a modified credit was allowed for activities in American Samoa.

F. American Samoa Economic Development Credit

A domestic corporation that was an existing credit claimant with respect to American Samoa and that elected the application of section 936 for its last taxable year beginning before January 1, 2006 is allowed a credit based on the economic activity-based limitation rules described above. The credit is not part of the Code but is computed based on the rules secs. 30A and 936. The credit is allowed for a corporation's first two taxable years that begin after December 31, 2005, and before January 1, 2008.

The amount of the credit allowed to a qualifying domestic corporation under the provision is equal to the sum of the amounts used in computing the corporation's economic activity-based limitation (described previously) with respect to American Samoa, except that no credit is allowed for the amount of any American Samoa income taxes. Thus, for any qualifying corporation the amount of the credit equals the sum of (1) 60 percent of the corporation's qualified American Samoa wages and allocable employee fringe benefit expenses and (2) 15 percent of the corporation's depreciation allowances with respect to short-life qualified American Samoa tangible property, plus 40 percent of the corporation's depreciation allowances with respect to medium-life qualified American Samoa tangible property, plus 65 percent of the corporation's depreciation allowances with respect to long-life qualified American Samoa tangible property.

The section 936(c) rule denying a credit or deduction for any possessions or foreign tax paid with respect to taxable income taken into account in computing the credit under section 936 does not apply with respect to the credit allowed by the provision.

II. Reasons for Enactment of Economic Development Federal Tax Incentive for American Samoa

The repeal in 1996 of the section 936 possessions corporation credit jeopardizes the operations of the two tuna canneries which constitute the main source of private employment in American Samoa. The repeal has also made it extremely difficult for American Samoa to attract new investments.

Limited infrastructure, small land area, and scare resources are especially pronounced obstacles for economic development in American Samoa. Unlike the other US insular areas, it is also remote from domestic and foreign markets. The territory has not attained a level of development comparable to other US insular areas. The proportion of territorial government expenditures covered by federal funds is the largest of all insular area. The territory's unemployment rate is more than double that of the next highest insular area. The territory's annual per capita income is less than half of the next lowest insular area.

Under existing law, investments on Indian reservations qualify for shorter recovery periods; and an annual employment credit is given for jobs created on reservations. Alaska Native corporations also receive favorable tax treatment for consolidated losses. In the Omnibus Budget Reconciliation Act of 1993, Congress cited the economic tax stimulus for United States possessions as precedent for enacting the Indian Employment Credit and depreciation incentives to encourage jobs creation and business investments on Indian reservations.

With the repeal of the possessions corporation credit and faltering economic conditions, American Samoa requires a new federal initiative comparable to the economic development tax initiative for Indian reservations.

III. Explanation of the Proposed Provisions

To provide an incentive for job creation and economic activity in American Samoa, the proposal creates a business activity credit with respect to operations in American Samoa. The amount of the credit equals the portion of a corporation's U.S. tax

that is attributable to that corporation's non-U.S. source taxable income from the active conduct of a trade or business within American Samoa and the sale or exchange of substantially all of the assets that were used in such a trade or business. All domestic corporations, not just the two canneries with pre-existing operations in the territory, would qualify.

To qualify for the credit, the United States corporation must derive at least 80 percent of its gross income from American Samoa for the preceding three-year period. In addition the corporation must also derive at least 75 percent of its gross income for the same period from the active conduct of a trade or business in American Samoa. For newly formed corporations in existence for less than three years, the percentage requirements will apply to their period of operation.

The amount of the credit allowed to a qualifying domestic corporation under the provision is equal to the sum of the amounts used in computing the corporation's economic activity-based limitation with respect to American Samoa, except that no credit is allowed for the amount of any American Samoa income taxes. Thus, for any qualifying corporation the amount of the credit equals the sum of (1) 60 percent of the corporation's qualified American Samoa wages and allocable employee fringe benefit expenses and (2) 15 percent of the corporation's depreciation allowances with respect to short-life qualified American Samoa tangible property, plus 40 percent of the corporation's depreciation allowances with respect to medium-life qualified American Samoa tangible property, plus 65 percent of the corporation's depreciation allowances with respect to long-life qualified American Samoa tangible property.

The economic activity credit is based on compensation paid to employees and on tangible personal property located in American Samoa. Service and manufacturing activities receive comparable treatment. The incentive in this way seeks to encourage labor-intensive and capital-intensive businesses equally.

APPENDIX 4.—PROPOSED AMERICAN SAMOA TERRITORIAL EMPLOYMENT PROGRAM

PROPOSAL

Section 1. Purpose—Improved Standard of Living Through Economic Growth

(a) Purpose.—To improve the standard of living in the territory, the Government of American Samoa seeks to promote economic growth. The business incentive employment program is intended to be a part of the strategy to achieve that purpose.

(b) Job Creation and Retention.—Through the business incentive employment program the Government will encourage significant job creation and retention for the employment of the people of American Samoa in key business sectors.

(c) Capital Investment.—Through the business incentive employment program, the America Samoa Government also will encourage key business sectors to make significant capital investments in facilities and equipment in American Samoa to be utilized by the workers in the jobs created or retained.

Section 2. Employment Tax Credit

(a) In General.—Under the procedures in Chapter 16 (Tax Incentives for Businesses), the Tax Exemption Board may grant with the Governor's approval a credit against the income tax imposed by Title 11 (Revenue) to a business enterprise that agrees to the creation of significant number of new full-time jobs (or the retention of a significant number of existing full-time jobs) and that also agrees to make major capital investments in American Samoa.

(b) Amount of Credit.—The credit may not exceed 75 percent of the American Samoa payroll income tax which the enterprise withholds from the wages of a full-time employee covered by the agreement and pays to the Treasury during the enterprise's tax year which amount accurately reflects the employee's tax liability.

(c) Credit Duration.—The enterprise may claim this credit for the years specifically granted by the Board with the Governor's approval, but in no event shall this period extend longer than 7 years. The actual credit for each year will be based on the established percentage of the payroll income tax properly withheld by the enterprise and paid to the Treasury for that year.

(d) Credit Limit.—The amount of creditable income tax withheld and paid shall not exceed the amount attributable to the first $20,000 in wages of an employee.

Section 3. Application Procedure

(a) Filing.—The Tax Exemption Board shall accept applications for the employment tax credit from business enterprises that are or will engage in active business operations in key sectors of the American Samoa economy.

(b) Contents.—The Tax Exemption Board shall specify the form of application to contain:

(1) The applicant's name, address, and federal identification number;

(2) A description of the active business operations undertaken or to be undertaken by the applicant in American Samoa;

(3) The number of new full-time jobs which the applicant will create or the number of existing full-time jobs which the applicant will retain;

(4) The amount of wages and benefits that the applicant will pay to each worker for each job created or each job retained over a 12 month period;

(5) The capital investment which the applicant will make in its operations in American Samoa;

(6) The sector which the applicant's capital investment and employment will develop and the importance of that sector for American Samoa's economic growth;

(7) The experience and involvement of the applicant in the described business;

(8) The applicant's financial soundness with its ability to complete the projected capital investment and maintain the stated number of full-time jobs to be created or retained in American Samoa;

(9) The applicant's ability to maintain its stated operations and stated employment in American Samoa for at least twice the duration of the employment credit sought; and

(10) Such other documents, plans, and specifications as may be required by the Tax Exemption Board to make an informed judgment on the application.

Section 4. Agreement

(a) Form of Grant.—With the Governor's approval, the Tax Exemption Board shall enter into an agreement with a business enterprise setting out the terms for granting the tax credit.

(b) Provisions in Agreement.—The agreement shall include:

(1) A description of the capital investment to be made, the time frame for this investment, and the number of full-time jobs to be created or retained by the business enterprise as the conditions for the credit;

(2) The duration, number of full-time employees covered, percentage of the tax credit, maximum credit per worker, and initial claim year for the credit granted;

(3) A requirement that the business enterprise maintain the described business activities in American Samoa for at least twice the number of years of credit granted;

(4) A requirement that the business enterprise report annually to the Tax Exemption Board on the capital investments made, the number of covered full-time workers employed with their name and address, the total wages paid to covered workers, the total amount of income tax withheld from covered workers and paid to the Treasury during the report year, and any other information required by the Board to carry out the credit program;

(5) A requirement that the Treasury audit and certify the accuracy of the business enterprise's annual report;

(6) A waiver by the business enterprise of any limitation period on assessments or adjustments related to its failure to comply with this agreement;

(7) The unilateral authority of the Tax Exemption Board to rescind prospectively, or reduce prospectively the percentage and duration of the credit if the business enterprise fails to:

(A) Make the stated capital investment during the specified time;

(B) Create or retain the stated number of jobs;

(C) Maintain the stated number of jobs for the required term;

(D) Submit annually the information required; or

(E) Accurately calculate, withhold, and pay the payroll tax on which the business credit is based.

(8) An obligation on the part of the business enterprise to repay:

(A) 100% of any credit previously claimed if it fails to make the stated capital investment during the time specified in its agreement with the Tax Exemption Board;

(B) 100% of any credit previously claimed if it fails to create or retain the stated number of full-time jobs during the specified duration of the credit;

(C) 50% of any credit previously claimed if it maintains the stated number of full-time jobs longer than the credit's specified duration but less than one and one-half of that specified period of duration;

(D) 25% of any credit previously claimed if it maintains the stated number of full-time jobs longer than one and one-half but less than twice the credit's specified period of duration.

(9) The business enterprise's indemnification of ASG, the Governor, and the Tax Exemption Board from any and all liabilities or claims caused by or resulting from the former's performance of the obligations or activities under the agreement; and

(10) The business enterprise's agreement to comply with all applicable federal and American Samoa law related to the activities under the agreement.

(11) The obligation of the business enterprise's corporate parent to fulfill the repayment, indemnification, and compliance provisions which the enterprise undertakes in this agreement.

Section 5. Annual Tax Return

(a) Supporting Information for Treasury.—When claiming the credit on its tax return filed with the Treasury, the business enterprise is to include:

(1) A copy of the agreement with the Tax Exemption Board as approved by the Governor;

(2) The amount of capital investment made during the year pursuant to the job creation or retention program.

(3) The name and address of each covered worker;

(4) The total amount of wages paid to covered workers; and

(5) The total amount of income tax which the business enterprise has withheld from those covered workers and has paid to the Treasury of the Government of American Samoa.

(b) Copy of Information for Tax Exemption Board.

The business enterprise will submit to the Tax Exemption Board a copy of the supporting information specified in paragraph (2) through (5) of subsection (a).

Section 6. Guidelines For Tax Exemption Board

(a) Total Credits.—The Board may enter into agreements which in total do not exceed $15,000,000 annually in credits granted.

(b) Consideration of Other Support.—The Board shall set the percentage and duration of any tax credit taking into account all other program supports, including tax exemption and financing afforded to the applicant, so as to constitute an effective program for economic development but avoiding redundant benefits.

(c) Criteria for Judging Applications.—The Board in judging applications and awarding credits, shall particularly weigh:

(1) The applicant's ability to make the represented capital investments;

(2) The applicant's ability to create and maintain or retain the represented number of jobs in American Samoa; and

(3) The applicant's impact through its projected business operations on the development of a key sector for American Samoa's economic growth.

(d) Rescission for Failure to Meet Commitments.—If a business fails to meet its commitment on capital investment or its employment commitment on the number of jobs to be created or retained within the time period specified in the agreement, the Board shall rescind the credit prospectively.

(e) Discretionary Re-negotiations.—The Board in its discretion may re-negotiate the terms of the agreement if a business fails to meet its commitment on capital investment or its commitment on the number of jobs to be created or retained within the time period specified in the agreement, provided the business satisfactorily demonstrates the ability to fulfill its commitments within a reasonable period.

(f) Jobs Counted as Created.—In determining the number of jobs a business enterprise will create, the Board will take into account only new jobs in American Samoa.

(g) Processing.—The Board shall act on each application within 120 days of filing. Priority shall be given to business enterprises that commit to significant capital investment and significant employment growth in key sectors of Amer-

ican Samoa's economy. After the Board has fully assigned the annual credit limit, it will deny all subsequent applicants.

(h) Annual report.—The Board shall prepare an annual report identifying:

(1) The name, address, and business of each business enterprise which has negotiated a program grant with the Board, as well as the amount of credit the Board had granted to the enterprise;

(2) The amount of projected employment and investment anticipated from each program grant;

(3) The actual investments made by businesses under the tax credit program;

(4) The actual number of jobs that have been created as well as the actual number of jobs that have been retained;

(5) The amount of tax credit granted by the Board and the amount of tax credit claimed by business enterprises for the year; and

(6) Any amount of tax credit authorized under this program but not granted by the Board.

Section 7. Definitions

(a) Full-time.—The term "full-time" refers to a worker who is employed for at least an average of 35 hours a week over at least 200 days during the credit year. The term does not include a seasonal or temporary worker.

(b) Capital Investment.—The term "capital investment" refers to the acquisition, construction, renovation, or repair of buildings, machinery, or equipment to be used by the workers covered under the credit.

Section 8. Effective Date and Expiration

(a) Commencement of Credit Authority.—The authority of the Tax Exemption Board to grant credits under section 2 shall take effect on January 1 immediately following the date of enactment.

(b) Expiration of Credit Authority.—Seven years after the commencement of the Tax Exemption Board's authority to grant credits under section 2, that authority shall expire. The expiration will permit the Government of American Samoa to evaluate the effectiveness of the program and to determine whether to extend the credit.

(c) No Effect on Duration of Credit Previously Granted.—The expiration of the Tax Exemption Board's authority to grant credits under section 8(b) shall not affect the credits and the duration of such credits which the Board had previously granted pursuant to a Section 4 agreement concluded with a business during the Board's seven year period of credit authority, nor does the expiration affect the Board's authority to rescind or reduce the credits or otherwise enforce the conditions pursuant to the terms of such agreement.

EXPLANATION

In order to raise living standards in American Samoa, the proposed program seeks to foster large-scale business investments in key sectors that materially promote the territory's economic development. The program is intended to create or retain permanent, full time jobs in the territory as well as to promote significant capital investment in the facilities and equipment which those workers will use.

The incentive takes the form of a non-refundable tax credit which the recipient can use to reduce the income tax it owes to the Government of American Samoa. Although the credit will offset the business' income tax liability to the territorial government, the amount of the credit is determined by payroll tax withholdings from the wages which the business pays to its workers. The credit is calculated as a percentage of the territorial payroll income tax that the business legitimately withholds from its covered workers and which the business pays to the territorial government on behalf of the workers. This insures that the business achieves the desired employment to qualify for the credit. No credit can be claimed until the business pays the worker, withholds the worker's estimated income tax owned to the territory, and transfers the withholdings to the territorial government.

Only the payroll tax attributable to the worker's first $20,000 of wages is taken into account. If the employer withholds payroll tax from a worker beyond the established withholding table with the objective of artificially increasing the business credit claimed, such action would be outside the law. Such action warrants ending the business' participation in the program.

Administration of this program is placed with the existing Tax Exemption Board of the American Samoa Government. Businesses that wish to qualify for the credit must submit an application to the Board describing, among other things: The busi-

ness activity that will be conducted in the territory; the number of full-time jobs to be created or retained; the specific wages to be paid; the capital investments to be made in the territory, the applicant's experience and in the line of business; and applicant's financial ability to undertake the project and maintain operations in the territory.

The Tax Exemption Board will review applications. It will award assistance based on the impact of the proposed business investments and employment on the territory's economic development. The Board will determine the appropriate level of assistance—the percentage of the credit and the number of years in which the business can claim the credit. The maximum credit percentage which the Board can award is 75 percent of the payroll tax withheld by the business from covered full-time employees at the approved project. The maximum number of years which the Board can award is seven years.

Through this program, the Government of American Samoa will forego up to 75 percent of the payroll tax anticipated from covered workers. But the government will still receive the remaining 25 percent. In addition, the job creation or retention as well as the increased capital expenditures that the business must make will benefit the territorial economy directly and the government indirectly.

Overall program awards are subject to an annual cap. The Board cannot award total credits which exceeds $15 million year. This places an annual limit on the program. The Board will also oversee, yearly monitor, and annually report on the approved projects.

The business that receives and claims the credit must make the stated capital investments within the specified time and create the stated number of jobs for the specified period. The jobs must be maintained for a period equal to twice the number of years the credit is awarded. If the recipient fails to make the required investments or fails to maintain the specified number of full time jobs for the agreed-upon period, it must repay the credit previously claimed. The shorter the period that the jobs are maintained, the larger the repayment.

The Board's authority to grant credits takes effect on January 1 immediately following the legislation's enactment. The Board's authority to make awards expires seven years thereafter. The expiration date allows the Government of American Samoa to evaluate the program's effectiveness and to decide whether to renew the program. The expiration date, however, does not affect the Board's authority to enforce outstanding award agreements and the Board's duty to make annual reports on such agreements.

The CHAIRMAN. Thank you very much. Why don't we go right ahead? We have four other witnesses.

I would ask each to summarize your points. We will of course include your full statement in the record. Then I'm sure Senator Murkowski and I will both have questions.

Representative Tenorio, why don't we continue right across the table with you if that's appropriate?

STATEMENT OF PEDRO A. TENORIO, RESIDENT REPRESENTATIVE, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. TENORIO. Mr. Chairman, Senator Akaka, Senator Murkowski and members of the committee, thank you for holding this hearing and for allowing me to testify about the impact an increased minimum wage will have on the economy of the Commonwealth of the Northern Mariana Islands. I'm very appreciative of this committee, its leadership and its members for their continued advocacy for the territories on the subject of minimum wage. I would also like to take this opportunity to thank officials from the United States Department of Labor for not only the timely completion of their report mandated by Public Law 110–28, but also for their honesty and objectivity.

At the outset I would like to state that I agree completely with the report when it describes our economy as fragile and that the quality and quantity of data on our work force is inadequate. I be-

lieve that it is important to note that the study does not address the potential impact of the second increase. Whether or not there should be a second increase. It instead highlights a number of potential negative impacts that could result from the implementation of the scheduled minimum wage increases.

However, to quote the study, "the lack of such data for American Samoa and the CNMI significantly impairs efforts to measure or to project the impacts of scheduled minimum wage increases for this these territories." I feel that implementation of Public Law 110–28 and its scheduled minimum wage increases in the Northern Mariana Islands is a lot like setting the thermostat for your heater or air conditioner in the dark. If you set it too high, you get hot. If you set it too low, you get cold. It is very hard to select wisely when you're guessing or simply cannot see what you are doing.

This is my impression of the findings of the report. If the minimum wage increases too much or too rapidly then we can easily be faced with the loss of jobs and increased inflation which will only add to our economic problems. If we increase the minimum wage too slowly or not at all, we can expect an increase in the number of residents who seek employment outside of the CNMI due to higher wages elsewhere.

This ongoing exodus includes experienced and skilled workers and recent high school graduates and college graduates who are finding few, well paying jobs in the local sector. Mr. Chairman, I am greatly concerned about the lack of reliable, consistent and meaningful data in the CNMI's work force including earnings, number of hours worked, number of jobs available and number of unemployed residents or non-residents. We cannot truly know the impact of the first of future minimum wage increases without adequate and accurate data in these areas.

In formulating this testimony and my position on this subject I've had to consider many things among them are one, the need to reduce our reliance on non-resident workers in the private sector. For almost two decades non-resident workers have outnumbered resident workers in the private sector. Although our private sector wages are low by United States standards, they were considerably higher than wages in the non-resident workers' home countries. Wages must rise in order for private sector jobs to appeal to local residents.

Number 2, the need to reduce the size of the CNMI Government to coincide with the reduction in tax revenues. Unfortunately, many of our residents will choose to leave our islands rather than take employment in the private sector where wages are consistently lower. The Labor Department study reports that, currently, 68 percent of the CNMI work force earns less than $4.99 per hour. Resolving the discrepancy between private and public sector wages must take time in order to prevent further economic upheaval.

Number 3, the impact low wages will have on the overall need for social services. Both the Federal funded food stamps program and Medicaid are capped and the matching requirement for Medicaid is already a burden on the local government.

Number 4, the need to reduce the cost of business. An increase in the minimum wage adds to the already high cost of doing business in the CNMI. Many of our larger businesses are required to

generate their own electricity and purify their water. Smaller businesses rely on the CNMI Government for utilities and pay extremely high rates for electricity and suffer through blackouts, brownouts, and undrinkable, unreliable water. With these added costs, the CNMI has seen a number of businesses close and this trend is likely to continue if the prospects of earning a profit are minimal.

Not everyone in the CNMI agrees on the continuation of minimum wage increases. Over the last few weeks, my office has been inundated with faxes, emails and letters from constituents who have asked me to support their position on the second increase. There are valid concerns about the business closures, loss of jobs and the resulting loss of government revenue.

These private sector concerns cannot be ignored. I have also heard from community activists, students and parents. As well as some businessmen and a few legislators who all believe that the second increase is needed in order for the CNMI to move forward in its quest for a higher standard of living.

Mr. Chairman, I have weighed my position on a second increase very carefully. Whatever decision is made will have a potentially devastating effect on one sector or another in the CNMI. However, as a pragmatist and a realist, and with all due respect, I simply do not believe that it is possible to enact legislation by May 24 to delay the second increase.

Therefore, I would request the assistance of the committee in the following. First, pass legislation that will cap the minimum wage in the CNMI at $4.05 an hour. The wage expected after the implementation of the second increase, which would remain in effect for a period of 2 years.

This will have provided workers in the CNMI with a total hourly increase of a dollar, which is a significant step toward a livable wage. This 2-year hiatus would hopefully provide time for appropriate data collection tools to be developed and implemented so that reliable economic data would be available to evaluate impacts and guide decisions. This 2-year period will also provide our business community the necessary time to restructure their business operations so that they can remain in the CNMI.

Third—second, provide resources that will assist the CNMI and the Department of Labor to develop, acquire and implement the necessary surveys or related data collection devices to adequately and accurately measure the impact of the first two increases on the CNMI economy, as well as determine the likely impact of future increases.

Last, Mr. Chairman, I ask that the Congress assist us with resources to address our infrastructure crisis so that we can reduce the cost of doing business in the CNMI and provide breathing room for employers to pay higher wages.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Tenorio follows:]

PREPARED STATEMENT OF PEDRO A. TENORIO, RESIDENT REPRESENTATIVE, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. Chairman and Members of the Committee. Thank you for holding this hearing and for allowing me to testify about the impact an increased minimum wage

will have on the economy of the Commonwealth of the Northern Mariana Islands. I am very appreciative of this Committee, its leadership, and its members for their continued advocacy for the territories on the subject of minimum wage. I would also like to take this opportunity to thank officials from the U.S. Department of Labor for not only the timely completion of their report mandated by Public Law 110-28, but also for their honesty and objectivity. At the outset, I would like to state that I agree completely with the report when it describes our economy as very fragile and that the quality and quantity of data on our workforce is inadequate.

I believe that it is important to note that the study does not address the potential impact of the second increase and whether or not there should be a second increase. It instead highlights a number of potential negative impacts that could result from the implementation of the scheduled minimum wage increases. However, to quote the study "the lack of such data for American Samoa and the CNMI significantly impairs efforts to measure or to project the impacts of scheduled minimum wage increases for these territories."

I feel that the implementation of Public Law 110-28 and its scheduled minimum wage increases in the Northern Marianas is a lot like setting the thermostat for your heater or air conditioner in the dark. If you set it too high—you get hot, and if you set it too low—you get cold. It is very hard to select wisely when you are guessing or simply cannot see what you are doing. This is my impression of the findings of the Report.

If the minimum wage increases too much or too rapidly then we can easily be faced with the loss of jobs and increased inflation which will only add to our economic problems.

If we increase the minimum wage too slowly or not at all we can expect an increase in the number of residents who seek employment outside of the CNMI due to higher wages elsewhere. This ongoing exodus includes experienced and skilled workers and recent high school and college graduates who are finding few well paying local opportunities.

Mr. Chairman, I am greatly concerned about the lack of reliable, consistent and meaningful data on the CNMI's workforce including earnings, number of hours worked, number of jobs available, and number of unemployed residents or non-residents. We cannot truly know the impact of the first or future minimum wage increases without accurate data in these areas.

In formulating this testimony and my position on this subject I have had to consider many things. Among them are:

1. The need to reduce our reliance on non-resident workers in the private sector and provide opportunities for residents. For almost two decades, non-resident workers have outnumbered resident workers in the private sector, and although our private sector wages are low by U.S. standards, they were considerably higher than wages in the non-resident workers' home countries. Wages must rise in order for private sector jobs to appeal to resident workers.

2. The need to reduce the size of the CNMI Government to coincide with the reduction in tax revenues. Unfortunately, many of our residents will choose to leave our islands rather than take employment in the private sector where wages are consistently lower. The Labor Department study reports that, currently, 68% of the CNMI workforce earns less than $4.99 per hour. Resolving the discrepancy between private and public sector wages must take time in order to prevent further economic upheaval.

3. The impact low wages will have on the overall need for food stamps and the growing number who would be eligible for Medicaid. Both food stamps and Medicaid are capped and the matching requirement for Medicaid is already a burden on the local government.

4. The reality is that the decline in the garment industry has led to increased shipping costs, which have resulted in higher costs for consumer goods. Will higher wages lead to more inflation, or will it help balance it out due to increased purchasing power? While I cannot answer that question, I do believe there is something wrong when a minimum wage earner has to work more than an hour to purchase a gallon of gasoline.

5. The need to reduce the cost of business. An increase in the minimum wage adds to the already high cost of doing business in the CNMI. Many of our larger businesses are required to generate their own electricity and purify their water. Smaller businesses rely on the CNMI Government for utilities and pay extremely high rates for electricity and suffer through blackouts, brownouts, and undrinkable, unreliable water. With these added costs, the CNMI has seen a number of businesses close and this trend is likely to continue if the prospects of earning a profit are minimal.

Sentiment in the CNMI regarding the second minimum wage increase, scheduled for May 25th, and future minimum wage increases is not as homogeneous as the Committee might be lead to believe. Over the last few weeks, my office has been inundated with faxes, e-mails, and letters from constituents who have asked me to support their position on the second increase. There are valid concerns about the business closures, loss of jobs, and the resulting loss of government revenue. These private sector concerns cannot be ignored. I have also heard from community activists, students, and parents, as well as some businessmen and a few legislators who all believe that the second increase is needed in order for the CNMI to move forward in our quest for a higher standard of living.

Mr. Chairman, I have weighed my position on a second increase very carefully. What ever decision is made will have a potentially devastating effect on one sector or another in the CNMI. However, as a pragmatist and a realist, and with all due respect, I simply do not believe that it is possible to enact legislation by May 24th to delay the second increase. Therefore, I would request the assistance of the committee in the following:

1. Pass legislation that will cap the minimum wage in the CNMI at $4.05 an hour, the wage expected after the implementation of the second increase, which would remain in effect for a period of two years. This will have provided workers in the CNMI with a total hourly increase of a dollar, which is a significant step toward a livable wage. This two year hiatus would hopefully provide time for appropriate data collection tools to be developed and implemented so that reliable economic data would be available to evaluate impacts and guide decisions. This two year period will also provide our business community the necessary time to restructure their business operations so that they can remain in the CNMI.

2. Provide resources that will assist the CNMI and the Department of Labor to develop, acquire, and implement the necessary surveys or related data collection devices to adequately and accurately measure the impact of the first two increases on the CNMI economy, as well as determine the likely impact of future increases.

3. Assist us with resources to address our infrastructure crises so that we can reduce the cost of doing business in the CNMI, and provide breathing room for employers to pay higher wages.

Thank you.

The CHAIRMAN. Thank you very much. Governor, we welcome you and look forward to your testimony. Go right ahead.

STATEMENT OF HON. BENIGNO R. FITIAL, GOVERNOR, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. FITIAL. Thank you, Mr. Chairman. Good morning, Mr. Chairman. Good morning, Senator Murkowski. My written testimony is already in the record so I have an oral statement summarized that I submitted——

The CHAIRMAN. Very good.

Mr. FITIAL [continuing]. In writing. When I ran for Governor in 2005, I ran with one mission in mind, to revive the CNMI's economy and bring back prosperity to the people of our islands. When I took office in January 2006, I found myself facing the greatest challenges ever encountered by a CNMI Governor. I had to address immediately a power crisis with rolling blackouts and insolvent Commonwealth Utilities Corporation, the result of years of mismanagement.

Our utility company was dependent on direct financial subsidies from the CNMI's central government, a government that could not afford to pay for such subsidies. Our power crisis was further compounded by rising fuel prices and diminishing government revenues. I also had to deal with a government that was practically broke and spending beyond its means in a slumping economy producing significantly fewer revenues for our government operations.

I was determined to make the Commonwealth government live within its means. Government revenues have fallen by about 35 percent in recent years. This resulted from a decrease in our tourism industry and the collapse of our apparel manufacturing industry.

In 2005, the year before I was inaugurated Governor, two events occurred that devastated the CNMI economy and the livelihood of our Island residents. In January 2005, the World Trade Organization implemented new trading rules that liberalized trade and removed trade quotas for garment exports into the United States. This development eliminated the CNMI apparel industry's competitive advantage and marked the demise of our manufacturing base, once a billion dollar industry for our Islands.

Only seven of 34 garment factories are still operating in the CNMI. These have substantially reduced our tax base along with jobs, business activities and consumer spending throughout local economy. In October 2005, the CNMI saw the end of an era when Japan Airlines withdrew flight service from the CNMI tourism market after providing 30 years of service. The CNMI has suffered a great loss of Japanese tourism and investments in recent years.

In view of these formidable challenges my administration quickly moved to address the CNMI situation. We raised utility rates to ensure full cost recovery for our public utility and ended our central government subsidy of CUC. We revised our budget to reflect actual revenue collections and we made drastic cuts from going from a spending level of some 248 million dollars to $160 million today in just 2 years. We enacted a new defined contribution plan for our government retirement program and temporarily suspended employer contribution to the pension program.

Although the CNMI still faces enormous challenges my administration did meet with some successes. I have taken numerous trips to Asia, meeting with investors persuading them to invest in the CNMI or expand their investments in the CNMI. I'm very pleased with Kumho Asiana's expansion into our market with South Korean tourism experiencing double digit growth over the past 2 years. Kumho Aisiana, a large South Korean conglomerate expanded flight service to our Islands and committed at least $50 million for a resort development project that will be breaking ground very soon.

We secured more Northwest flights from Japan, including Osaka and Nagoya routes. We secured more investment for our emerging education industry facilitating the establishment of a vocational nursing school, a South Korean boarding school and an upcoming medical and business school.

Although we have made some noticeable progress the CNMI economy is still very vulnerable to external factors beyond our control. One such factor is the ever rising cost of fuel which creates upward inflationary pressures and which harms our efforts to stabilize our troubled public utilities. Another external factor beyond our control is Federal policy toward our Islands which brings us to this hearing here today to discuss the impact of Federal minimum wage law in the CNMI.

I believe that the severe challenges I have just described would be further compounded by continued minimum wage hikes. This is

not my view alone. This is a view shared by our local business community, represented today in this hearing by the president of the Saipan Chamber of Commerce, Mr. Jim Arenovski and chairperson of the Hotel Association of the CNMI, Ms. Lynn Knight.

It is also a view supported by objective economists at the United States Department of Labor as made clear in their recent report. It is also a view shared by Federal lawmakers when considering the economic plight of American Samoa. We in the CNMI fully support HR 5154, the proposal submitted by my good friend Congressman Faleomavaega in the House of Representatives. On behalf of the people of the Saipan, CNMI, I thank Congressman Faleomavaega for including the CNMI in his proposal.

I want to point out exactly how this proposed increase will affect our visitor industry. Our survey indicates that this second increase will affect 65 percent of the employees of our hotels. Here are the steps that our hotels have already had to take in reaction to the first minimum wage increase: cutting employee hours, cutting employee head count, cutting employee benefits, passing along cost of benefits to employees, hiring freezes, elimination of overtime hours, elimination of some supervisor and management positions, reduction of hotel guest amenities and rationing of utilities.

All of these responses compromise guest comfort and threaten the hotel's ability to conduct business. We are informed by the Department of Labor that the increase in the Federal minimum wage affects only 2 percent of the American workforce. In the CNMI hotel industry we are talking about the real and immediate impact of 65 percent of the industry's workers.

Our local economy has already been through the WTO change and the pullout of Japan Airlines in 2005. We have made progress in weathering these difficulties. But if our local economy is to recover, we must have realistic and reasonable wage rates which will allow our small local market to recover from our current depression.

I appeal to you, Mr. Chairman and members of this committee on behalf of the people of the Commonwealth to defer any additional wage increases. The CNMI economy in its present weakened state and with all the challenges we are currently facing is in no condition to sustain further wage increases.

Mr. Chairman, here are the facts and statistics. You have the United States Department of Labor report completed by objective economists. You have the testimony of the CNMI business community. I urge you to defer future Federal wage hikes until it is clear that our local economy can afford to sustain such increases with healthy economic growth.

Please allow me, Mr. Chairman and members of the committee to complete my mission of reviving our economy for the benefit of the CNMI people. Thanks.

[The prepared statement of Mr. Fitial follows:]

PREPARED STATEMENT OF HON. BENIGNO R. FITAL, GOVERNOR, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. Chairman and Members of the Committee. Thank you for the opportunity to appear before you today to testify regarding the minimum wage levels in the Commonwealth of the Northern Mariana Islands. We appreciate your prompt attention

to this matter in light of the second increase currently scheduled for May 28, 2008. This is a matter of critical importance to the CNMI.

The CNMI economy is in the third year of a serious depression. We believe that a second increase in minimum wage level will seriously impede our efforts to rebuild our economy over the next 12-18 months. We ask this Committee to support deferral of this increase and to advocate an alternative legislative approach more realistic and flexible than is presently incorporated in Public Law No. 110-28.

We have reviewed the recently completed U.S. Department of Labor's "Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands". We commend the U.S. DOL for their effort, and strongly agree with the report. We believe that the Members of this Senate Committee should carefully consider the U.S. DOL report regarding the impact of higher wage costs on the CNMI.

We concur with the concerns as stated in the U.S. DOL's Executive Summary (pp. iv-v):

> The scheduled minimum wage increases for the CNMI are expected to add further challenges to an already declining economy. With both of its major industries declining simultaneously, the CNMI economy is in overall decline, and its current economic situation makes it especially vulnerable to additional shocks. While data are not readily available to precisely quantify the impact of the recent and scheduled increases in the minimum wage, it seems likely that the current economic decline may be made worse. General experience in the U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be masked or offset to some degree by an expanding economy that is generating net employment growth. In a declining economy, any adverse effects on employment will not be offset.

The Department of Labor acknowledged—and we agree—that the six months since the first fifty-cents increase did not provide a long enough period to generate comprehensive data that might document more specifically the adverse impacts on the CNMI economy resulting from the first increase.

We believe, as suggested by U.S. DOL's report, that the past increase did have serious adverse effects on the CNMI's declining economy. Our Administration has gathered enough additional evidence of its impact to existing industry and business activity to request that the Senate Energy and Natural Resources Committee recommend a delay of the second minimum wage increase scheduled under P.L. No. 110-28 on May 28, 2008.

CNMI ECONOMY TODAY

The CNMI economy is largely dependent upon its two industries; tourism and apparel manufacturing. This sum total of revenue from the two industries, and service companies' business activity, supply the CNMI government with operational funds. Both industries are in severe decline, with tourism regarded as the only long term industry.

The CNMI had the fastest growing economy in the Pacific from 1978 to 1997, but economic conditions can be best described as in decline since 1998. Business gross revenue reported to the CNMI Division of Revenue and Taxation peaked at $2.6 billion in 1997. The Asian economic crisis of 1998 resulted in a 30% decrease in tourist arrivals overnight, and reported business gross revenues dropped by $400 million to $2.2 billion in 1998. Without a healthy apparel manufacturing base, the CNMI would have suffered more.

Reported business growth revenue stayed at this level through 2001. A combination of the aftermath of the 9/11 terrorist attacks and war in Afghanistan and Iraq, as well as a regional SARS epidemic, reduced revenue to a $2 billion level from 2002—2005. Business gross revenue further declined to $1.9 billion in 2006, and to $1.7 billion in 2007, as the CNMI's tourism suffered from forces outside our control, and our apparel industry continued its dramatic because of Asia's increased competitiveness and changes in the World Trade Organization's elimination of quota restrictions on WTO Member nations' trade with the United States.

Despite some few positive signs in tourism and educational development, the CNMI's economy may further decline in 2008. Tourism was adversely affected by the pullout of Japan Airlines in October 2005, but we are beginning to see some additional flights added. A steady drop in arrivals has been registered by the Marianas Visitors Authority since the peak year of 1996. The year 1996 saw 736,117 visitors, while 2007 had 389,261 (MVA attachment-I).

The Hotel Association compiled statistics showing that the average occupancy rates for 2007 were slightly above 58%, the worst since the terrorist attacks of 9/11. Average room rates are at $92/night, off the peak of $136/night in 1997 (HANMI attachment-II).

There are only seven remaining licensed apparel manufacturing firms certified to export to the United States under the CNMI's special tariff privilege (Factory License Timeline attached-III). From a high of 34 firms with $1.07 billion in sales in FY 1999, export sales to the U.S. were down to $362 million in FY 2007. The largest tax paid on production, the user certification fee, was at $39.6 million in FY 1999, $13 4 million in FY 2007 and collections are at $2 9 million in the first third of FY 2008 (User Fee chart attached-IV). The apparel industry accounted directly for 26% of the CNMI's general fund revenue of $228 million in 2000, 12% of the CNMI's $163 million in 2007 and will account for an expected 8% of the $160 million in projected 2008.

The CNMI's annual general fund revenue of debt service has followed the same trend as business gross revenue, peaking at $242 million in FY 1997, with a continual decline since to $193 million in FY 2006 and $163 million in 2007. FY 2008 general fund revenues net of debt service are projected to decline to $160 million under current revenue laws due to continuing decline in the apparel sector's contributions and lower tourism levels as lower airline capacity from the Japan Airline pullout has not been replaced. The CNMI Government currently has a cumulative deficit approaching $200 million and has had increasing difficulty funding critical public health, public safety and education services, which account for 60% of annual expenditures, at the current revenue levels.

The CNMI Department of Commerce's Economic Indicator quarterly report reflects across the board decreases in banking activity, remittances from the CNMI, automobile sales, visitor arrivals, hotel occupancy and room rates, business gross revenue, imports and exports, work permits issued, commercial and residential telephone lines, building permits and other consumer and government revenue concerns (CNMI 4th Quarter Economic Indicator attached-V).

MINIMUM WAGE INCREASE IMPACT

The inflationary effects of the first minimum wage increase of July 25, 2007 have yet to be fully realized. We know consumer prices have reflected the new wage increase. Rising tariff rates, increasing fuel costs and higher power rates are passed onto the consumer wherever possible. Increases in minimum wage rates affect consumer goods pricing, as well.

In the case of industry, where a greater number of minimum wage earners are employed, there's a greater risk, or loss, for the CNMI when competing for tourist arrivals and apparel sales. Industry has done everything it can to adjust to their increased costs, but the second increase will force many into situations never seen before. Government revenue from business activity in the retail, wholesale and service companies will fall further.

The CNMI is fast approaching "tipping points" with respect to the cost of doing business for the private sector, while the CNMI Government ultimately loses with unsustainable costs to its private sector.

The Hotel Association of the Northern Mariana Islands (HANMI) stated in a report prepared for the CNMI Administration that of 16 hotels polled (2 have yet to respond) 64% of all hotel employees will be affected by the next minimum wage increase. The estimated impact to the hotels is $1,655,450.00 (Association report attached-VI).

Hotel corporate responses to the past minimum wage increase include the following:

- cutting employee hours
- cutting employee headcount
- cutting benefits to employees
- increasing costs of benefits to employees
- freezes on hiring
- reduction of hotel guest amenities
- charging for employee staff housing and meals to offset wage increases
- reduction in buffet selection foe hotel guests
- elimination of some supervisory and management positions
- conducting cross-training of employees
- discontinuing employee housing due as power costs are enormous (.344/kwh)
- elimination of overtime hours
- rationing of utilities such as air conditioning and water heaters

All of these responses compromise guest comfort and threaten the hotels ability to conduct business.

The largest business organization in the CNMI, the Saipan Chamber of Commerce, has a diverse membership of over 160 businesses. Some of their responses to SCC's survey on minimum wage impact included the following:

- reduction in staff,
- reduction in work hours
- reduction in energy consumption
- discontinuation of food and other benefits,
- eliminating positions currently unfilled and
- putting into place a hiring freeze until the economy improves.

We know our apparel industry is a "sunset" industry. Once again, forces outside the control of the CNMI will dictate the industry's lifespan and economic benefit to the CNMI. We estimate the withdrawal of half the remaining firms at the outset of any further increase in minimum wage rates. Three of the firms appear to have developed a niche market, for the time being.

In the case of the tourism industry, and the retailers, concession firms and other tourist attraction firms in the CNMI that depend upon the health of the industry, this is where what is effectively managed with cost control can bring back a once vital part of the CNMI economy. We know it takes time, effort and attractive circumstances to re-invent ourselves as a business investment opportunity. However, we must protect what business activity we now have in the CNMI.

This Administration requests that the Senate Energy and Natural Resources Committee remain cautious and prudent in recommending to the appropriate congressional committees that a second increase in minimum wage rates in the Commonwealth of the Northern Mariana Islands be deferred, and flexibility be installed through changes in Public Law No. 110-28.

The CNMI would always support economically sustainable increases in the minimum wage levels as long as measurements are conducted that guarantee saving jobs and rebuilding the CNMI's economy.

We offer attached copies (VII and VIII) of both the December 13, 2007 correspondence to Chairman Robert C. Byrd of the Senate Committee on Appropriations, and the May 18, 2007 correspondence to the Appropriations Committees in the House and Senate where the Energy and Natural Resources Committee states:

> We support increases in the minimum wage but believe that they must be based, not on a fixed schedule, but on a careful analysis of what can be sustained without significant disruption (May 18, 2007).

Also,

> We support increases in the minimum wage, but believe they must be based, not on a fixed schedule, but on careful analysis (December 13, 2007).

This Administration agrees with the Senate Energy and Natural Resources Committee in recommending that the United States Department of Labor make determinations on minimum wage adjustments for the Commonwealth of the Northern Mariana Islands, as well as for American Samoa, based upon careful and thorough analysis.

As outlined in the December 13, 2007 Senate Energy and Natural Resources Committee letter to Appropriations Chairman Robert C. Byrd, and by applying this amendment to the CNMI, our chances to rebuild our economy would be enhanced through the work performed by the U.S. DOL.

We further believe the Department of Labor could utilize the work currently being undertaken by the Government Accountability Office (GAO), requested by the Senate Committee on Energy and Natural Resources, on impact of proposed changes within the CNMI economy. GAO's report, utilized by U.S. DOL, could provide the Congress with a much clearer picture of past and future impact of the substantial minimum wage increases.

Once again, I thank you for this opportunity and for your full consideration of our position and request for additional care when setting minimum wage rates in the CNMI. I fully recognize the long history on this matter, but believe we have an opportunity to carefully move forward on the basis of consensus and good faith from all parties. In that spirit, I look forward to working with your Committee to re-enact wage legislation for the CNMI that will be in the interest of the greatest number of our workers, and will help maintain and support a viable private sector.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FACTORY COMPANY LICENSE TIMELINE

FACTORIES OPERATING—2000

1. Advance Textile, Inc.
2. American Pacific Textile
3. Commonwealth Garment Manufacturing Corp.
4. Concorde Garment Manufacturing Corp.
5. Diorva Saipan Ltd.
6. Eurotex (Saipan), Inc.
7. Express Manufacturing, Inc.
8. Global Manufacturing, Inc.
9. Grace International, Inc.
10. Hansae (Saipan), Inc.
11. Hyunjin Saipan, Inc.
12. Jin Apparel, Inc.
13. Joo Ang Apparel, Inc.
14. Handsome Textile
15. LaMode, Inc.
16. Mariana Fashions, Inc.
17. Marianas Garment Manufacturing Inc.
18. Michigan, Inc.
19. Micronesian Garment Manufacturers, Inc.
20. Mirage (Saipan), Co., Ltd.
21. Neo Fashion, Inc.
22. N.E.T. Corp.
23. NET Apparel
24. Onwel Manufacturing Saipan, Inc.
25. Pang Jin Sang Sa Corp.
26. Sam Marianas, Inc.
27. Top Fashion Corp.
29. TransAmerica Development
30. Trans-Asia Garment Forte
31. United International Corp.
32. Uno Moda Corp.
33. US-CNMI Development Corp.
34. Winners Corporation

FACTORY CLOSURES

2000

Eurotex (Saipan), Inc. closed operations.

2001

Global Manufacturing and Trans-Asia Garment merged with concorde Garment Manufacturing, Inc.; NET Apparel merged with United International Corp.; Trans-America Development merged with Handsome Saipan, Inc.

2002

Micronesian Garment Manufacturers, Inc. closed operations; Diorva Saipan Limited closed operations; N.E.T. Corporation closed operations; Advance Textile, Inc. filed for bankruptcy.

2003

RIFU Corporation was formed and acquired license and employment quota from Micronesian Garment Manufacturing; RIFU controls operations of former Eurotex; Winners Corporation acquired Pang Jin Sang Sa, Corp.

2004

RIFU controls operations of former N.E.T. Corporation (Suntex, Pacific Coast); LaMode, Inc. filed for bankruptcy.

2005

RIFU controls operations of Sam Marianas, Inc.; Neo Fashions, Inc. closes operations; Express Manufacturing, Inc. closes operations; Sako Corporation closes operations; Mariana Fashions, Inc. closes operations; Winners II (Pang Jin) closes operations.

2006

Hyunjin Saipan, Inc. closes operations; American pacific Textile closes operations; RIFU reopens Neo Fashions, Inc.

The CHAIRMAN. Thank you very much for your testimony.

Mr. Berman, I notice you have fairly extensive testimony. Could you summarize that for us? That would be very useful if you could.

STATEMENT OF JAY BERMAN, SENIOR ECONOMIST, OFFICE OF THE ASSISTANT SECRETARY FOR POLICY, DEPARTMENT OF LABOR

Mr. BERMAN. Sure. Chairman Bingaman and members of the committee, thank you for the invitation to present testimony regarding the findings of our recently completed study of the economic impact of the minimum wage increases in American Samoa and the Commonwealth of the Northern Mariana Islands. Allow me to first mention that the Department's research was limited by the lack of historical and contemporary labor market data and the relatively short timeframe that we had to conduct the study.

That said, the information available was useful to arrive at some broad conclusions about the potential direction and magnitude of the impacts of increasing the minimum wage to $7.25 per hour. For example, one way to analyze the effects on these two economies of an increase in the minimum wage is to examine the proportion of wage and salary employees potentially affected by the proposed increases. The latest wage surveys for both of these territories revealed that approximately 75 percent of wage and salary FLSA covered workers earn less than $7.25 per hour and therefore would be swept in under the current legislation.

To get a perspective of how that would translate to the mainland United States, if that minimum wage were increased to include 75 percent of hourly paid workers that adjusted mandatory wage rate would be $16.50. Now examining the individual territories, employment in the American Samoa seems to be about equally divided between the American Samoa government followed by two tuna canneries and then other industries, mostly in support of the canneries and various retail trade establishments. Now as of today, the tuna canneries in American Samoa continue in operation. Neither plan has reduced output or working hours in an immediate response to the first fifty cent increase in the minimum wage that occurred in July of last year.

However, despite the lack of immediate effects there appears to be genuine cause for concern that at some point before the escalation to $7.25 per hour by 2014, that these plants may close. Production may be shifted to facilities outside of the United States jurisdiction where labor costs are significantly lower.

In reference to the CNMI, it developed rapidly in the 1990s based on tourism and a garment industry in which labor supply was comprised largely of foreign temporary workers. The garment industry however, has been in decline since 2000, and the tourism industry has suffered sporadic declines since the mid 1990s.

Now with both industries currently in decline the CNMI economy is also in overall decline. Even though it is impossible to discern among the many adverse factors that continue to impair the CNMI economy its current economic situation makes it especially vulner-

able to additional shocks. Therefore at the very least, the scheduled minimum wage increases may add further challenges to an already declining economy.

Thank you for your time. I look forward to taking questions from you.

[The prepared statement of Mr. Berman follows:]

PREPARED STATEMENT OF JAY BERMAN, SENIOR ECONOMIST, OFFICE OF THE ASSISTANT SECRETARY FOR POLICY, DEPARTMENT OF LABOR

Chairman Bingaman and members of the Committee: Thank you for the invitation to present testimony regarding the findings of our recently completed study of the economic impact of minimum wage increases recently implemented and scheduled to be implemented that affect American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

Our report entitled "Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands" was prepared by the U.S. Department of Labor in response to the requirement of Public Law 110-28, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. That law stated that the Secretary of Labor shall report to Congress the findings of a study assessing and projecting the impacts of increases in the minimum wages applicable to the territories of American Samoa and the CNMI under the Fair Labor Standards Act (FLSA).

Pursuant to P.L. 110-28, the minimum wages applicable to American Samoa and the CNMI were increased fifty cents per hour on July 24 and July 25, 2007, respectively. In addition, the minimum wages applicable to these territories will further increase annually hereafter by fifty cents per year until parity with the projected U.S. minimum wage of $7.25 per hour is reached. For the CNMI, the minimum wage was increased fifty cents per hour to $3.55 on July 25, 2007 and will rise to $7.25 per hour by 2015. For American Samoa, current minimum wages vary by industry, with the most significant being the minimum wage for the tuna canning industry, which is currently $3.76 per hour, reflecting the initial fifty-cent increase on July 24, 2007. The minimum wage for American Samoa will increase across the board to $7.25 per hour by 2014.

The report that we constructed on the minimum wage increase in American Samoa and CNMI is limited to addressing the two questions contained in the Congressional mandate. First, what has been the impact on living standards and employment to the present date of the fifty-cent-per-hour increase in the minimum wages of each territory that became effective July 2007? Second, what are the projected impacts of the future increases scheduled under the Act?

The sections below will lay out how we went about conducting the study, the challenges we faced in providing Congress with a comprehensive report, and what was observed during the study.

BACKGROUND ON CONDUCTING THE STUDY

We conducted extensive interviews with persons knowledgeable regarding the economies of American Samoa and CNMI. In total, 26 interviews were conducted regarding the recent economic trends, current conditions and available data sources. The DOL research team also reviewed the extensive academic research literature regarding the economic impact of minimum wage regulations in the United States to identify information that could be applicable to consideration of the economic impact of minimum wage increases scheduled for American Samoa and the Commonwealth of the Northern Mariana Islands.

Additionally, the biennial surveys conducted by the U.S. Department of Labor's Wage and Hour Division which have looked at the economy in relation to industry wage rates applicable in American Samoa under the Fair Labor Standards Act (FLSA) were a good source of information on the American Samoan economy and labor market. These surveys were conducted in support of the biennial special industry committee process that previously made recommendations to set and adjust industry-specific minimum wages in American Samoa. Passage of P.L. 110-28 in 2007 replaced the minimum wage industry committee process with a fixed schedule of increases that will bring the minimum wages across all industries into uniformity and conformity with the U.S. minimum wage of $7.25 per hour. Consequently, the biennial labor market surveys will no longer be conducted.

CHALLENGES FACED IN CONDUCTING THE STUDY

The Department's research was limited by the lack of timely labor market data available pertaining to American Samoa and the CNMI, in addition to the relatively short time frame that we had to conduct the study.

The reporting time-frame specified in the legislation—no later than 8 months from the date of enactment (May 25, 2007)—did not provide sufficient time to observe actual effects of the minimum wage increases. The initial increases of fifty cents per hour went into effect on July 24, 2007 in American Samoa and July 25, 2007 in the CNMI. The specified delivery date for this report was January 25, 2008. The period following the initial increase was too short for significant observable effects to materialize. Adjustments of employment arrangements and of patterns of living standards typically do not occur instantaneously following a change in a key economic parameter. Also, immediate changes may be too small in scale to observe, and it may require the passage of many months before cumulative effects become large enough to observe. In particular, a lack of significant observed adverse employment effects in the months since the initial increase is not indicative that such effects will not emerge in the future—especially as subsequent increases are implemented over time.

The lack of such data for the territories significantly impaired our efforts to measure or to project the impacts of scheduled minimum wage increases. There is no monthly or quarterly data describing labor market conditions in either American Samoa or CNMI, and it was very difficult to compare what we observed to historical data for the territories. American Samoa and CNMI are not included in the U.S. Census Bureau's annual American Community Survey (ACS) nor are they included in the monthly Current Population Survey (CPS). In terms of employment data tracked by the U.S. Bureau of Labor Statistics (BLS), the territories aren't included in the Current Employment Statistics (CES) program monthly surveys, nor is there an unemployment insurance system which further limits the availability of timely information on conditions and changing trends affecting the labor market.

Additionally, it was not feasible to conduct field investigations in connection with this study. Had there been time and resources to conduct survey data collection in the field, travel by the research team to the islands could have been useful. However, meaningful field observations would have required data collection from both employers and households over many successive months in order to discern effects of the initial and subsequently scheduled minimum wage increases. In addition, a systematic data collection effort would have required approval of a survey under the terms of the Paperwork Reduction Act. Given the short reporting timeframe, design and implementation of field surveys were not practical.

CONCLUSION DRAWN FROM AVAILABLE DATA

Despite the lack of the preferred data described previously, we made an effort to compile and examine such data and information as was available. The U.S. Department of Interior, Office of Insular Affairs, provided generous and valuable assistance to facilitate the identification, compilation and interpretation of relevant data sources. The staff of the Government Accountability Office provided useful suggestions regarding information sources based on their contemporaneous research regarding other economic issues affecting CNMI. The Honorable Benigno R. Fitial, Governor of the Commonwealth of the Northern Mariana Islands, and the Honorable Togiola T.A. Tulafono, Governor of American Samoa, generously directed their staffs to provide available information and access to knowledgeable sources to fulfill the information needs of the DOL research team. The Honorable Eni F.H. Faleomavaega, American Samoa's Delegate in the U.S. House of Representatives, and his staff also provided valuable assistance. Extensive interviews were conducted with persons knowledgeable regarding the economies of CNMI and American Samoa. In total, 26 interviews were conducted regarding the recent economic trends, current conditions and available data sources. The DOL research team also reviewed the extensive academic research literature regarding the economic impact of minimum wage regulations in the United States to identify information that could be applicable to consideration of the economic impact of minimum wage increases scheduled for American Samoa and the Commonwealth of the Northern Mariana Islands. While the data that was obtained did not reach the level of timeliness and detail that was described above as being needed to arrive at a definitive assessment of economic impact (particularly with respect to the incremental effects of individual fifty-cent step increases), the information available was useful to arrive at some broad conclusions about the potential direction and magnitude of impacts in the context of the ultimate rise to $7.25 per hour.

AMERICAN SAMOA

American Samoa has a small developing economy, dependent on two primary externally funded income sources: the American Samoa Government (ASG), which receives significant operational and capital grants from the Federal government ($117 million of $182 million total government revenue in FY 2005[1]), and the Star Kist and Chicken of the Sea tuna canneries. Tuna exports in 2006 totaled 20.7 million cases (about 147 thousand tons) valued at $431.5 million.[2] Taxes and fees paid by the tuna canneries are another significant source of revenue for the government. These two primary income sources support a third economic sector, a services sector that derives from and complements the first two. The services segment of the economy is mostly trade, both wholesale and retail.

In 2006, total employment in American Samoa was 17,395, and the American Samoa Government accounted for 5,894 workers, or 33.9 percent of total employment, followed by the two canneries with 4,757 workers, or 27.3 percent, and the rest of the economy with 6,744 workers, or 38.8 percent of total employment. The current minimum wages vary by industry, with the most significant being the minimum wage for the tuna canning industry, which is currently $3.76 per hour, reflecting the initial fifty-cent increase on July 24, 2007. The average wage in 2006 for all workers in American Samoa covered by the Fair Labor Standards Act (FLSA) was $5.26 per hour, and nearly 80 percent of workers covered by the FLSA earned under $7.25 per hour. By comparison, if the U.S. minimum wage were increased to the level of the 75th percentile of hourly-paid U.S. workers, that adjusted, mandatory wage rate would be $16.50 per hour. As required by P.L. 110-28, the minimum wage in American Samoa will increase across the board to $7.25 per hour by 2014.

While the tuna industry has proved to be a major source of revenue in American Samoa, the industry throughout the Pacific is in flux and its future in American Samoa is widely believed to depend on a continued mix of duty-free status, special tax benefits, and other credits and a viable wage rate, as well as on continued use of the harbor by fishing vessels taking their catches in other parts of the ocean. Changing requirements for landing of catch by other Pacific island-states could mean fewer fish for the American Samoan canneries. Regional and global trade rules involving the United States also have the potential effect of altering the financial arrangements under which the canneries operate. Moreover, low labor costs in most of Central America and Asia make for serious pressure from foreign competition.

In terms of the cost of producing tuna, labor ranges from 7 percent to 14 percent and industry representatives claim that the increase of the minimum wage from the current hourly rates to the $7.25 per hour rate would more than double current labor costs for their facility (where most workers are now paid at the existing minimum wage rate) and would more than erase the current profit margin. When asked how quickly a decision could be implemented to transfer production to tuna canning facilities elsewhere, one industry spokesman replied, "Minutes." It was explained that his and other companies already outsource significant production to Thailand and to South American countries (both for the U. S. market and for other countries). The industry representative stated that there are forty canneries in Thailand, and that nothing would have to be built or moved. To implement a production transfer, the companies would simply place more orders with existing plants. Reference was made to the fact that there is excess processing capacity worldwide in the tuna canning industry.[3] It has been reported that world tuna processing has an excess of production capacity on the order of 20 to 40 percent.[4]

Additionally, research reports have highlighted the vulnerability for the past decade of the American Samoa tuna processing industry to competition from Thailand, South American countries, New Guinea and other low cost producers.[5] Under the North American Free Trade Agreement, tuna canned in Mexico has tariff-free access to the U.S. market as of January 1, 2008. The shorter transportation route and

---

[1] American Samoa Department of Commerce, Statistical Yearbook 2006, p. 135.

[2] Information provided by American Samoa Department of Commerce.

[3] Based on interviews conducted with industry representatives for this report.

[4] See statement at http://www.house.gov/list/press/as00_faleomavaega/eniwtcstatement.html which cites a 40 percent excess capacity. Interviews with company representatives mentioned a 20 to 40 percent excess.

[5] Michael Hamnet and William Pintz, "The Contribution of Tuna Fishing and Transshipment to the Economies of American Samoa, the Commonwealth of the Northern Mariana Islands and Guam," University of Hawaii Institute for Marine and Atmospheric Research, Pelagic Fisheries Research Program, 1996, p. 3.

lower labor costs expected from Mexico will further challenge the viability of the American Samoa tuna processing industry.

As of today, the two tuna canneries in American Samoa continue in operation. Neither plant has reduced output or working hours in immediate response to the first fifty-cent increase in the minimum wage, although both companies have stated that they may do so in the future.[6] In response to questions regarding whether the initial fifty-cent increase in the minimum wage had contributed to any change in absenteeism or turnover costs, industry representatives presented absenteeism records showing no change in absenteeism from a year ago. Despite the lack of immediate effects, there appears to be genuine cause for concern that, at some point before the escalation to $7.25 per hour in 2014, production will be shifted to facilities outside U.S. jurisdiction where labor costs are significantly lower. An input-output model analysis commissioned by the government of American Samoa (conducted by McPhee and Associates) has estimated that closure of the tuna canneries will cause a total loss of 8,118 jobs—45.6 percent of total employment—including both direct effects (5,538 jobs) and indirect effects (2,580 jobs).

If the canneries were to go out of business, the remaining economy would depend almost exclusively on transfers from the U.S. Federal government to provide basic sector infusion of purchasing power to the economy.[7]

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

The economy in the Commonwealth of the Northern Mariana Islands (CNMI) developed rapidly in the 1990s, based on tourism and a garment industry in which labor supply was comprised largely of foreign temporary workers; however, it has experienced a period of decline over the past few years. In 2000, the population reached 69,221 and non-citizens accounted for 88.8 percent of private sector employment. By 2003, the population had declined to 63,419 and evidence suggests that the population decline is continuing.

In the past, the CNMI economy benefited from tariff-free, unrestricted access to U.S. markets, compared to competitors in Asia and elsewhere who benefited from lower wages but faced U.S. tariffs and import quotas. However, both the tourism and the garment industries in the CNMI are now in decline. The garment industry has been shrinking since 2000 in the face of increasing global competition, and especially since the lifting of import quotas and resulting liberalization of textile and garment trade into the U.S. in 2005. The tourist industry has suffered sporadic decline since the mid-1990s.

As a result of the declining economy in CNMI, the wages there have remained relatively stagnant. The minimum wage in CNMI was set at $3.05 per hour in 1996 when the U.S. minimum wage was increased to $4.75 per hour.[8] P.L. 110-28 specified an increase in the CNMI minimum wage to $3.55 per hour effective July 25, 2007 and scheduled further increases of fifty cents per year to take effect May 26 of each subsequent year until parity with the U.S. minimum wage is reached.[9] The schedule will result in the CNMI minimum wage rising to $7.25 per hour on May 26, 2015. While the minimum wage in CNMI was (and still is today) lower than the U.S. minimum wage, it's higher than comparable wages in China, the Philippines, Vietnam, and other Asian countries.

With both of its major industries declining simultaneously, the CNMI economy is in overall decline, and its current economic situation makes it especially vulnerable to additional shocks. Future minimum wage increases for the CNMI may add further challenges to this, and could potentially exacerbate an already declining economy. General experience in the U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be masked or offset to some degree by an expanding economy that is generating net employment growth. In a declining economy, however, any adverse effects on employment will not be offset.

One indicator of the potential labor market impact of increases in the minimum wage is the proportion of employees affected. Data from the CNMI 2004 household

---

[6] Based on interviews conducted with industry representatives for this report.

[7] The full report by McPhee and Associates is expected to be published in late February 2008.

[8] CNMI Public Law 9-73 increased the minimum wage to $3.05 effective July 1, 1996. The Minimum Wage Increase Act of 1996(Section 2104 of the Small Business Job Protection Act of 1996) raised the FLSA minimum wage from $4.25 per hour to $4.75 per hour effective October 1, 1996 and $5.15 per hour effective September 1, 1997.

[9] The implementation dates for CNMI and American Samoa vary by one day because of their location with respect to the International Date Line. Thus, the July 24, 2007 wage increase in American Samoa was effective July 25 in CNMI, and the future May 25 wage increases in American Samoa will be effective May 26 in CNMI.

and expenditure survey show that 68.2 percent of wage earners in the CNMI earned no more than $4.99 per hour and that 79.5 percent earned no more than $7.99 per hour. Therefore, the scheduled increase in the minimum wage to $7.25 (by 2015) will likely affect at least 75 percent of wage and salary workers in the CNMI. By comparison, in the mainland U.S. the 75th percentile mark is $16.50 for wage and salary workers who are paid hourly rates.

Because the CNMI has such a large proportion of temporary, non-citizen workers in its labor force, it is likely that future job losses will cause non-citizen temporary workers who lose their jobs to return to their countries of origin or look for work elsewhere. This would contribute to the trend of declining population that has been evident since 2000. Because citizens of CNMI are U.S. citizens, they have access to the U.S. labor markets, including Guam, Hawaii and the U.S. mainland. It is possible that movements of workers from the CNMI into these U.S. labor market areas may increase as the minimum wage schedule for the CNMI is implemented. This could lead to additional population and economic declines in the CNMI.

The CHAIRMAN. Thank you very much. Mr. Pula, why don't you go right ahead.

STATEMENT OF NIKOLAO I. PULA, ACTING DEPUTY ASSISTANT SECRETARY, OFFICE OF INSULAR AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. PULA. Thank you, Mr. Chairman. Thank you, members of the committee. In light of the risks to the American Samoa and CNMI economies that are identified in my statement submitted for the record and in the Department of Labor report. The Administration suggests that Congress give strong consideration to amending Public Law 110–28 in order to avoid increases in the minimum wage that may be determined to result in significant job loss and harm the economies of the two territories.

We offer some suggestions regarding the factors that should be kept in mind when evaluating any potential legislative revision. First, regarding proposals for a determination by the Secretary of Labor that would stop the implementation of an increase in the minimum wage. We would draw Congress' attention to the difficulty inherent in making any objective determination about the impacts of a proposed minimum wage increase before it goes into effect.

Broad language that would postpone an increase in minimum wage based on a finding of any adverse impact on the respective economies of the CNMI and American Samoa might have the effect of preventing all progress to its higher minimum wage. Narrower language requiring a determination that the increase will not substantially curtail employment allows more flexibility. But the difficulties for the Secretary of Labor of obtaining reliable information upon which to base any determination would be significant.

Another model the Congress might consider is the special industry committee that set the minimum wage rates biannually in certain areas of the United States and American Samoa for over 60 years. The advantage of perhaps, a modified committee structure is that it ensures that people who determine the minimum wage increases share first hand knowledge of Island economies while representing different stakeholders. When compared with proposals to vest the decisionmaking authority in the Secretary of Labor this model offers the advantage of ensuring that local knowledge is fully incorporated and that stakeholders in the territorial economies are able to play significant roles. Thank you for the opportunity to testify.

[The prepared statement of Mr. Pula follows:]

PREPARED STATEMENT OF NIKOLAO I. PULA, ACTING DEPUTY ASSISTANT SECRETARY, OFFICE OF INSULAR AFFAIRS, DEPARTMENT OF THE INTERIOR

Mr. Chairman and members of the committee, thank you for the opportunity to testify on the economic effects of the recently increased minimum wage in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

Enactment of Public Law 110-28 last May not only raised the Federal minimum wage rate in the 50 states, but, for the first time, the Congress took direct action to increase the minimum wage rates in American Samoa and CNMI by 50 cents per hour on July 24 and 25, 2007, respectively. The law also scheduled additional annual 50-cent increases until the two territories reach the Federal minimum wage, and required that the U.S. Department of Labor (DOL) report on the effects of the minimum wage increases. Under this new law, American Samoa will reach $7.25 per hour across all industries in 2014, and the CNMI will reach $7.25 in 2015.

The new minimum wage law precipitated the following actions:

(1) In December 2007, American Samoa Governor Togiola T.A. Tulafono proposed amending Public Law 110-28 so that (1) the annual 50-cent increases be amended to make them biennial and (2) any scheduled minimum wage increase be postponed for two years if the DOL Bureau of Labor Statistics determines that such an increase would "substantially curtail employment in" American Samoa.

(2) In January 2008, the U.S. Department of Labor issued its report on the minimum wage increases in American Samoa and the CNMI describing potential adverse economic effects of the increases.

(3) On January 29, 2008, Congressman Eni F.H. Faleomavaega introduced H.R. 5154, which would condition future increases in minimum wage rates in American Samoa or the CNMI on a determination by the Secretary of Labor that an increase will "not have an adverse impact on the economy of" the respective territory.

HISTORY

In 1938, when the Fair Labor Standards Act (FLSA) first established a United States minimum wage, special industry committees were established to phase in the minimum wage in those places when a minimum wage hike would substantially curtail employment. It was the intent of Congress that the minimum wage in such areas be raised in increments that would not destroy industries and jobs.

But after World War II, the industry committee system continued to set local minimum wage rates only in Puerto Rico, the U.S. Virgin Islands, and American Samoa. In 1989, the Congress determined that the full application of the Federal minimum wage rate to the U.S. Virgin Islands and Puerto Rico could be accomplished without significant harm to continued economic growth and development. Both territories have been subject to the Federal minimum wage ever since.

Before enactment of Public Law 110-28, a special industry committee, appointed by the Secretary of Labor, determined the minimum wage rates in American Samoa under authority of the FLSA. Composed of members representing industry and labor as well as disinterested persons representing the public, the committee reviewed minimum wage rates in the various local industries every two years. The committee recommended changes based on input from the community and an analysis of the extent to which the economy could support increases in the minimum wage without substantially curtailing employment. Minimum wage increases required a majority vote of industry committee members, and the committee's recommendations were binding. The most important aspect of the committee process was that it took into account the economic reality and the unique circumstances of this small island economy.

The covenant that created the CNMI "in political union with and under the sovereignty of the United States of America" became law in 1978. The covenant establishing the Commonwealth provided potential exemption or relaxation of some U.S. legal requirements affecting employment and immigration law, including the FLSA minimum wage provisions. The minimum wage in the CNMI was set by Public Law 9-73 at $3.05 per hour in 1996 when the U.S. minimum wage was $4.75 per hour.

In enacting Public Law 110-28, Congress declined to continue the special industry committee for American Samoa, but nevertheless was concerned about whether the mandatory increases in minimum wage would cause serious and irreversible economic and financial harm to the CNMI and American Samoa. To provide needed information about this possibility, the statute mandated the Department of Labor

to report on the impact of the minimum wage increases on living standards, employment and the economy in the two territories within 8 months of enactment of the Act.

DOL STUDY

DOL released its much anticipated report, titled "Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands" late last month. The report notes that it was not possible to analyze the actual impact of the minimum wage increase, given the short (eight-month) prescribed timeframe for the report and absence of timely labor market data for American Samoa and the CNMI. Nevertheless it raises concerns that future increases in the minimum wage rate in American Samoa and the CNMI will likely cause significant economic and financial harm to the territories.

An economy's capacity to create jobs and wealth should be one of the primary factors taken into account when minimum wage rates are adjusted. While the mainland U.S. economy had the strength and flexibility to adjust to a minimum wage increase, the economic situations of the CNMI and American Samoa are very different from the U.S. mainland. These territories face unique challenges in attracting private sector businesses because of their geographic isolation and location in a part of the world where most neighboring economies have much lower minimum wages and living standards. Given the structure and tempo of these economies, doubling of the minimum wage over a 10 year period, as would happen in American Samoa and the CNMI under Public Law 110-28, would present significant challenges to each territory.

The largest sources of employment in the American Samoa economy are the tuna cannery operations and the American Samoa Government (ASG). The DOL report notes the likelihood that both the canneries and the ASG would be significantly affected by future increases in minimum wage rates. The DOL report says:

> At present, the tuna canneries continue in operation, but there is concern that they will be closed prior to the escalation of the minimum wage to $7.25 per hour in 2014 and that production will be shifted to facilities outside U.S. jurisdiction where labor costs are significantly lower.
>
> An input-output model analysis commissioned by the government of American Samoa (conducted by McPhee and Associates) has estimated that closure of the tuna canneries will cause a total loss of 8,118 jobs—45.6 percent of total employment (in American Samoa)—including both direct effects (5,538 jobs) and indirect effects (2,580 jobs).

The canneries, which have shipped processed tuna to the United States for more than 50 years, have noted that in the future, they may leave the territory and take their production to other countries where labor costs would be much lower, such as 60 cents to 70 cents per hour in Thailand and the Philippines. The canneries are extremely important to the American Samoa economy as a result of their export of tuna products and the support of secondary trade and services businesses.

The canneries are not only the most critical component of the private sector, they also make up a significant part of the tax base supporting ASG operations. Without the canneries as an anchor for the private sector tax base, cutbacks in local government operations and services would likely be necessary.

ASG is the territory's single largest employer. In 2006, the 5,894 ASG employees represented 33.9 percent of total employment in the territory. ASG is a unitary system of government, with no local or municipal governmental layers and it performs not only the usual governmental functions, it also manages public utilities. If ASG's minimum wage increases continue as mandated in Public Law 110-28, the DOL report says: "Paying for the increases in government worker minimum wages will present a significant challenge to ASG." Numerically, if the minimum wage rate rises to $7.25 in 2015, as scheduled, ASG's increase in wage costs could be at least $5.2 million in 2015, according to the DOL report.

The DOL report also addresses the minimum wage issue with regard to the CNMI. The DOL report notes that the effect of the minimum wage increase in the CNMI, would be like raising the Federal minimum wage to $16.50 per hour in the 50 states. The report states that job losses in the CNMI will result in the return of foreign workers to their home countries and the migration of United States citizen workers to other United States jurisdictions.

The DOL report suggests that scheduled minimum wage increases could cause the canneries in American Samoa to relocate to lower cost countries long before they are forced to pay $7.25 per hour, and that more garment factories in the CNMI may close sooner than otherwise expected. The shuttering of industries in American

Samoa and the CNMI could cause the respective economies to suffer prolonged and wrenching contractions.

CONCLUSION

In light of the risks to the American Samoa and CNMI economies that are identified in this statement and in the DOL report, the Administration suggests that Congress give strong consideration to amending P.L. 110-28 in order to avoid increases in the minimum wage that could result in significant job loss and harm the economies of the two territories. We offer some suggestions regarding the factors that should be kept in mind in evaluating any potential legislative revision.

First, regarding proposals for a determination by the Secretary of Labor that would stop the implementation of an increase in the minimum wage, we would draw Congress's attention to the difficulty inherent in making any objective determination about the impacts of a proposed minimum wage increase before it goes into effect. Increases in the minimum wage have numerous, complex impacts on an economy and, generally speaking, create some positive and some negative economic impacts. Broad language that would postpone an increase in minimum wage based on a finding of any adverse impact on the respective economies of the CNMI or American Samoa might have the effect of preventing all progress towards a higher minimum wage. Narrower language requiring a determination that the increase will not substantially curtail employment allows more flexibility, but the difficulties for the Secretary of Labor of obtaining reliable information upon which to base any determination will be significant.

Another model that Congress might consider is the special industry committee that set the minimum wage rates biennially in certain areas of the United States and American Samoa for over 60 years. The advantage of the committee structure is that it ensures that the people who determine the minimum wage increases share first-hand knowledge of island economies, while representing different stakeholder groups within those economies as well as the public interest. When compared with proposals to vest the decision making authority in the Secretary of Labor, this model offers the advantage of ensuring that local knowledge is fully incorporated and that stakeholders in the territorial economies are able to play significant roles.

Thank you for considering the Administration's views.

The CHAIRMAN. Thank you very much. Thank you all for your excellent testimony. Let me ask a couple of questions and then defer to Senator Murkowski for her questions.

Congressman, as I understand it, first I appreciate your leadership on this issue. I think you referred to the fact that last week the House Subcommittee on Insular Affairs had a hearing on this bill that you've introduced, HR 5154. Were there issues raised in that hearing that cause you to consider any changes to the bill?

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Just wanted to note for the record that it was unanimously, by those who testified both from the government as well as the private sector, unanimously support the provisions of the bill. Of course, in my looking at the situation, I think what some of the recommendations or suggestions that were also offered is that we need to determine what agency or what neutral party could really give a comprehensive economic report status for both of these territories.

Now, I suggested that the Department of Labor, in consultations with the Department of Interior and our territorial leaders, I think that's one approach. It was also suggested that maybe the GAO may be the organization to conduct these comprehensive reports as noted in Mr. Berman's statement. I think, basically, with all of us here, is simply the difficulty in getting to the bottom line. What exactly is the economic status of both territories?

I'm open to suggestions in terms of how we can better tighten up the proposed bill. To the extent that we want to make sure that if it's given to the Department of Labor that we do this in a comprehensive way. I think this will be helpful, not only to the leaders

of the administrations of both territories, but it will certainly also help the Congress to determine exactly what is the economic status of both of these areas.

The CHAIRMAN. All right. As I understood the testimony of each of the representatives from both territories, there's general agreement on the approach that is contained in the Congressman's bill. That's my impression.

I have a couple of questions though. Should we use the same standard for determining impact as we have in the past? I believe, Mr. Pula, you referred to the fact that the current law calls for a determination that the wage increase, "will not substantially curtail employment." Now that's a different standard than the one you have in your bill. I'd be interested in any reaction as to whether it's an appropriate standard for us to have in this bill.

Mr. TULAFONO. I would——

The CHAIRMAN. Yes, if any of the rest of you have a comment on that. Have you considered that?

Governor Tulafono.

Mr. TULAFONO. Mr. Chairman, I would be very careful in utilizing just a standard of curtailment to employment. Because I don't believe that employment as a single source of the health and state of the Island's economy is an accurate standard. Because there are many other factors that weigh in on what affects the progress of economic development. I believe that to limit it to just curtailment of employment would be terrifically unfair in determining the overall conditions of the progress of the economy.

The CHAIRMAN. I am right that that has been the standard, though. Am I right about that?

Mr. TULAFONO. That's correct in the former——

The CHAIRMAN. In the former.

Mr. TULAFONO [continuing]. Wage committees.

The CHAIRMAN. Right. Yes, Representative Tenorio. Go right ahead.

Mr. TENORIO. Mr. Chairman, I feel that's it's our government's responsibility to create jobs first to the United States citizens that are residing in the CNMI. Job creation has been a very challenging item because normally most of our workers would rather work for the government because the government is not subject under the minimum wage. The government salaries are much higher than the local sector salaries.

So in order to create employment in the private sector I feel there's a need to entice workers. I feel that, you know, this is where we fail in that we have not created, really created, jobs in the private sector because we have too many non-resident workers that can be easily employed. That's discouraging employers themselves to create jobs for the local people.

There is a current policy to hire 20 percent of the employment work force in a company constituting local workers and 80 percent is for non-resident workers. So you can see the imbalance there in terms of job creation.

The CHAIRMAN. Right. Very good.

Mr. TENORIO. Thank you.

The CHAIRMAN. Let me go on to another issue. There's obviously a great difference between the conditions in Samoa and in CNMI.

For example, there is this large gap between the private sector and the public sector wages at CNMI that does not exist, as I understand it, in Samoa.

Is it appropriate for Congress to try to apply the same minimum wage policy to both areas? Mr. Berman, did you have a thought on that?

Mr. BERMAN. In terms of differentiating between the two territories. It's quite interesting that on one hand you have American Samoa where there exists a genuine and legitimate concern that although the canneries, remain in operation today. At some point before reaching $7.25 the rising minimum wage combined with other adverse factors may lead to their eventual closure.

Then with CNMI even though it's impossible to discern among the many adverse factors that continue to impair that economy. It's the lack of labor market data that makes it very hard to make that decision. But normally, at the very least, relatively strong economies can absorb minimum wage increases predominantly through increasing productivity.

But in general we question however, in the case for American Samoa, that this would imply a 33-percent increase in wage costs. In the case of both territories, 75 percent of the covered workers will be swept in. We question whether or not any economy can absorb an increase of that relative magnitude.

So in general it's given how fragile the American Samoa and the CNMI economies are, we must be very careful in changing in our minimum wage policies.

The CHAIRMAN. Mr. Pula, did you have a comment?

Mr. PULA. Yes. Mr. Chairman, I'm not an economist. But I think applying the same process to both areas is appropriate. Within the process of course, there are a variety of factors.

A lot of times the insular areas have common denominators of challenges and things and sometimes they're very different in their dynamics. You know, CNMI being closer to Asia has a different set of——

The CHAIRMAN. So applying the same process makes sense, but it may result in a different——

Mr. PULA. Different.

The CHAIRMAN [continuing]. Conclusion.

Mr. PULA. That's right.

The CHAIRMAN. Which would be appropriate.

Mr. PULA. Right.

The CHAIRMAN. Right.

Mr. FITIAL. I go along with that, Mr. Chairman. You know, I strongly believe that our situation, the economic situation now in the CNMI cannot sustain, you know, additional increases. If this second minimum wage will be triggered in May of this year, just one example, you know, a big hotel in Tinian will be wiped out completely.

We're talking about, you know, 1,600 employees will be wiped out. So, you know, I would tend to go along with the, you know, a standard that would be equitable and fair to both territories.

The CHAIRMAN. Ok.

Mr. FALEOMAVAEGA. Mr. Chairman.

The CHAIRMAN. Yes. Congressman, go ahead.

Mr. FALEOMAVAEGA. The one—probably the most critical question that I have always given thought in looking at this situation is that we need a comprehensive economic report as suggested by Mr. Berman, which we don't have as far as data collection, information and all of that. I think that really would give us a better understanding of what then we need to do beyond coming out with the real factors to what exactly the economic status of both territories.

At this point in time, as has been admitted, both by the Department of Labor as well as with our witnesses this morning, is that that's where one of the problems lie. We don't know exactly where our economic—and now we can talk about different factors.

The CHAIRMAN. Right.

Mr. FALEOMAVAEGA. But we don't have the bottom line saying exactly where we are. Talk about standard of living. Talk about cost of living. The per capita income, for example in American Samoa is $4,300 per anum. That's way below the poverty level here in the United States.

Another area that has also come in terms of how we've conducted these industry committees, we have 18 minimum wages currently being applied depending on the kind of job that you're working for. So it's not like the minimum wage where whether you're flipping hamburgers at McDonald's or whatever is still the same. But it's surprising that this is how this whole thing came about where we ended up with having 18 different minimum wages depending on the kind of job that you working under.

I think this is all part of the complications and the complexity of the problems, as Mr. Berman has suggested earlier. We need and I would say that maybe the Bureau of Labor Statistics would be the best neutral party that I would think that could give the Congress a best, the better picture of exactly where we are as far as our economies are concerned.

The CHAIRMAN. Very good. Senator Murkowski? Yes, Governor, do you have a comment?

Mr. TULAFONO. Yes. To the question that you posed whether, you know, the same process could be applied both to CNMI. With all due respect, I would submit that as Congressman Faleomavaega had stated previously, there was a need to break down wage categories so that it can relate to that development because so much of the jobs, the businesses in the territory related their existence and their business to the existence of the canneries.

So while there were more jobs in the private sector there was also a lot of jobs that were dependent on just a small—a single entity or a single industry. Other than that, all American Samoans, who work for the American Samoan government. So there was a great need that was recognized under that system to break down those categories so that it can address those varying differences.

So I would say, Mr. Chairman, that whether or not the same process can be applied to the two territories I would respectfully say that it—I don't see that, you know, as being the case. We were located in two very different regions. American Samoa exists among, you know, a whole area of foreign countries.

We deal with a totally different, with different economies in this region. The economic situation in American Samoa, given the exist-

ence of the canneries, if they disappeared tomorrow, it's a totally different situation for the Marianas. Our transportation issues are very different from CNMI. Our shipping issues are very different from CNMI.

I don't see the same process as being alike. I think that in fairness to the both territories, I support what Congressman Faleomavaega is saying. We need to have some consistency in the policies first, before we can make that determination.

I don't think we can just say the same process should apply at this point in time. I think we need—our need for a consistent policy of development is something that we continue to ask Congress to forge and to help us establish. Only in that situation we can really honestly say what processes will be relevant and what would be fair.

The CHAIRMAN. Very good.

Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman. Thank you, gentlemen. I know that many of you have traveled a long distance to be here. We appreciate your testimony this morning and your leadership.

You know, often times we are critical because we ask for the reports from various agencies and the reports don't come in on a timely manner. This time, however, the Department of Labor comes in with their report in a timely manner requested by the Congress. Most admittedly, recognizes that the report is timely, but in terms of its ability to be thorough and to really to be able to evaluate the issues in front of them. They were limited not only due to the very short timeframe that we imposed but clearly the lack of labor market data.

I'm listening to the testimony this morning and had read the written comments that were prepared by you all. I look at this and say, well, the minimum wage increases aren't going to do anybody any good, certainly within the two territories, if they result in the loss of the major industries and really thousands of jobs. So we're looking at where we are and how we move forward.

Congressman, I appreciate your leadership on this as well. I guess I'm very troubled in knowing that we have so little information about the labor market, about the economies of CNMI and American Samoa. Mr. Berman, I understand from your testimony that in conducting this study there were extensive interviews with persons knowledgeable regarding the economies, 26 interviews conducted and also reviewing extensive academic research literature.

But in recognizing what it is that we are or you have been asked to evaluate, the impact to these economies of these increases. Substantive, truly from where they have begun, that really, that is pretty skinny in terms of what it is that you have to base your conclusions off of. I guess my question to you is what else—if you had had more time, let's give you that, but if you had had more time, what would you have needed in order to really do what you consider to be a thorough and fair analysis of the situation in the two territories?

Mr. BERMAN. Sure. Allow me to first comment, dovetail, on the Congressman's comments on the lack of data. You should keep in mind that employment and standard of living changes do not hap-

pen instantaneously. Cumulative effects take months, if not years to become large enough to observe.

That said, there's no labor market data that's collected on a continuous basis, by any agency for these territories.

Senator MURKOWSKI. Can I ask you? You've been asked to look at just these two. Is this our policy with all other territories? That we don't do an analysis or a collection of this data?

Mr. BERMAN. That I'm not sure.

Senator MURKOWSKI. Ok.

Mr. BERMAN. I would speak to the other territories.

Senator MURKOWSKI. All right.

Mr. BERMAN. But from an economist perspective what somebody would need to make an analysis on the effect of a set minimum wage increase is one time, and that's implied with a historical, continuous, relevant and detailed survey data of the economy. Everything from participation rates, employment, unemployment, people working, people looking for work, earnings, hours, those are the things that are needed over a two year period to get like a base line sense of the situation.

Only then can we make assertations on whether or not a minimum wage increase is negatively or positively affecting the economy.

Senator MURKOWSKI. So it's got to be long enough to be valuable data?

Mr. BERMAN. Yes.

Senator MURKOWSKI. It has to be much more extensive than what you were able to garnish?

Mr. BERMAN. Exactly. If I could comment on that point in time estimates are quite inadequate in coming to conclusions about the effects of a minimum wage increase.

Senator MURKOWSKI. What do you view the dangers of inadequate analysis, then?

Mr. BERMAN. At the very least, they're insufficient for tracking economic conditions. They're insufficient for analyzing economic policies or planning economic development strategies. You need standard of living, again, and employment changes have been, they don't happen instantaneously. They happen over time. You have to look at the cumulative effects which again, takes a lot of time.

In order to see them, you need data and a point in time estimate falls quite short of that.

Senator MURKOWSKI. Mr. Pula, from your perspective at Interior, how does this lack of really informed and thorough data and the inability to have reports that are meaningful, how does this impact your operations within the Office of Insular Affairs?

Mr. PULA. Thank you, Senator, for raising that. This is an issue that our office deals with a great deal and is very frustrating. The reason why I say that is we ask the Census Bureau for information. They have a division that we ask them for data. For the most part we pay the Census Bureau to do surveys for all the Insular areas.

We spent almost a million dollars a year through our technical assistance to do that as the Islands will always come to us for data. I understand what Mr. Berman is raising. I think with at least American Samoa they did this industry study every 2 years in the

past. So they have some data for American Samoa, but I don't know about any of the other territories.

This is something we've been pushing. Just to give an example, with the Compact Impact legislation, it provided $300,000 for our office to provide a study on compact impact for Micronesians in Hawaii and Guam and CNMI. When we discussed this issue for this year with the Census Bureau, their tab to do that survey is $1.3 million.

So, I'm taking a million dollars out of my technical assistance so that it could be done. That is expensive and like I said, is something that we're frustrated about. We've been trying to work for years to see how we can get some of this information, whether it's through labor or whether through the Census Bureau, to help us, help the territories be able to get some data which is very important in order to make decisions on where they're heading.

Senator MURKOWSKI. Mr. Chairman recognizing our role in oversight of the territories, recognizing that we're involved in legislation that affects them to appreciate that we, through the Department of Labor, otherwise are not doing the United States Census Bureau's annual community surveys, the current population surveys, the current employment statistics. All of those data collection programs we use practically on a daily basis as we make policy decisions in different areas. It seems to me that we're operating a little blindly within the territories as we pass legislation that clearly has an effect on them without having good information and data behind them.

This has been very interesting this morning. I appreciate it.

The CHAIRMAN. Though you raise a very good point. My understanding, Mr. Pula, you can correct me on this. The Census Bureau did collect census information in the territories until about 5 years ago and made a judgment that they no longer would do that. Is that right?

Mr. PULA. Let me just step back. In the background there was a particular person that was doing work in the Census Bureau. I think he may have done it ad hoc, with his experience and with the Islands.

When we spoke with the Census Bureau folks, they said that they don't know all the information that was collected. The collector of information was an employee of theirs. He did it ad hoc, along with his regular job.

The CHAIRMAN. It's never been their policy to collect this information, as you understand it?

Mr. PULA. That's right. They only do the census and then their 5-year survey, but only if that's Hawaii, I mean. It doesn't affect the territories. I think that's one of the things in which we've been trying to engage them.

The CHAIRMAN. Yes, Governor.

Mr. FITIAL. Chairman, there was a census taken on CNMI in the year 2000. That was the last one. The 2005 census was never taken.

The CHAIRMAN. Ok. Let me just mention one other issue, Governor.

Mr. TULAFONO. Mr. Chairman.

The CHAIRMAN. Oh.

Mr. TULAFONO. If I may——

The CHAIRMAN. Yes, go ahead.

Mr. TULAFONO [continuing]. Comment on that issue. In actuality every 5 years there is an economic census conducted, I believe, on all the territories. I can't,—I know for a fact in American Samoa the Census Bureau does that. As we speak there's also an agricultural census happening right now with that report coming out.

I think what we need to say here is that in the past 4 years the American Samoa government has been working on centralizing the data collection. There is some economic information available from our participation with other regional agencies such as the Pacific community on some of the economic developments such as fisheries and agriculture health. So there are some of these information available.

Although, you know, given the time and the logistics of what Congress had required the Department of Labor to do. I agree that it was impossible to really, fairly and accurately get into those kinds of things without it being collected. Recently we had requested from Interior a technical assistance grant to centralize the data collection under our Department of Commerce. So, I'm not trying to pitch that we need more funds, but we received a partial grant for that. But it falls short of really, accurately making it happen.

So we're having to break down the—that effort into stages so that we can begin the process of computerizing the several departments so that we can collect the data more easier and with that process is underway and in line with the need to develop this economic development policy. So some of those things are happening, they're just not in place.

The CHAIRMAN. Ok.

Mr. TULAFONO. But that's—I just wanted to make sure that the record does show that there is some effort to help in this process and make sure that the data will become available soon.

The CHAIRMAN. Ok. Let me just indicate this has been useful testimony. The staff will undoubtedly forward some additional questions we would like to have answered for the record.

The CHAIRMAN. We would continue to work to refine this proposal, and work to quickly take action on it here in the committee. I realize the time constraints are very real. The committee record will remain open for 2 weeks for any additional statements that come in.

Again, thank you all for coming and testifying. Senator Murkowski, did you have anything more?

Senator MURKOWSKI. No, I just appreciate the hearing this morning.

The CHAIRMAN. All right. Thank you all.

Mr. FITIAL. Thank you, Mr. Chairman.

[Whereupon, at 10:45 a.m. the hearing was adjourned.]

APPENDIXES

APPENDIX I

Responses to Additional Questions

RESPONSES OF GOVERNOR BENIGNO R. FITIAL TO QUESTIONS FROM SENATOR BINGAMAN

Question 1. Do you support the general approach of the Congressman's bill—that is, to delay wage increases from one year to two years, and to make increases contingent on a finding on a finding by the Department of Labor on their impact?

Answer. Yes, the Commonwealth does agree generally with the approach suggested by American Samoa's Congressman, Eni F.H. Faleomavaega. First, we concur in the proposal to defer the presently scheduled increase in minimum wage levels for both American Samoa and the Commonwealth, which will go into effect in May 2008 unless Congress acts to amend the relevant federal law. Second, we agree that future increases should not be mandated on a fixed schedule established by law, but should instead be based on a professional assessment by the U.S. Department of Labor and its recommendations to Congress regarding future increases in minimum wage levels.

Question 2. Should Congress use the same standard for determining impact as in the past—that is, the wage increase "will not substantially curtail employment," or should there be a different standard?

Answer. We defer to the economists specializing in labor markets for determining, and weighing, the various factors that might be appropriately examined in assessing the benefits and costs of any proposed increase in minimum wage levels. Certainly we agree that the impact on employment might well be the most significant single factor to be examined in this process. But our experience, and American Samoa's, also suggests that other criteria, such as the ability to attract new investment, may also be very important. A recent study of American Samoa by experts with long experience in examining small island economies emphasized the need for such communities to have a competitive advantage to attract new businesses.

Question 3. There are significant differences between the conditions in Samoa and the CNMI. For example, there is a large gap between private-sector and public-sector wages in the CNMI, but not in Samoa. Do you believe Congress should apply the same minimum wage policy to both areas?

Answer. We agree that there are significant differences in conditions between the Commonwealth and American Samoa. One such difference is the extent to which the American Samoan economy depends on local government employment (44% of total employment) and on the federal government's financing of two-thirds of the local government's costs. On the other hand, the similarities between the two economies are even more important—remoteness from the Mainland, limited natural resources and population, dependence on foreign workers, vulnerability to changing international rules, and the difficulties encountered over the years in seeking to diversify their economies. In answering your question, we believe it is important to distinguish between policy (or process) and outcome.

We believe that Congress should apply the same policy (or process) to the economies of both the Commonwealth and American Samoa. The principal choice here is whether to vest the decision-making authority in the Secretary of Labor or to require the use of the special industry committees as has been done recently in American Samoa and earlier with respect to Puerto Rico and the U.S. Virgin Islands. As Acting Deputy Secretary of Interior Nikolao I. Pula stated during his testimony on February 28, 2008, the committee approach "ensures that the people who determine the minimum wage increases share first-hand knowledge of island economics, while

representing different stakeholder groups within those economies as well as the public interest."

Applying the same policy (or process) might lead to different outcomes at different times for American Samoa and the Commonwealth. With a return to the industry committees, for example, wages would increase only in industries that can afford these increases without curtailing employment in the industry, as well as in the economy as a whole. This flexibility could lead to adjustments reflecting the differences between the two insular areas.

Question 4. As I understand it, the CNMI has enacted new policies to reduce its high dependence on alien labor and to encourage the hiring of permanent residents. Do you believe that a higher minimum wage would help attract U.S. permanent residents to the private sector workforce?

Answer. We respectfully suggest that potential workers even at the entry level consider factors other than compensation in deciding whether to take the job—the nature of the work, the opportunity for training, and the potential for upward mobility that will lead to increased compensation and job satisfaction. We do not believe that one or more minimum wage increases will persuade U.S. permanent residents in the Commonwealth to take jobs as hotel housekeepers or maintenance personnel, construction workers, or garment factory sewers. Commonwealth employers who operate businesses in Guam as well as in the CNMI have found that United States wage levels have not persuaded U.S. permanent residents there to take entry level positions in factories, hotels, or maintenance.

Our emphasis under the recently enacted Commonwealth labor law and its regulations is on those "good jobs" currently held by foreign workers where we believe there are U.S. and FAS citizens ready and able to perform these jobs. The new law and regulations provide a wide range of incentives for employers to hire U.S. and FAS citizens in these jobs. Based on the initial reactions of employers and workers, we expect some significant progress in advancing the employment opportunities of our local citizens in the near term. In these instances, we would agree that gradual increases in the minimum wage level over time would add to the appeal of private sector employment, assuming that such increases are based on an expert assessment that the increases will not adversely affect the economy.

One of the major objectives of my Administration has been to convince the Commonwealth community—and especially its workforce—that the CNMI Government is no longer the "employer of last resort." Our steady reduction in the number of government employees since 2006, in order to adjust to our serious decline in government revenues, has made this point very clear. We now are emphasizing the need to find jobs in the private sector for former government employees and to prepare our high school students more effectively to take advantage of private sector employment opportunities. The lack of a vocational school and appropriate training programs in various trades make it very difficult to equip high school students to make the transition from secondary education to a meaningful job in the private sector.

Among the many challenges involved in addressing these workforce issues is the serious lack of data emphasized during the February 28 hearings. The Office of Insular Affairs and all the insular areas would welcome the support of this Committee in obtaining the funds necessary to generate data regarding insular areas comparable to that routinely collected with respect to the States and other local American communities.

RESPONSES OF PEDRO A. TENORIO TO QUESTIONS FROM SENATOR BINGAMAN

Question 1. Do you support the general approach of the Congressman's bill—that is, to delay wage increases from one year to two years and to make increases contingent on a finding by the Department of Labor on their impact.

Answer. While I support the concept of allowing future increases to be contingent on findings by the Department of Labor. However, because I am concerned that the substantial discrepancy between public sector and private sector wages will only continue to discourage U.S. permanent residents and citizens from seeking private sector jobs, I believe that the second increase due this May is necessary to close this gap.

Question 2. Should Congress use the same standard for determining impact as in the past—that is, the wage increase "will not substantially curtail employment," or should that be a different standard?

Answer. For the CNMI I believe that a number of factors should be examined to determine the appropriateness for additional increases. As I outlined in my testimony we need to reduce our reliance on non-resident workers, create opportunities

for residents in the private sector, and reduce the wage differences between public and private. Certainly the overall number of jobs needs to be examined, but this alone does not provide a measure of these other objectives.

Question 3. There are significant differences between conditions in Samoa and the CNMI. For example, there is a large gap between private-sector and public sector wages in the CNMI, but not in Samoa. Do you believe Congress should apply the same minimum wage policy to both areas?

Answer. I believe that the same methodology can be utilized to determine the timing and amount of future increases. However, since the data will be distinctly different for each, the decision of how much of an increase and when it should apply should be unique for each territory. The FLSA industry committee concept is a realistic process for the CNMI because of the diversity of business types and gaps in business gross incomes.

Question 4. As I understand it, the CNMI has enacted new policies to reduce its high dependence on alien labor and to encourage the hiring of permanent residents. Do you believe that a higher minimum wage would help attract U.S. permanent residents to the private sector workforce?

Answer. Absolutely. Not only will higher wages make private sector employment more attractive, but it may also make hiring nonresidents less attractive considering the cost of required benefits, transportation and permitting. The key to making this a reality is for local businesses to be a willing partner and to commit themselves to employing residents.

RESPONSES OF JAY BERMAN TO QUESTIONS FROM SENATOR BINGAMAN

Question 1. Which periodically conducted surveys of the Bureau of Labor Statistics and the Bureau of the Census, if conducted in the territories, would provide the data needed to make reasonable determinations regarding the territorial economies, including sustainable minimum wage/employment levels?

Answer. As an initial matter, it should be said that there is no data collected by the Bureau of Labor Statistics (BLS) or the Bureau of the Census (Census) that would enable a determination of a "sustainable minimum wage [or] employment levels" in the U.S. territories. In fact, the Department does not use, nor has ever used, any BLS or Census data to determine a sustainable minimum wage or employment level in the United States. BLS and Census do operate several data collection programs that provide information on the state of the U.S. economy, including the Current Population Survey (CPS, the household survey), the Current Employment Statistics program (CES, the establishment payroll survey), and the Occupational Employment Statistics (OES) program. CPS and CES surveys are conducted monthly and the OES survey is conducted in six semi-annual panels collected over three years, with results published annually. If data similar to that provided by those instruments in the U.S. was available for the territories that would provide us with information about the state of the economy in the various territories and in turn may provide Congress with relevant information upon which to make economic policy decisions affecting the territories.

For the reasons outlined below, however, simply extending existing BLS and Census data collection to the territories (if that were even possible) is not likely to produce relevant or reliable information for several years. In addition, numerous other factors and conditions, not captured by the current data collection instruments, would also need to be examined in order to provide more complete information upon which to make economic policy decisions affecting the territories.

- Rigorous analysis of the economic impact of minimum wage increases and other policies affecting labor markets requires accumulation of a historical time series of data observations sufficient to enable estimation of the parameters of the relevant labor market demand and supply functions. About three years of complete data would need to be accumulated before meaningful analysis could be conducted, especially given the expectation that analysis would need to focus on wage changes of fifty cents per hour.
- To characterize individual losses or gains associated with minimum wage changes, it is necessary to know how the demand for labor hours varies in relation to the variation in wages. In order to estimate such effects for variations in the minimum wage, it may be necessary to obtain more detailed data than that provided by the standard surveys conducted by BLS and Census. Therefore, customization of surveys would likely be needed.
- The Census Bureau's Economic Census is conducted in each territory every five years. The Economic Census data could be useful for analysis in conjunction with labor market information, but the lag time between collections could di-

minish the data's usefulness. An initial feasibility study, however, would likely be required to determine whether more frequent collection of the data could provide additional relevant information.

- Because migration from the island territories is a potential effect of local changes in minimum wage policy, data collection should also facilitate tracking of population migration. This may require either longitudinal sample surveys to track changes in household composition and existence or more frequent complete censuses of the populations.
- The federal minimum wage is just one factor affecting employment in the island territories. Changes in other factors can also result in net job loss over time regardless of the minimum wage policies on the islands, and so it may be incorrect to believe that a specific minimum wage policy can itself result in sustainable employment levels.

Question 2. What would be the cost of extending the surveys described above to CNMI, AS, Guam and Virgin Islands?

Answer. As noted above, simply extending existing BLS and Census data collection to the territories may not be possible in all cases, and even it were, such collections are not likely to produce relevant or reliable information for several years. The precise costs of implementing appropriate data collection programs for American Samoa and the CNMI cannot be estimated without a detailed feasibility study, including field investigations in the territories. The following points highlight significant factors that may affect costs and feasibility of data collection.

- Guam currently has a program of surveys and other data tabulations to monitor economic conditions. The program is operated independently by the local government and funded from both local and federal grant sources. The Guam program may provide a reasonable model for estimating the cost for similar programs in American Samoa and the CNMI. Currently, the Guam labor statistics program employs about 16 full-time technical and professional staff members and costs $490,000 per year for direct personnel compensation.[1] Addition of overhead costs for office space, equipment, and other items brings the total cost for the labor statistics program to about $1.1 million.
- The Guam labor statistics program cost experience provides some insight on the cost of implementing labor market information programs for American Samoa and the CNMI. However, the Guam model does not fit the circumstances and analytical context that would need to be addressed in American Samoa and the CNMI. Additional considerations to adapt the Guam model to the needs of these two territories would add considerably to the annual operating costs of labor market data collection programs for American Samoa and the CNMI. There would also be significant initial costs for conducting a thorough feasibility study to develop a practical approach and data collection methods and instruments tailored to the unique circumstances of the island territories. There would also be initial costs for setting up the necessary infrastructure for collecting and tabulating data, establishing initial universe frames and recruiting and training professional and technical staff. These considerations are discussed below.
- Because the minimum wage in Guam is already at parity with the federal minimum wage, some of the frequency and detail that would be needed for American Samoa and the CNMI to monitor, analyze and project the effects of minimum wage increases at increments of fifty cents are unnecessary for Guam and are not reflected in the current Guam labor market data program.
- Perhaps the largest obstacle to adapting the Guam program, or even extending BLS or Census surveys, to American Samoa and the CNMI is the lack of an existing standard master address list of households in these territories from which to select random samples. It is noteworthy that the U.S. Census Bureau cited the lack of master address lists as the reason for not conducting the American Community Survey in these territories. Overcoming this major obstacle would require development of an alternative strategy for selecting random samples. Several alternative approaches could be developed based on the practical realities of these territories and that would add additional time and substantial cost to the program. In addition, each of the alternative approaches would first have to be evaluated for reliability in order to determine the optimal approach and that would also add additional time and cost to the program. It would be safe to assume that the development and implementation of alternative approaches for sampling frame construction would add significantly to both initial

[1] See Guam Department of Labor, http://staffing.guam.gov:9995/gateway/retrievegovguamstaffpattern.do?deptcode=24

costs and the on-going annual operational costs presently incurred for the Guam program.

As indicated earlier, a feasibility study to identify data needs and to examine sampling and data collection alternatives would be necessary to accurately determine the costs of implementing appropriate data collection programs for American Samoa and the CNMI . Such a study would take significant time to implement in order to identify obstacles and special circumstances, develop practical approaches, and conduct pilot surveys to confirm the practicality of approach. It would also be necessary to develop an appropriate data infrastructure of sampling frames and procedures and to recruit and train local personnel.

The Virgin Islands would present similar challenges as described for American Samoa and CNMI, especially with regard to the development of appropriate sampling frames. A thorough feasibility study would be needed to assess potential approaches and costs.

Question 3. What additional cost would there be for additional data and analysis if DOL were tasked to make a determination every two years regarding the feasibility of an additional 50 cent increase in the minimum wage in CNMI and AS?

Answer. The Department has no special expertise in determining the "feasibility" of imposing a minimum wage (or adjusting a minimum wage) and therefore is not well-suited to determine what minimum wage, if any, should be imposed on American Samoa and the CNMI. There are a myriad of factors affecting labor market conditions in the territories just as there are in the U.S. The Department can consolidate and analyze survey data from BLS and the Census, as well as other Government agencies, but DOL is not well suited to ultimately decide for the territories what economic policy choices are in the territories' best interest.

RESPONSES OF GOVERNOR TOGIOLA T.A. TULAFONO TO QUESTIONS FROM SENATOR BINGAMAN

Question 1. Have territorial officials met together, and with the Administration, to develop a consensus on appropriate investment incentives to replace those that were lost? If what is the status of those discussions?

Answer. After several meetings to formulate the provisions, my office supports the proposal introduced by our Congressman as H.R. 1916. This bill was drafted with the advice of the House tax staff. My office earlier had discussed these provisions with the staffs of the Senate Finance Committee, the House Ways and Means Committee, the Joint Committee on Taxation, the Department of Interior, and the Department of the Treasury.

At the time of our meeting with Treasuary, the Department staff supported a temporary extension of the current credit for the canneries in order to secure additional time to review all options for economic development. Since then, the House Ways and Means Committee in section 333 of the Temporary Tax Relief Act of 2007, H.R. 3996, decided to extend temporarily the economic development credit for American Samoa. The House committee explained, "it is important to encourage investment in American Samoa. With the expiration of the possession tax credit, the American Samoa economic development credit is an appropriate temporary provision while Congress considers long-term tax policy toward the U.S. possessions." But the rush of business at the end of 2007 prevented the House from acting on this extension.

The long-term provisions proposed in H.R. 1916 reflect a tax policy which is appropriate for American Samoa's economic development and comports with existing measures. Under current federal tax law investments on Indian reservations qualify for shorter recovery periods, and an annual employment credit is also provided for jobs created on reservations. In these tax incentives which date from the Omnibus Budget Reconciliation Act of 1993, Congress encourages job creation and business investment on Indian reservations. Following these precedents, the proposal in H.R. 1916 is consonant with long-established federal tax policy.

Now that the Department of Labor has documented the bleak economic conditions in American Samoa to the Committee on Energy and Natural Resources, a letter from the Committee setting out the Department's findings and requesting the Finance Committee to act on the provisions in H.R. 1916 would be extremely helpful.

Question 2. What tax breaks under local law do the canneries receive? Are the terms of any tax breaks set to expire? Upon expiration, how much revenue will that generate for the American Samoa government?

Currently the fish canneries operate under an exemption from a portion of their territorial corporate income taxes and full excise tax exemption on goods imported

for use in their canning operations. The Tax Exemption Board periodically reviews that exemption, which is set to expire as early as April 2008 for Star Kist Samoa.

Facing revenue shortfalls, the Government of American Samoa has examined the potential receipts from a partial or complete withdrawal of that tax exemption. As the Department of Labor's January 2008 report to Congress described, however, tuna canneries in Thailand and other countries where wages are far lower than American Samoa currently have excess processing capacity.

In light of the annually mandated increase in the American Samoa minimum wage rate, the local cannery operations will have less and less financial incentive to remain in the territory. In other words, rising cost of operations in American Samoa put these canneries on the brink of outsourcing the operations abroad just as American manufacturers have resorted to foreign production in place of domestic operations. Consequently, if the territorial government withdrew the current tax exemption for the canneries, the government would gain no revenue because the action would precipitate the canneries' departure from American Samoa. The territorial government is nonetheless considering alternative programs to better support business investment and employment in place of the current tax exemption.

Question 3. Will this increase [of $7.2 million in operating costs for the American Samoa government] occur in the current fiscal year and what contingency plans do you have to deal with it?

The projected $7.2 million increase in governmental operating costs comes directly from the Department of Labor's January 2008 report to Congress. At pages l2-13 the Department states:

> In 2006, the government sector minimum wage increased to $2.91 per hour. The wage survey that year (in preparation for the planned 2007 special industry committee) showed that, among government sector workers covered by the FLSA [Fair Labor Standards Act of 1938], less than 1 percent earned at the minimum rate and 10 percent earned at or below $4.05 per hour. Among government workers covered by the FLSA, 34 percent earned no more than $5.15 per hour and 48 percent earned no more than $6.15 per hour. The average hourly wage or covered government sector workers in 2006 was $7.49 per hour, and the average annual earnings of government workers were $28,351.
>
> Table 1 shows that the scheduled minimum wage increases mandated by P.L. 110-28 will bring the minimum wage for covered ASG [American Samoa Government] workers to $7.25 per hour by 2015. Paying for the increases in government worker minimum wages will present a significant challenge to ASG. While available data are insufficient to make an exact computation, the facts that 48 percent of covered government workers earned less than or equal to $6.15 per hour prior to the scheduled minimum wage increase suggests that at least half of covered government employees will be affected by the time that the adjustment schedule reaches $7.25 per hour. Based on the 2006 wage survey, 1,293 covered government employees who previously earned no more than $5.25 per how will be entitled to hourly increases of $2.00 or more. Assuming 2,000 hours of work per year for full-time workers, these increases imply at least $5.2 million per year in increased wage costs for ASG. Wage increases attributed to government employees earning between $5.25 and $7.25 per hour before the first wage increase could result in an additional $2 million or more in annual wage costs when the full increase schedule takes effect. These increases may force ASG to make difficult choices between reducing government payrolls, reducing available hours of paid work, raising taxes or cutting non-wage expenditures. [Footnotes omitted.]

As quoted above, the Department's projection of $7.2 million cost hike covers a 9-year period. A separate economic analysis conducted for the Government of American Samoa indicates that the cost may be greater and occur sooner. According to this analysis, the 2007 mandated minimum wage increase raised operational costs for 18 surveyed industrial sectors in American Samoa by $4.5 million. Subsequent increases will raise costs by $5.4 million in 2008, $6.0 million in 2009, $6.7 million in 2010, $7.2 million in 2011, $7.9 million in 2012, $8.0 million in 2013, $7.8 million in 2014, and $1.95 million in 2015. The cumulative increase in operational costs for these 18 sectors will be $55.6 million over 9 years. The higher operational costs lead to lower tax revenue for the territorial government annually.

Furthermore, the Department of Labor's report noted that as the minimum wage in the territory increases, the fish canneries will transfer production to lower-wage

foreign facilities. The outsourcing and resulting loss of the canning operations will reduce territorial government revenues by $10.4 million.

As described in my testimony, the Government of American Samoa has tried to apprise Congress of the consequences of mandating increases in territorial miniimum wage rates without regard to actual economic conditions. The Government of American Samoa has also made countless recruitment efforts to attract new business operations to the territory, for example in fiber-optic cable communication, call center, marine laboratory, and tourist facilities. Such diversification would make the territory less dependent on the canning industry. Such business investments would also create the economic growth needed to sustain higher wages and a higher standard of living. But at every turn, peremptory federal policy changes—in trade, in taxes, in minimum wage—created roadblocks to investments. The transformation of the territory's subsistence economy requires supportive and consistent policy. Federal policy towards the territory's economic development has been inconsistent and often neglectful.

RESPONSES OF NIKOLAO I. PULA TO QUESTIONS FROM SENATOR BINGAMAN

Question 1. I understand that the "lack of timely data" cited as a constraint by the Labor Department may be a part of a larger problem of reduced data collection in the territories. Would you please briefly describe the overall situation on data collection in the territories, how that's affecting your ability to develop policy in the territories, and what steps are being taken to deal with the problem?

Answer. The territories of American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam and the U.S. Virgin Islands (USVI) are included in the Bureau of the Census' decennial census, and its economic census (every five years), and the USDA's agriculture census (every five years, which concerns itself with agricultural activity and land use).

The territories are not included in any of the major surveys the various Federal agencies conduct between the decennial censuses to collect current information on population and demographic changes, the labor market and income.

American Samoa, the CNMI, Guam and the USVI are not included in the Current Population Survey (CPS) or the Current Employment Statistics (CES) program establishment survey. The CPS is conducted by the Bureau of the Census for the Department of Labor's (IDOL) Bureau of Labor Statistics (BLS). The CPS collects data monthly on population, demographic characteristics and income through a sample survey across the nation, that is, the 50 states and the District of Columbia. The CES program's monthly payroll survey is conducted by the BLS in cooperation with State Workforce Agencies. The data collected include employment, unemployment, hours and earnings estimates based on payroll records of business establishments. At present, American Samoa and CNM1 are not included in either the CPS or CES survey because both jurisdictions lacked address systems for collecting random samples.

In the case of the household survey, American Samoa and the CNMI do not have household address files, which are a prerequisite for the data collection. Mail is not delivered to these island residences as is the case in the 50 United States. This is one of the primary barriers that the Census Bureau cited in 2005 for not expanding the American Community Survey to these territories. That said, the Census Bureau has advised that it will establish address lists for the two territories in the 2010 census. This should help to overcome at least some of these barriers after 2010.

With respect to the monthly establishment survey, while Puerto Rico and the U.S. Virgin Islands are included because they have unemployment insurance programs that collect the records used as the CES sample frame, American Samoa and the CNMI are not included because they do not yet have U.S.-style unemployment insurance programs. As a result, there is no current information on the labor markets in American Samoa and the CNMI, except for the data the decennial census collects.

Another valuable source of data on population, demographic profiles and income for the 50 states, the District of Columbia, and Puerto Rico is the Bureau of the Census's American Community Survey (ACS) which collects and reports data annually. ACS collects essentially the same data that are collected on the decennial census's long form, i.e. detailed profiles of individuals and households and their income and housing characteristics. ACS publishes its data annually based on a sample survey, but does not include the four United States territories with which the Office of Insular Affairs (OIA) works. The same technical barriers cited above in connection with the Current Population Survey have also presented an impediment to implementation of the ACS in these territories. This exclusion means there are

no current data on the population, demographic characteristics, income, housing characteristics and other factors of the territories between the decennial censuses.

These technical barriers have not allowed for the development of household and establishment surveys following current standards and established methodology of the BLS or the Census Bureau. As mentioned above, we are hopeful that the establishment of an address system by the Bureau of the Census will help overcome some of these barriers beginning in 2010. However, fully addressing such barriers is further complicated by the lack of statistical or field data collection infrastructure or presence of U.S. statistical agencies in American Samoa or CNMI and the substantial costs and technological challenges of establishing such an infrastructure.

A critical source of information on the economy is the total value of the nation's output measured by the gross domestic product (GDP) data which the Department of Commerce's Bureau of Economic Analysis (BEA) produces for the 50 states, the District of Columbia and the nation as a whole. Again, American Samoa, the CNMI, Guam and the USVI are not included. This exclusion means no one in the territories really knows the total value of output (GDP) and how it changes over time. By contrast, there are no countries adjacent to any of the U.S. territories, regardless of the level of their economic advancement, that do not generate their own GDP data.

Since the territories, particularly American Samoa and the CNMI, which are the subject of your inquiry, are not included in any of the major surveys the various Federal agencies conduct regularly between the decennial censuses, OIA has provided technical assistance grants to the territories and reimbursable agreements with the Bureau of the Census to fill some of the information gaps. However, OIA's small technical assistance budget program is intended to serve a wide range of needs in the territories. At best, OIA can fill only some of the most significant data gaps.

Question 2. Joint Questions for DOL and Interior (please develop a joint reply): The DOL report on the impact of increased minimum wages in American Samoa and the Commonwealth of the Northern Mariana Islands states that the analysis was "constrained by . . . the lack of timely labor market data." Which periodically conducted surveys of the Bureau of Labor Statistics and the Bureau of the Census, if conducted in the territories, would provide the data needed to make reasonable determinations regarding the territorial economies, including sustainable minimum wage/employment levels?

What would be the cost of these surveys in the four territories (USVI, Samoa, Guam and the CNMI?

What do you estimate additional data collections and analysis costs would be if the law were changed to require a wage impact study for Samoa and the Marianas every two years, and assuming the data from the surveys listed in your answer to questions "a" were available?

Answer. The joint answer you requested has been provided by the Department of Labor.

Question 3. Governor Tulafono has pointed out that the ability to pay higher wages depends on economic development, but there is little growth in Samoa because of the loss of the territorial tax credit investment incentives. He has asked the Committee to support the territorial economic activity tax credit proposed by Congressman Faleomavaega, H. R. 1916. What steps is the Administration taking to address the underlying need for investment incentives to replace those that have been repealed or eroded, and do you believe H.R. 1916 is an approach Congress should consider? If not, what alternatives do you recommend?

Answer. Despite many challenges, American Samoa and the other territories still have competitive advantages in certain areas. The OIA has devoted significant effort to finding interested companies and facilitating interaction between those companies and the territories' relevant private sector and government representatives. We have conducted extensive research through our Island Fellows Program, in which M.B.A. students from prestigious institutions such as Wharton, Harvard, Kellogg, Columbia, Georgetown, George Washington, and the University of Hawaii have identified industries and companies that fit well with the unique needs and competitive advantages of the territories. The Secretaries of the Interior have hosted four Conferences on Business Opportunities in the Islands (in Washington, D.C., Los Angeles, Honolulu and Guam) at which interested companies have met with potential local business partners and government officials from American Samoa and the other territories. We have also organized Business Opportunities Missions, including one to American Samoa in May 2006. Persons responsible for financing of fiber optic cable to American Samoa were introduced to the territory through the business mission. Additionally, the OIA is establishing an internet site that will facilitate communication between outside investors and businesses in American Samoa and the other territories.

The most important result of our program, however, is the realization by territorial leaders that there is no alternative to this type of effort to strengthen the private sector, and that they need to be leading it themselves.

The Department of the Interior is interested in promoting, employment in American Samoa, and has previously supported efforts to promote private sector development in the territories. H.R. 1916 would expand and further extend the American Samoa economic development credit for 10 years. The Administration has not taken a position on H.R. 1916. However, the Administration is aware of the long history of the tuna canneries, which have been beneficiaries of previous tax credits, and the vital role the canneries play in American Samoa's economic life, and looks forward to working with the Committee on this issue in the future.

APPENDIX II

Additional Material Submitted for the Record

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC, March 14, 2008.

Hon. ROBERT C. BYRD,
Chairman, Committee on Appropriations, Room 5-131 Capitol, Washington, DC.

Hon. THAD COCHRAN,
Ranking Member, Committee on Appropriations, Room S-146A Capitol.

DEAR CHAIRMAN AND RANKING MEMBER: We are writing to follow up on our December 13, 2007, letter to you expressing our continuing concern regarding the impact of the minimum wage increases mandated by Section 8103 of the 2007 Emergency Supplemental (P.L. 110-28) on American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI), and to request your support for the attached amendment to the 2008 Supplemental Appropriations Act.

In our December letter, we detailed our concern that the policy of automatic annual increases in the minimum wage as mandated by P.L. 110-28 would not be flexible enough to account for the risks that such increases pose to the economies of small, remote island communities. We support increases in the minimum wage, but believe that in these cases they must not be implemented on a fixed schedule, but on a flexible schedule that is tied to expert analysis.

On February 28, 2008, the Committee on Energy and Natural Resources held an oversight hearing on the impact of the new law which confirmed that our concerns are well-founded. Testimony by the witness from the U.S. Department of Labor, based on its January 2008 study: "Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands," concluded, "there appears to he a genuine cause for concern that, at some point before the escalation to $7.25 per hour in 2014, production (of the tuna canneries) will be shifted to facilities outside U.S. jurisdiction." Because these canneries account for over 27 percent of all employment in the territory, the existing policy poses a great risk to the community. The report further noted that the new full minimum wage level of $7.25 would cover nearly 80 percent of all workers and stated, "By comparison, if the U.S. minimum wage were increased to the level of the 75th percentile of hourly-paid U.S. workers, that the adjusted wage rate would be $16.50 per hour." Clearly, such automatic minimum wage increases within this short period of time are not economically sustainable.

All of the other witnesses at the hearing voiced their concern with the existing policy and urged consideration of amending the law. In particular, the U.S. Department of the Interior witness concluded, "In light of the risks to the American Samoa and CNMI economies that are identified in this statement and in the DOL report, the Administration suggests that congress give strong consideration to amending P.L. 110-28...."

Because the next automatic increase is scheduled to occur on May 25, 2008, time is of the essence and we ask that you include the attached amendment in the 2008 Supplemental Appropriations Act. This amendment to P.L. 110-28 would delay the minimum wage increases from every year to every two years, and would make the increases contingent on a determination by the Secretary of Labor that the increase will not substantially curtail employment in, and the gross domestic product of, American Samoa and the CNMI. The amendment further provides that the Secretary will have the labor, economic, and population data needed to make these determinations.

We hope that you share our concern regarding the impact of this law, and recognize the need to act as swi ftly as possible to protect American Samoa and the

CNMI from a policy that is likely to cause serious harm to these small, remote island communities.

Thank you in advance for your consideration. If you have any questions regarding this request, please contact Allen Stayman at 4-7865, or Marie Blanco at 4-3934.

Sincerely,

DANIEL K. INOUYE,
United States Senator,

DANIEL AKAKA,
United States Senator,

JEFF BINGAMAN,
United States Senator,

ENI F.H. FALEOMAVAEGA,
Member of Congress.

SECTION__. TRANSITION TO MINIMUM WAGE IN AMERICAN SAMOA AND THE NORTHERN MARIANA ISLANDS.

Title VIII of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (P.L. 110-28) is amended—

(1) in section 8103(b)—

(A) in paragraph (1)(B), by—

(i) striking the words 'each year' and inserting the words 'every two years", and

(ii) inserting before the semicolon the following: ', if the Secretary of Labor determines that the increase will not substantially curtail employment in, and the gross domestic product of, the Commonwealth of the Northern Mariana Islands.';

(B) in paragraph (2)(C), by—

(i) striking the words '1 year' and inserting the words 'two years',

(ii) striking the words 'each year' and inserting the words 'every two years", and

(iii) inserting before the period the following: ', if the Secretary of Labor determines that the increase will not substantially curtail employment in, and the gross domestic product of, American Samoa'; and

(2) by inserting at the end of section 8104 the following new subsection:

'(c) For each biennial raise in the minimum wage after fiscal year 2007, the Secretary of Labor shall base the determinations referred to in paragraphs (1)(B) and (2)(C) on—

(i) the following information:

(A) Quarterly labor market data based on household surveys, and establishment surveys by the Department of Labor,

(B) Gross domestic product data collected by the Bureau of Economic Analysis, Department of Commerce, and

(C) Population estimates and demographic profiles from the American Community Survey by the Bureau of Census, Department of Commerce,

—such information shall be collected by these respective agencies in American Samoa and the Northern Mariana Islands with the same frequency as in the fifty States and the District of Columbia; and

(ii) written comments of the Governor, the Delegate, employers, employees, and other interested parties of the respective territory.

STATEMENT OF WENDY L. DOROMAL, HUMAN RIGHTS ADVOCATE

Thank you for the opportunity to submit written testimony concerning the impact of increasing the minimum wage in the U.S. Commonwealth of the Northern Mariana Islands (CNMI). I cannot speak to the impact of the minimum wage increase in American Samoa; however, I recommend that the two insular areas be studied separately, as each has unique economies, populations, and employment situations. I urge that there be no changes made to delay any of the minimum wage increases for the CNMI that were set by the legislation signed into law by President Bush on May 25, 2007. The low minimum wage has perpetuated poverty, and the two-tiered society in the CNMI.

I am writing on behalf of those who make up the majority of the workers in the CNMI, the foreign contract workers. I have been an advocate for the CNMI guest workers for 18 years. I visited the CNMI in July 2007 and again in December 2007, and I interviewed hundreds of guest workers. In the short span of five months, I witnessed a noticeable deterioration in the quality of life of these minimum wage earners. Prices of commodities and utilities have risen rapidly in the CNMI[1], but salaries are not even remotely keeping up with the increases. A typical CNMI minimum wage worker, who earned $2.15 an hour in the 1980's, makes only $3.55 today. That is a yearly increase of 7 cents per hour after 20 years of dedicated work.

The 2000 census revealed that the CNMI has a 46% poverty rate. It is most likely much higher than that today. Furthermore, according to statistics and recent news articles, of the 8,373 households in the CNMI, 2,735 or 32.66% are on food stamps, with two-thirds of the islands' children receiving federal assistance. Millions of dollars are poured into the CNMI each year to support such poverty-related programs. U.S. citizens make up 80% of the public sector workforce with the higher paying salaries, while non-resident workers make up 80% or more of the private sector workforce where the salaries are much lower starting at the minimum wage of $3.55 an hour. In fact, the minimum wage of $3.55 is not a living wage for the residents or the nonresident workers. The poverty in the CNMI is to some extent government-imposed, and can be reversed by taking appropriate actions such as the honoring the law that was passed to incrementally raise the minimum wage in the CNMI.

The impact of the financial struggle on the guest workers and the minimum wage earners should not be minimized. Some guest workers have told me that they can no longer afford to drive. Gasoline now costs over $4.00 a gallon on Saipan, and even more on Rota and Tinian.[2] One would have to work more than an hour to be able to pay for a gallon of gasoline. Guest workers have told me that they can no longer afford to eat three meals a day; some cannot afford to eat more than one. One woman wrote to tell me that guest workers with no money were going door-to-door trying to sell what few possessions they had left in order to buy food. A basic need, such as potable drinking water that is generally free in the U.S. mainland, is another necessary expense in Saipan where all drinking water must be purchased. One 9-ounce bottle of water costs $1.00.

Many workers are sharing housing, and crowding into small rooms to try to make ends meet. They cannot afford to rent a room, apartment, or house by themselves. The price of electricity is 25.3 cents per kWh[3], causing many guest workers to ration electricity or to forgo it completely. Others have had their power cut because they could not afford to pay the high bills. The average cost of electricity in the 50 United States is 8.90 cents per kilowatt-hour.[4] Clearly, the vast majority of the population in the CNMI is suffering from circumstances related to absurdly low wages.

The poverty and inability to pay for basic needs has led to tragic consequences. In January 2008, a family was left homeless by a house fire. The fire was triggered by a candle that was used for light since the electricity had been cut. A November 2007 fire also caused by a candle burned another house to the ground.[5] More recently a Filipino man drowned in rough surf while fishing. According to friends, he was fishing to provide food for his family.[6]

When the minimum wage went into effect in July 2007, many guest workers' employers amended their labor contracts to have employees' hours cut from 40 to 32 hours per week. Guest workers also reported that their housing allowances and other benefits were taken away. As a result, many workers are actually making less today than they were before the minimum wage increase went into effect. This makes the continuation of the incremental increases more crucial. The raise is necessary for the workers to be able to get their financial standing back to where it was before the first wage increase was taken from them by employers who cut their hours and benefits.

The greed of many employers is also evidenced in the fact that over $6.1 million in unpaid labor judgments and monetary damages issued by the CNMI Department of Labor to the guest workers has been collected, documented, and turned over to

---

[1] Saipan Tribune, February 15, 2008, Prices of commodities continue rise, by Mark Rabago.

[2] Saipan Tribune, February 26, 2008, Shell hikes gasoline prices again, by Ferdie de la Torre; Marianas Variety, February 25, 2008, Saipan gas prices now $4.04, by Gemma Q. Casas.

[3] Saipan Tribune, February 4, 2008, Lawmakers torn between helping CUC and easing public's burden, by Agnes E. Donato.

[4] Department of Energy, Energy Information Administration, Official Energy Statistics from the US government, http://www.eia.doe.gov/fuelelectric.html.

[5] Saipan Tribune, January 26, 2008, Candle triggers fire in CK, by Agnes E. Donato.

[6] Saipan Tribune, February 15, 2008, Fisherman drowns near COP cliff line, by Agnes E. Donato.

the Federal Ombudsman's Office.[7] In addition to not having enough money because the minimum wage is too low, hundreds of guest workers are still waiting for back wages and other monetary damages that range from $50.00 to over $48,0000.00.

Many nonresident workers are parents of U.S. citizen children. On their meager salaries these parents cannot afford to purchase enough food, pay for medical care, buy clothes, or purchase school supplies for these children. The health and well being of these children is at risk. Guest workers report that they are using herbal or folk remedies to treat themselves and their children because they cannot afford to pay for a medical exam or for prescription medicines. Two guest workers with diabetes told me they could not afford to purchase the medication to control the disease. Clearly, the high incidence of poverty in the CNMI poses a health risk to the lowest income earners, their children, and to the general public.

The low minimum wage has contributed to the collapsed economy in the CNMI. When the vast majority of a population lives below the poverty level, they cannot afford to stimulate the economy with any purchases other than essential purchases made in order to survive. Additionally, as long as the minimum wage is four times less than a living wage, there will continue to be an exodus of people from the islands, and the economy will not improve. There is no incentive for a CNMI resident to remain in the CNMI to earn $3.55 an hour when in the mainland an accountant could earn $20.00 or more an hour, a construction worker could earn $15.00 an hour, and a front desk clerk could make $14.00 an hour. Even the lowest minimum wage paid in any state in the mainland is still higher than what a private sector worker would typically earn in the CNMI.

It is not just the commonwealth's indigenous residents who have left or are that are planning to leave the CNMI to find jobs elsewhere. A recent February 28, 2008, letter to the editor[8] discusses the fact that Commonwealth Health Care nurses are applying for employment in Australia where the wages and benefits are better, and there is a pathway to citizenship. An economy built on the backs of indentured servants and low-income earners, intended to be profitable for select business owners to the detriment of the majority of the population, will not grow.

Last week a study of the commonwealth's financial performance and health was released. The study funded by the Department of Interior showed that on a scale of 1 to 10, the CNMI earned a low 2.44 on financial performance. The analysis conducted by Crawford and Associates, CPA attributed the low marks to "a decrease in net assets, the deficit in unrestricted net assets, the central government's fund balance deficit, pension plan funding woes, and cash flow problems."

The report stated, "The CNMI had been relying more and more heavily on revenue it does not control, such as federal grants. In FY2006, the CNMI had direct control over 68.4 percent of its revenues, down from 77.5 percent and 76.7 in 2004 and 2005. "For FY2006, local taxpayers, including foreign workers, paid $153.6 million or $2,219 per capita. Crawford said this indicates a relatively moderate tax burden, compared with other U.S. insular areas. The financial ratio of taxes per capita is about $7,500 in the U.S. Virgin Islands and about $300 in the Marshall Islands."[9] If the CNMI government expects to raise the financial ratio of taxes per capita, the minimum wage cannot remain stagnant.

Many of the CNMI fiscal and economic problems can be attributed to waste, corruption, and reliance on industries like the garment industry that exit when opportunities for exploitation and even cheaper foreign labor become available in other countries. This government that is in a dire financial situation, has spent $15,000 a month to pay for lobbyists. Recent letters to the editor by businessman, Anthony Pelligrino, also highlight government financial waste and corruption totaling over $6,400,000.00.[10]

In January 2008, a U.S. Department of Labor report entitled, The Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Marianas Islands, was released. Governor Fitial, and some business owners who support suspending the minimum wage increases, praised the report. They are using it to boost their claims that an increase in the minimum wage would harm the CNMI. However, many credible people are challenging the va-

---

[7] Marianas Variety, February 07, 2008, $6.1M owed to guest workers, by Emmanuel T. Erediano.

[8] Saipan Tribune, February 28, 2008, Exodus of nurses, by Canary Miquel.

[9] Saipan Tribune, February 27, 2008, NMI scores a low 2.44 in Performeter report: Analysis shows declining status of CNMI govt, by Agnes E. Donato.

[10] Saipan Tribune, February 18, 2008, Robbed by our fellow citizens Part I, by Anthony Pellegrino; Saipan Tribune, February 25, 2008, Robbed by our Fellow citizens part II, by Anthony Pellegrino.

lidity of the report, including CNMI Representative Tina Sablan[11] and Senator Maria T. Pangelinan.[12]

The report states that no statistics were collected monthly in the CNMI (or in American Samoa), as is the practice in the states and other territories. The report also stated that it was not feasible to conduct field investigations in connection with the study. It reads:

> The specified delivery date for the report was January 25, 2008. The period following the initial increase was too short for significant observable effects to materialize. Adjustments of employment arrangements and of patterns of living standards typically do not occur instantaneously following a change in economic parameter. Immediate changes may be too small in scale to observe. In particular, a lack of significant observed adverse employment effects in the months since the initial increase is not indicative that such effects will not emerge in the future—especially as subsequent increases are implemented over time.

The report, by its own admission, should not be used as a valid study to determine the effects of a minimum wage increase in the CNMI.

Those who support maintaining the current meager minimum wage are government officials and business owners. Many want to continue to line their pockets at the expense of the disenfranchised indentured servants of the CNMI, the foreign contract workers. I am including e-mail comments concerning the minimum wage made by several guest workers concerning the minimum wage. I am also attaching several letters to the editor that speak in favor of a minimum wage increase.

The current base salary of a U.S. Senator is $169,300 per year with annual cost of living adjustments (COLA). The current minimum wage earner in the CNMI makes between $5,907.20 working 32 hours weekly and 7,384.00 a year working 40 hours weekly. This is before federal taxes are deducted. All of the members of this committee, who will ultimately decide the quality of living for the poor and impoverished minimum wage earners in the CNMI, earn more in two weeks than the foreign contract workers earn in one year. In fact, every foreign contract worker works many more days a year than any U.S. Senator. Please consider if you and your families could possibly live on this salary when you decide the fate of these poorly paid, desperate workers.

Raising the minimum wage is not just an economic issue; it is a moral issue, and an issue of conscience. If we lived in a truly moral and just world, governments would not have to legislate minimum wage, employers would pay a fair living wage. We don't live in that world, so it is your responsibility to make decisions that will be in the best interest of all people who live and work on U.S. soil. I urge you to adhere to the law that was passed last year, and follow the incremental increases of the minimum wage as stated in that law.

COMMENTS FROM THE MINIMUM WAGE EARNERS

> On my opinion on how to help economy and business grow, they should first increase salary of the people so that we can have money to buy goods and so that small business can sell more goods if people have enough money-the law of supply and demand, how can business owners survive if there is no customer buying goods . . .
>
> Last week Fitial said he will testify on the delaying of the wage increase, he said business will not able to survive, those business he protect, but how about the people in this island, will they survive this crisis?
>
> I hope that someday he and his groups will wake-up and open their hearts; maybe he does not know how hard it is to live and feed your family with $3.55/hour, wherein gas is $3.94/gal. I believe that even the locals will cry on this matter, with lesser hour of work, they too may not able to survive, they were just lucky most of them don't pay their house and thanks to Federal food stamp support, for which a lot of my friends have been blessed.
>
> Fitial consult business but did he able to ask himself to consult ordinary worker, local or not? You will always hear him say business will die, not

[11] Saipan Tribune, February 5, 2008, Sablan skeptical of Labor wage hike impact report, by Agnes E. Donato.

[12] Marianas Variety, February 28, 2008, Pangelinan asks US Congress not to suspend NMI minimum wage hike, by Gemma Q. Casa.

a single time did he ever mention that people could die...I feel sad for these people.

GOD does watch everything. I believe that one day God will give justice to everybody. I hope it's no late for these people change a heart.

The incoming wage increase that Fitial's group are complaining, but when the first batch of increase was done on July 2007, a lot of people where never happy because most of the employers lay-off some of their co-workers and deduct number of hours of work just to off-set the increase that will be given to employees, and that includes my employer. I never stop praying that God will eventually heal and touched those hearts that will make a way to ease all our pains. Sometimes I see myself crying in the middle of the night thinking how some other people live on this very hard times wherein gas, utilities and commodities went up by 20-30%. We were blessed and fortunate to have a job even though salary have been cut. Survival, that would be a perfect term on this crisis, but I really felt bad for those family with kids. When we had our company meeting the other day, I asked my Employer to go out and make a stand for all of us, but to no avail, he did not made any reply, though they were so confused if federal take-over, will make it harder for them to hire contract workers as he was comparing to Guam. Who else would stand for all these people that like these employers like mine are not absolutely aware of what will happen to us after so many years of loyal and best service we made to make them rich. Now I have fears. Disposables that would be a comparable term for us, after we were used in full...May The Lord Jesus and His LOVE pours upon these people, who never know the meaning of being a contract worker and I pray that GOD give justice to everybody.

It is also VERY TRUE that some, both locals & guest workers are living without electricity. This is merely due, to the fact, that the rate of power now is too high—no job, low minimum wage. How can these people afford this necessity? Here in CNMI, using electricity is almost like a luxury already. And now that the next wage increase is scheduled on May 2008, the Fitial administration is trying to block its implementation! Trying to protect his friends investors, without care for all the rest of the people, whether local or not!

STATEMENT OF TINA SABLAN, REPRESENTATIVE, 16TH COMMONWEALTH LEGISLATURE

Thank you for the opportunity to submit this testimony on the impact of federally-mandated minimum wage increases on the Commonwealth of the Northern Mariana Islands.

I am a member of the House of Representatives in the 16th Commonwealth Legislature. I offer this testimony not only as an elected representative, but also as a member of the generation that was born in the Commonwealth in the 1980s and came of age in the 1990s. We have watched the steady dwindling of economic opportunities in our islands over the years with growing dismay. My generation yearns for change, and one fundamental and critically needed change is a raise in the minimum wage.

For years many of the Commonwealth's government and business leaders have argued against wage hikes in the private sector, which they have claimed would disastrously impact the local economy. But few have acknowledged the disastrous impacts of keeping the minimum wage at $3.05 for over a decade while the costs of fuel, utilities, and groceries have soared; of deliberately and artificially depressing wages in the private sector while government employment expanded and government salaries rose; of relying excessively on labor-intensive industries and low-wage foreign labor; of investing millions in the education of my generation, without also seeking to create opportunities for us to apply our skills and make a decent living in the islands; and of losing hundreds, perhaps thousands, of young, well-educated, middle-class professionals and their families as they pursue and acquire professional fulfillment and financial self-sufficiency in the mainland United States, Hawaii, and Guam.

I respectfully submit that all of these factors have impacted the economic prospects of present and future generations of the Commonwealth far more seriously than annual minimum wage increases of 50 cents for the next seven years ever could. I also believe that any delay of minimum wage increases will ultimately mean a delay in long-term economic recovery. I therefore support the minimum wage increases mandated under Public Law 110-28, and believe they should continue as

scheduled until the Commonwealth reaches parity with the rest of the United States.

Years of depressed wages have contributed directly to the economic difficulties facing the Commonwealth today. Minimum wage increases would help us begin to address those difficulties. Wage increases would help low-wage workers keep pace with the rising cost of living, meet basic needs without having to seek welfare assistance, and pump money back into the local economy. Wage increases would also help correct the glaring disparities between public and private sector wages, and attract more citizens from the oversized public sector to the private sector. The transition of citizens out of the local government and into the private sector will be especially important in light of the layoffs that the government is undertaking due to the current fiscal crisis.

Furthermore, wage increases would push the Commonwealth to wean itself from its over-dependence on low-wage foreign labor and finally invest more seriously in the development and well-being of its most valuable resource: its people. More citizens seeking work in the private sector would mean a larger and more stable labor pool for businesses. Higher wages overall would mean that more middle-class families and young, educated professionals and entrepreneurs might be able to return to the islands and help diversify and strengthen the Commonwealth's economy. Future investors would be attracted to the Commonwealth, not for its low wages and access to inexpensive foreign labor, but for its skilled and educated workforce, among other positive attributes. Meanwhile, existing businesses would realize a more productive workforce that has greater disposable income, and those businesses that have relied on low wages no matter what jobs they offered would lose their competitive advantage over businesses that have opted to pay their employees livable wages.

It should be noted that the economic reform that would be spurred by federally-mandated minimum wage increases would be incomplete without also ensuring the well-being of both citizen and foreign workers during the transition. Citizens moving out of the public sector would benefit tremendously from unemployment and retraining assistance, for example, as well as small business development aid. The long-term foreign workers who have contributed to the local economy for years would benefit from improved immigration status that would ease restrictions on their ability to live and work in the Commonwealth. I ask that the Committee consider providing the appropriate funding and technical expertise to help facilitate the Commonwealth's transition to a new economy that is free from the old dependence on low-wage labor.

Much has been said about the U.S. Department of Labor's January 2008 study on the impact of increased minimum wages on American Samoa and the Commonwealth of the Northern Marianas. The study, by the Department's own admission, was significantly hampered by time constraints, an inability to conduct field investigations, and a paucity of historical and contemporary labor market data. The Department notes, for example, that the Bureau of Labor Statistics does not collect any data describing labor market conditions in the Commonwealth, and that the Commonwealth is not included in the U.S. Census Bureau's American Community Survey, or in surveys that generate data on industries, production, and household income and expenditures. Moreover, the Commonwealth lacks macroeconomic data collection and accounting systems technology that would be critical for the formulation of any objective economic assessment, including assessments of the impacts of wage increases in the Commonwealth.

The study was therefore inconclusive at best, yet it has unfortunately been used as ammunition to oppose future wage hikes in the Commonwealth. In particular, some have interpreted the study's observation that "the scheduled increase in the minimum wage to $7.25 (by 2015) will likely affect at least 75% of wage and salary workers in the CNMI," and the comparison to the U.S. 75th percentile mark of $16.50 for wage and salary workers, to mean that the mandated wage increases for the Commonwealth would be extremely untenable for the local economy. I respectfully submit that these figures simply underscore the fact that the Commonwealth's workers are disproportionately low-wage earners who would stand to benefit from increased wages, and that the Commonwealth's economy is and has been excessively dependent on low-wage labor.

I further disagree with two assertions made in the Department of Labor study. The first is that the recent and scheduled minimum wage increases are likely to worsen the Commonwealth's economic decline. According to the study, "the lack of significant observed adverse employment effects in the months since the initial increase is not indicative that such effects will not emerge in the future." Given the limitations of the study and the lack of data, there is no way to objectively arrive at these conclusions. Indeed, it could also be argued that the lack of significant ob-

served positive employment and other economic effects does not mean that such effects will not emerge in the future with continued wage increases.

The second assertion with which I disagree is that minimum wage increases could lead to more citizens leaving the Commonwealth for U.S. labor markets. Citizens are leaving now, and have been leaving for years because of depressed wages, the rising cost of living, limited opportunities in the private sector, and diminishing options in the public sector. It does not follow that they would leave in even greater numbers if wages are raised over the years. On the contrary, citizens are likelier to stay and work in the Commonwealth if their wages keep pace with the cost of living, and if they can realize meaningful quality of life improvements associated with wage increases and other economic reforms.

I respectfully submit that perhaps the most significant conclusion drawn from the Department of Labor's study is that there is no conclusion, and that no conclusion could be drawn because of the lack of historical and current labor market data. I ask that the Committee assist the Commonwealth in ensuring that we are included in federal labor market surveys, and help us develop the tools and expertise necessary to generate and analyze the data that would be necessary for future economic studies. I further ask that any future studies of the impacts of recent and future wage increases also consider the impacts of not raising wages in the Commonwealth. And finally, rather than postpone future wage increases in the Commonwealth for lack of data about adverse effects, I request that we continue with the wage increases as scheduled for lack of the same data.

Raising the minimum wage in the Commonwealth will obviously not solve all the problems facing our people today, but it is a crucial step in the right direction. The federally-mandated wage increases may entail some adjustments at first, but these are adjustments that can be made with enough resourcefulness, foresight, and resolve within our own community, and certainly with some federal assistance, if granted. In the long run, if raising the minimum wage can help bring about improved wages for all, better working conditions, a more robust and diversified private sector, expanded opportunities for citizens to live and work in the Commonwealth, a reduced reliance on labor-intensive industries and low-wage foreign labor, and parity between the public and private sectors, then the initial adjustment period will be well worth it, and future generations will realize a quality of life that is better than what we have today.

Public Law 110-28 presents an opportunity for the Commonwealth to begin to reinvent itself. I appeal to the members of the Committee to support the continuation of the minimum wage increases as scheduled.

Thank you very much.

STATEMENT OF HON. MARIA FRICA T. PANGELINAN, CHAIRWOMAN, SENATE COMMITTEE ON FISCAL AFFAIRS, 16TH NORTHERN MARIANAS LEGISLATURE, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

I appreciate the opportunity to submit this written testimony to your Committee. I am the Chairwoman of the Senate Committee on Fiscal Affairs.

This testimony is offered as a voice for those who have not been heard, those who are earning the minimum wage and cannot be present.

I support the current law as enacted, mandating incremental increases in the minimum wage of the CNMI. I oppose any delay.

THE COMMONWEALTH HAS A TWO TIERED ECONOMY

The public sector is the largest employer, pays the highest wages in the Commonwealth, and the vast majority of its employees are citizens and permanent residents.

The private sector employs predominantly foreign guest workers in non-managerial positions, and relies heavily on the minimum wage to set pay scales. In fact, when benefits are factored in, the differences between similar positions in the public and private sectors are often extreme. This imbalance is one of the Commonwealth's most significant barriers to a sound economy.

Because of the disparity between private and public sector wage scales, there is little incentive for a citizen to seek employment in the private sector.

Additionally, because private sector employers find it more economical to hire a foreign guest worker, they have little incentive to recruit from the available labor pool of local citizens and permanent residents.

This has only served to perpetuate the Commonwealth's over-utilitized reliance on inexpensive foreign labor.

As part of this testimony, I submit a study, completed May 30, 2007 by the Office of the Public Auditor of the Commonwealth of the Northern Mariana Islands. This

contains hard data about private sector jobs and wages. Its findings have a bearing on the issue before you. Many of the questions raised but not answered by the January 2008 report from the U.S. Department of Labor, are illuminated here.

THE JANUARY 2008 REPORT FROM THE US DEPARTMENT OF LABOR DISCLAIMS ANY CONCLUSIONS THAT MAY BE DRAWN FROM IT

I respectfully draw this Committee's attention to page 36: "The information vacuum continues to be an obstacle to an objective and comprehensive assessment of the economy and its productive capacity. The lack of such data are especially a barrier to assessing the current and fixture impact of the recent and scheduled increases in the minimum wage."

This statement, among others of similar content present in the report, bring into question the value of delaying the scheduled minimum wage increases while waiting for a new study. In fact, as stated in the report, by not delaying the increase, an incentive is created for the Commonwealth government to put "in place macroeconomic data collection and accounting systems technology capable of generating information on total output and its components on a monthly or quarterly basis." This would provide the data that would lend credibility to any new study, as borne out by the report's next sentence: "As a result, there is not a way to provide objective measures of productive capacity, capacity utilization, employment, wages or unemployment rates."

While I respect and appreciate the caliber of those interviewed and those compiling the US Department of Labor's report, it is also reasonable to point out that there is no interview of a person from the Commonwealth who earns the current minimum wage of $3.55 per hour.

MINIMUM WAGE LEVELS IN THE COMMONWEALTH MUST INCREASE IN ORDER FOR OUR CITIZENS TO BE ABLE TO REMAIN IN THE COMMONWEALTH

Historically and now even more, due to the loss of garment industry revenues, our public sector employment is excessive and job opportunities are shrinking. Citizens and permanent residents who are losing their employment in the public sector must either find employment in the private sector, or leve the Commonwealth for Guam or the 50 states.

It is true that job opportunities in the Commonwealth's private sector are dwindling as well. However, the majority of the jobs being lost are in the garment industry. The majority of garment industry employees are guest workers paid at the minimum wage. The unique nature of employment in the garment industry will distort any statistical data viewed from a Commonwealth-wide perspective.

Given that the garment industry will likely not exist in the Commonwealth by the end of 2008, the balance of private sector jobs will be in retail, tourism, and services. The employment opportunities that remain in the private sector are needed for citizens and permanent residents who are reaching adulthood, or leaving public sector employment.

Recently the Commonwealth Legislature has addressed the need to eliminate this extreme disparity between public and private sector employment opportunities. They enacted a sweeping reform of the labor laws, including provisions that have;

- Greatly expanded services to citizens and permanent residents seeking private sector employment.
- Increased incentives for private sector employers to recruit citizens and permanent residents.
- Strengthened enforcement of the citizen preference clauses of the labor law.

The issues of an excessively low minimum wage, over-employment in the public sector, high local unemployment, and the foreign guest worker program are all interrelated.

INCREMENTAL INCREASES IN THE MINIMUM WAGE IS ANOTHER CRITICAL FACTOR IN NORMALIZING THE LABOR MARKET IN THE COMMONWEALTH

Until 2007, the minimum wage in the Commonwealth had not increased in over 10 years, and during that decade, inflation and the runaway prices of oil have chiseled away at the buying power of the wage earner. Meanwhile, employers realized larger and larger savings in personnel costs relative to the total cost of doing business.

Under a continued program of artificially depressed wages, our current and future graduates who are not employed by the public sector have few choices; economic exile in Guam and the 50 states, join the U.S. military, reliance on family or social

services, or sustaining themselves with a combination of low wage jobs and subsistence living.

On a regular basis there are classified ads in our local papers advertising for skilled jobs such as graphic artists, masons, electricians, and accountants for $3.55 an hour. Nowhere else in the United States could you find these skilled positions advertised for such stunningly low wages. The US Department of Labor, Bureau of Labor Statistics report for May of 2006 lists the Mean hourly wage rates for these jobs as $27.90, $21.33, $22.41, and $29.17 per hour respectively.

My generation of post WWII parents have worked hard to pay for university level education for ourselves and our children only to have many feeling forced by economic concerns into life on the mainland. There are already thousands of Commonwealth citizens with good work experience and college degrees living in Guam and the 50 states. This is a tragic loss of our most valuable resource; our future, and it will continue as long as the minimum wage remains at such a low level.

THE COMMONWEALTH'S ECONOMY WILL RECOVER

Tourism and the garment industry have been the Commonwealth's largest industries. Tourism, although currently depressed, is slowly showing some signs of recovery. Asia, and most notably China, is prospering, and the population base is so large that receiving even a tiny percentage of their tourists will allow the Commonwealth to do well.

Guam is preparing for the arrival of thousands of military personnel and their families from Okinawa. The Commonwealth is well placed to realize economic benefits, through tourism and military activities.

Increasing the minimum wage raises in decreasing increments, the wage levels above it. This is a fact proven by the historical data gathered from increases in the minimum wage in the 50 states.

Until the Commonwealth has a statistically sound basis for reporting economic data, study after study will serve no purpose except the continued delay of the desperately needed reform of the labor market in the Commonwealth for the good of its citizens and residents.

THE CITIZENS OF THE COMMONWEALTH CNMI NEED INCREMENTAL INCREASES IN THE MINIMUM WAGE

I ask the good people of this Committee to consider that the wage increase we are discussing is from $3.55 to $4.05 per hour. Neither, after taxes, will buy a single gallon of gas.

The majority of our elected officials have, to date, been unable or unwilling to address the issue of a realistic minimum wage level, even during the economic boom of the 1990's. Despite the sincere efforts of a few individuals, who were willing to stand up to political pressure exerted by private sector employers, the minimum wage has remained unchanged until the recent passage of the federal law under discussion today. The people of the Commonwealth are now looking to the U.S. Congress to hold to their course, not delay further increases, and finally bring some equity to this situation.

As yet, per the US Department of Labor's report of January 2008, there is no statistically sound economic data available from the Commonwealth that justifies a delay of the currently mandated increases in the minimum wage in the Commonwealth.

○