

June 2011

AMERICAN SAMOA AND
COMMONWEALTH OF
THE NORTHERN
MARIANA ISLANDS

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



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Why GAO Did This Study

In 2007, the United States enacted a law incrementally raising the minimum wages in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) until they equal the U.S. minimum wage. American Samoa's minimum wage increased by \$.50 three times, and the CNMI's four times before legislation delayed the increases, providing for no increase in American Samoa in 2010 or 2011 and none in the CNMI in 2011. As scheduled, American Samoa's minimum wage will equal the current U.S. minimum wage of \$7.25 in 2018, and the CNMI's will reach it in 2016. Recent economic declines in both areas reflect the closure of one of two tuna canneries in American Samoa and the departure of the garment industry in the CNMI.

GAO is required to report in 2010, 2011, 2013, and biennially thereafter on the impact of the minimum wage increases. This report updates GAO's 2010 report and describes, since the increases began, (1) employment and earnings, and (2) the status of key industries. GAO reviewed federal and local information; collected data from employers through a questionnaire and from employers and workers through discussion groups; and conducted interviews during visits to each area.

GAO shared the report with relevant federal agencies and the governments of American Samoa and the CNMI. While generally agreeing with the findings, they raised a number of technical concerns that have been incorporated as appropriate.

View [GAO-11-427](#) or key components. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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AMERICAN SAMOA AND COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

What GAO Found

In American Samoa, employment fell 19 percent from 2008 to 2009 and 14 percent from 2006 to 2009. Data for 2010 total employment are not available. GAO questionnaire responses show that tuna canning employment fell 55 percent from 2009 to 2010, reflecting the closure of one cannery and layoffs in the remaining cannery. Average inflation-adjusted earnings fell by 5 percent from 2008 to 2009 and by 11 percent from 2006 to 2009; however, the hourly wage of minimum wage workers who remained employed increased by significantly more than inflation. Private sector officials said the minimum wage was one of a number of factors making business difficult. In the tuna canning industry, future minimum wage increases would affect the wages of 99 percent of hourly-wage workers employed by the two employers included in GAO's questionnaire. The employers reported taking cost-cutting actions from June 2009 to June 2010, including laying off workers and freezing hiring. The employers attributed most of these actions largely to the minimum wage increases. Cannery officials expressed concern in interviews about American Samoa's dwindling global competitive advantage. Available data suggest that relocating tuna canning operations to a tariff-free country with lower labor costs would significantly reduce operating costs but reduce American Samoa jobs; however, maintaining some operations in American Samoa would allow continued competition for U.S. government contracts. Some workers said they were disappointed by the 2010 minimum wage increase delay; however, more workers expressed concern over job security than favored a wage increase with potential for layoffs.

In the CNMI, employment fell 13 percent from 2008 to 2009 and 35 percent from 2006 to 2009. Average inflation-adjusted earnings rose by 3 percent from 2008 to 2009 and remained largely unchanged from 2006 to 2009. Over the same periods, the hourly wage of minimum wage workers who remained employed increased by significantly more than inflation. In discussion groups, private sector employers said minimum wage increases imposed additional costs during a time in which multiple factors made it difficult to operate. In the tourism industry, scheduled minimum wage increases through 2016 would affect 95 percent of workers employed by questionnaire respondents. Tourism employers reported that they took cost-cutting actions from June 2009 to June 2010 and planned to take additional actions, including laying off workers. Few of these tourism employers attributed past actions largely to the minimum wage increases, and one half or less did so for each of the planned actions. Available data suggest that hotels generally absorbed minimum wage costs rather than raise room rates. Hotel payroll will represent an increasing share of total operating costs due to the minimum wage increases. In discussion groups, some tourism employers expressed concern about the minimum wage increases, but others said the increases were needed and manageable and that the primary difficulty was the CNMI tourism industry's decline. Workers participating in GAO's CNMI discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours.

Contents

Letter		1
	American Samoa Employment, Earnings, and Status of Key Industries	7
	CNMI Employment, Earnings, and Status of Key Industries	11
	Concluding Observations	15
	Agency Comments and Our Evaluation	16
Appendix I	Objectives, Scope, and Methodology	22
Appendix II	Background	33
Appendix III	American Samoa	63
Appendix IV	CNMI	85
Appendix V	GAO Questionnaire Used in Report	107
Appendix VI	Comments from the Department of Commerce	123
Appendix VII	Comments from the American Samoa Government	125
Appendix VIII	Comments from the Commonwealth of the Northern Mariana Islands Government	131
Appendix IX	GAO Contacts and Staff Acknowledgments	136

Tables

Table 1: Research Methods and Scope and Limitations	5
Table 2: American Samoa Key Findings	10
Table 3: CNMI Key Findings	14
Table 4: American Samoa Scheduled Minimum Wage Increases for Tuna Canning Industry Workers and for Workers Paid the Lowest Minimum Wage	58
Table 5: CNMI Scheduled Minimum Wage Increases	59
Table 6: Median Wages for Hourly-wage Workers in the American Samoa Tuna Canning Industry, June 2007 to June 2010	69
Table 7: Distribution and Increased Annual Cost Since June 2010 per Hourly-wage Worker in American Samoa Tuna Canning Industry Due to Minimum Wage Increases	71
Table 8: Median Wages for Hourly-wage Workers in the CNMI Tourism Industry, June 2007 to June 2010	91
Table 9: Distribution and Increased Annual Cost Since June 2010 per Hourly-wage CNMI Tourism Worker Due to Minimum Wage Increases	93
Table 10: CNMI Hotel Occupancy and Room Rates, 2006 through 2010	101

Figures

Figure 1: Map of American Samoa	33
Figure 2: American Samoa Government Revenues and Expenditures, Excluding Component Units, 2005-2009	37
Figure 3: Citizenship Status of American Samoa Population, 1980-2005	39
Figure 4: American Samoa Tuna Exports to the United States, 1997-2010	40
Figure 5: Map of the CNMI	44
Figure 6: CNMI Government Revenues and Expenditures, Excluding Component Units, 2005-2009	48
Figure 7: CNMI Textile Exports to the United States, 1997-2010	51
Figure 8: CNMI Visitor Arrivals, 1990-2010	52
Figure 9: Citizenship Status of CNMI Population, 1980-2005	54
Figure 10: American Samoa Employment Based on SSA Data, 2006 through 2009	65
Figure 11: American Samoa Average Nominal and Inflation-Adjusted Earnings Based on SSA Data, 2006 through 2009	68

Figure 12: Changes in Wages of Hourly-wage Workers Employed by American Samoa Tuna Canning Questionnaire Respondents	70
Figure 13: Comparison of Estimated Wage and Tariff Costs for Tuna Canneries Using Alternate Business Models	80
Figure 14: CNMI Employment Based on CNMI Government Tax Data, 2006 through 2009	87
Figure 15: CNMI Average Nominal and Inflation-Adjusted Earnings Based on CNMI Government Tax Data, 2006 through 2009	89
Figure 16: Changes in Wages of Hourly-wage Workers Employed by CNMI Hotel and Other Tourism Questionnaire Respondents	92
Figure 17: Total CNMI Visitor Arrivals and Flight Seats Available, Fiscal Years 2005 to 2010	100
Figure 18: Estimated Average Impact of Minimum Wage Increases on CNMI Hotels' Payroll Costs in 2010 and 2016, Relative to Average Payroll and Other Costs in 2009	103

Abbreviations

BEA	Bureau of Economic Analysis
CNMI	Commonwealth of the Northern Mariana Islands
CPI	Consumer Price Index
DHS	U.S. Department of Homeland Security
DOC	U.S. Department of Commerce
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor
FICA	Federal Insurance Contributions Act
FLSA	Fair Labor Standards Act of 1938
GDP	gross domestic product
HIES	Household, Income, and Expenditures Survey
SSA	Social Security Administration

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Congressional Committees

In 2007, the United States enacted legislation that incrementally applies the U.S. minimum wage to the U.S. insular areas of American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).¹ The legislation raised the federal minimum wage in the U.S. 50 states from \$5.15 to \$7.25 per hour over 3 years and, for the first time, also mandated a series of \$.50 per hour increases to the minimum wages in both American Samoa and CNMI, beginning in July 2007, that would bring them to parity with the federal minimum wage.² In 2010, the United States enacted a law delaying the scheduled minimum wage increases in both areas, providing for no increase in American Samoa in 2010 or 2011, and no increase in the CNMI in 2011.³ To date since 2007, the minimum wages in American Samoa have increased by \$.50 three times, with the minimum wage of the lowest paid workers now set at \$4.18 and the minimum wage of workers in the tuna canning industry set at \$4.76. Over the same period, the CNMI minimum wage has increased by \$.50 four times, to \$5.05. Under current law, the minimum wage for American Samoa's lowest paid workers will reach the federal minimum wage of \$7.25 in 2018; in the CNMI, this is set to occur in 2016.

¹U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, § 8103, 121 Stat. 188 (May 25, 2007), as amended by Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010), codified at 29 U.S.C. § 206 note. Under the law, any future changes to the minimum wage enacted under U.S. law for the 50 states, District of Columbia, U.S. Virgin Islands, Guam, and Puerto Rico also will apply to American Samoa and the CNMI. For changes enacted before American Samoa and the CNMI would have reached the current U.S. minimum wage, the minimum wages in the two areas would continue to increase in \$.50 increments until they reach the federal minimum wage, extending beyond the current time frames. After each area reaches the U.S. minimum wage, any additional increase in the U.S. minimum wage would apply to American Samoa and the CNMI on the same schedule as for the 50 U.S. states.

²Pub. L. No. 110-28, § 8103, 121 Stat. 188 (May 25, 2007). The 2007 law required minimum wage increases in May of 2008 and in May each year thereafter, until the American Samoa and CNMI minimum wages converged with the U.S. minimum wage in 2016 and 2015, respectively. However, the Consolidated Appropriations Act, 2010, included a provision delaying the minimum wage increases until September 30th of each year, beginning in 2010. Pub. L. No. 111-117, Div. D, Title V, § 520, 123 Stat. 3034, 3283 (Dec. 16, 2009).

³Pub. L. No. 111-244, 124 Stat. 2618 (September 30, 2010).

The United States first adopted a federal minimum wage with passage of the Fair Labor Standards Act of 1938 (FLSA). The FLSA states that its goal is to eliminate labor conditions that hurt workers' health, efficiency, and general well-being, noting that this should be achieved both as rapidly as feasible and without substantially curtailing employment or earning power.⁴ The 2007 legislation changed decades of federal law that had allowed both American Samoa and the CNMI to apply minimum wage rates significantly lower than the minimum wage for the U.S. 50 states. American Samoa's minimum wage was set for each of 18 industries by the U.S. Department of Labor (DOL) under biennial reviews, and its minimum wages in 2006 ranged from \$2.68 to \$4.09. The CNMI had authority to set its own minimum wage under its 1976 Covenant with the United States, and its minimum wage in 2006 was \$3.05. Public and private sector officials and workers in both areas have expressed concern about the impact of the federal minimum wage increases on the local economies.

Since our last report in April 2010,⁵ the economies of both American Samoa and the CNMI have continued to face major challenges, and economic indicators show decline. Both governments face budget shortfalls, with local spending exceeding revenues in most recent years, and they have reduced the work hours of government employees and taken other steps to reduce the shortfalls. Studies funded by the U.S. Department of the Interior (DOI) have projected major additional contraction of the two economies.⁶ American Samoa's private sector economy is largely based on the tuna canning industry, and the closure of one of its two tuna canneries in September 2009 significantly affected the labor market and economy. The recent purchase of the closed facility by another company may provide additional jobs, but operations planned in the short-term are more limited than those before the facility closed.

⁴The Fair Labor Standards Act of 1938, Pub. L. No. 75-718, ch. 676, 52 Stat. 1060 (June 25, 1938), codified at 29 U.S.C. § 202.

⁵GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Wages, Employment, Employer Actions, Earnings, and Worker Views Since Minimum Wage Increases Began*, GAO-10-333 (Washington, D.C.: April 8, 2010).

⁶Malcolm D. McPhee & Associates with Dick Conway and Lewis Wolman, *American Samoa's Economic Future and the Cannery Industry*, prepared for the American Samoa Department of Commerce under a grant award from the U.S. Department of the Interior, Office of Insular Affairs (February 2008); and Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008).

Before the first minimum wage increase in 2007, about one-third of workers in American Samoa were employed by the two canneries, and more than three-quarters of cannery employees were foreign workers from neighboring Samoa, an independent country. The CNMI's economy has been strongly affected by the departure of its garment industry and decline in its tourism industry. Until recently, the garment industry was central to the CNMI economy and employed close to a third of all workers; however, by early 2009, the last garment factory had closed. Both American Samoa and the CNMI have tried to develop new industries, including through initiatives funded by the U.S. government, but they have had difficulty attracting additional investment. The CNMI also faces uncertainty due to the application of U.S. immigration law to the commonwealth, ending decades of the CNMI's control over its own immigration system.⁷ U.S. law established federal control of CNMI immigration on November 28, 2009,⁸ with provisions affecting employers' access to foreign workers.⁹ In 2005, foreign workers represented a majority of the CNMI labor force and outnumbered U.S. citizens in most industries.

⁷Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008).

⁸The Secretary of Homeland Security elected to delay the transition period start date from June 1, 2009, to November 28, 2009, as permitted by the law. U.S. immigration law was applied to the CNMI November 28, 2009, as scheduled; however, implementation of the CNMI transitional worker program was delayed following a federal court injunction just before the transition period start date that required the Department of Homeland Security to allow more time for public comment on the proposed program regulations. As of May 2011, the department had not yet issued final regulations for the transitional worker program.

⁹In 2008, we reported on the factors that would affect the impact of the law's implementation on the CNMI economy, in particular the CNMI's (1) labor market, including foreign workers; (2) tourism sector; and (3) foreign investment. See GAO, *Commonwealth of the Northern Mariana Islands: Managing Potential Economic Impact of Applying U.S. Immigration Law Requires Coordinated Federal Decisions and Additional Data*, [GAO-08-791](#) (Washington, D.C.: Aug. 4, 2008). Also see GAO, *Commonwealth of the Northern Mariana Islands: Pending Legislation Would Apply U.S. Immigration Law to the CNMI with a Transition Period*, [GAO-08-466](#) (Washington, D.C.: Mar. 28, 2008); *Commonwealth of the Northern Mariana Islands: Coordinated Federal Decisions and Additional Data Are Needed to Manage Potential Economic Impact of Applying U.S. Immigration Law*, [GAO-09-426T](#) (Washington, D.C.: May 19, 2009); *CNMI Immigration and Border Control Databases*, [GAO-10-345R](#) (Washington, D.C.: Feb. 16, 2010); and *Commonwealth of the Northern Mariana Islands: DHS Should Conclude Negotiations and Finalize Regulations to Implement Federal Immigration Law*, [GAO-10-553](#) (Washington, D.C.: May 7, 2010).

The American Recovery and Reinvestment Act of 2009 required that GAO report annually on the impact of minimum wage increases in American Samoa and the CNMI. In 2010, Congress changed the GAO reporting requirement to 2011, 2013, and every 2 years thereafter until the minimum wage in the respective territory meets the federal minimum wage.¹⁰

In our April 2010 report,¹¹ we found that before the first minimum wage increase in July 2007, 37 percent of all workers and about three-quarters of private sector workers employed by American Samoa questionnaire respondents earned wages close enough to the minimum wage to be directly affected by the first increase.¹² In the CNMI, 18 percent of all workers and about a third of private sector workers were directly affected by the first increase. For both areas, we found that most private sector workers would be directly affected by the increases once the minimum wage reached \$7.25. In contrast, according to Bureau of Labor Statistics estimates, in 2006 approximately 2.2 percent of all hourly workers in the U.S. states earned the federal minimum wage of \$5.15 or less. Among other findings, we also found that employment had very likely declined in both areas, largely due to the loss of one of two tuna canneries in American Samoa and of the entire garment industry in the CNMI.

This report updates our 2010 report with an additional year of information and describes, since the minimum wage increases began, (1) employment and earnings, and (2) the status of key industries.

In preparing this report, we reviewed and analyzed existing information from federal sources and from the American Samoa and CNMI local governments. In addition, because key federal sources of data on the U.S.

¹⁰Under the Act, GAO was required to report on the minimum wage increases between March 15 and April 15 of 2010 and each year thereafter until the minimum wages reach the U.S. minimum wage. Pub. L. No. 111-5, § 802, 123 Stat. 115, 186 (Feb. 17, 2009). A subsequent law changed the GAO reporting requirement to not later than September 1, 2011; April 1, 2013; and every 2 years thereafter until the minimum wage in the respective territory meets the federal minimum wage. Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010).

¹¹[GAO-10-333](#).

¹²In [GAO-10-333](#) and in this report, we use the term “directly affected by the minimum wage increase” to refer to workers who received pay increases because they were paid at or below the new minimum wage. The term does not include workers who may be indirectly affected by the minimum wage increases, such as those who lost jobs or work hours, or those who were above the minimum wage but received pay increases in order to preserve parity in the pay scale.

labor market do not cover the insular areas, we collected our own data in each area. See table 1 for the methods we used and the scope and limitations of our work.

Table 1: Research Methods and Scope and Limitations

Sources	Methods	Scope and limitations
Federal agencies	<ul style="list-style-type: none"> • The federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the Current Population Survey and the Current Employment Statistics program, do not cover these insular areas,^a so we identified and used other sources of data. • We obtained 2009 Social Security Administration (SSA) data on the earnings and employment of individual taxpayers in American Samoa and the CNMI, to update our analysis of data for 2005 to 2008 in the previous report. • We interviewed officials from the U.S. Department of Commerce (DOC), DOI, and DOL and from SSA. • We reviewed relevant reports and data from DOL and other U.S. government sources. • We reviewed U.S. minimum wage laws and other relevant laws and regulations. 	<ul style="list-style-type: none"> • The SSA data cover all types of workers in American Samoa and were sufficiently reliable for our purposes, but they exclude CNMI workers who are not subject to SSA withholding taxes, such as CNMI government employees and some foreign workers.^b We have chosen not to report the CNMI SSA data because of these coverage gaps. • We did not focus on the extent to which laws were properly enforced or implemented, although we considered enforcement, as appropriate.
Governments of American Samoa and the CNMI	<ul style="list-style-type: none"> • The U.S. Bureau of Labor Statistics collects Consumer Price Index data on the U.S. 50 states but not the insular areas. Therefore, we relied on other sources of data to compare changes in earnings and wage rates to changes in prices. • We analyzed American Samoa administrative and survey data, including Consumer Price Index data. • We analyzed available CNMI administrative and survey data, including Consumer Price Index data for both American Samoa and the CNMI and CNMI data on the number and earnings of workers from the CNMI Department of Finance's tax returns. The CNMI tax data provide ranges of earnings for both public and private sector workers and for both citizens and noncitizens in 2009, updating our analysis of data for 2005 to 2008. • We analyzed data on federally funded income-based programs administered by the insular area governments. 	The scope of our study does not include workers in the underground economy. ^c

Sources	Methods	Scope and limitations
GAO questionnaires and site visits	<ul style="list-style-type: none"> In American Samoa and the CNMI in 2010, we collected updated data on employment, wage structure, past and planned employer actions, and related topics covering 2009 and 2010 from employers in key industries who had responded to our 2009 questionnaire.^d We weighted employers' responses by the number of workers they employ. During visits to American Samoa and the CNMI in October 2010, we conducted interviews and discussion groups with government officials, employers in a range of industries and sizes, other private sector representatives, workers, and community members. We also established e-mail accounts to obtain comments from the public. 	<ul style="list-style-type: none"> Questionnaire responses are limited to the American Samoa tuna canning industry and the CNMI tourism industry and are not representative of all workers and employers in each industry or each area. Results of discussion groups are not representative of all workers and employers in each industry or area.

Source: GAO.

^aThe Office of Insular Affairs of DOI has provided technical assistance to American Samoa and the CNMI to help with data collection, including funding for the 2005 Household, Income, and Expenditures Surveys (HIES) and past surveys. However, this assistance has not generated the scope of data collected by federal sources for the United States more generally. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

^bThe SSA data do not cover CNMI government employees and foreign workers from the Philippines and South Korea.

^cThe underground economy would include any employers that may not comply with laws, including tax, minimum wage, immigration, and other laws. We did not review compliance with laws as part of this study.

^dIn 2010, both of the American Samoa employers that received our questionnaire provided responses, including the one tuna cannery and a closely related business that manufactures and supplies cans. Ninety-two percent of CNMI questionnaire recipients (12 of 13, with one additional recipient having closed) responded, and respondents included hotels and other employers in the tourism sector, such as tour operators. In 2009, we collected detailed data from large employers—those with at least 50 employees—through a questionnaire that covered 2006 to 2009.

Our review had certain limitations in addition to those already noted. In particular, although our approach yielded information on trends in employment, wages, and earnings in both areas, it is difficult to distinguish between the effects of minimum wage increases and the effects of other factors, including the global recession beginning in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI. We conducted our work from September 2010 to June 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for the findings in this product. See appendix I for further details of our methodology,

appendix II for additional background, and appendix V for our questionnaire.

American Samoa Employment, Earnings, and Status of Key Industries

American Samoa Employment Fell Sharply in 2008-2009, and Employment and Average Inflation-Adjusted Earnings Were Lower than in 2006

- *Employment.* Social Security Administration (SSA) data show that from 2008 to 2009, the total number of people employed in American Samoa declined 19 percent (from 19,171 to 15,434) and that over the entire period from 2006 to 2009, employment declined 14 percent (from 17,852 to 15,434, with a peak of 19,171 in 2008). Data from 2010 on total employment are not yet available. Questionnaire responses from the tuna canning industry show that employment of their workers—most of whom are foreign workers from independent Samoa—dropped by 55 percent from 2009 to 2010, reflecting the September 2009 closure of one cannery and layoffs in the remaining cannery.¹³ In addition, we estimated that from 2,000 to 3,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available.¹⁴ Private sector officials said minimum wage was one of a number of factors, including the high cost of goods and utilities, making it difficult to do business in American Samoa. American Samoa government data show the minimum wage increases would raise government payroll costs for its employees by about 1 percent (about \$9 million) over 7 years, and the American Samoa governor and other public officials said they supported a return to biennial reviews of minimum wage in American Samoa or other alternatives to the scheduled increases.¹⁵

¹³If many foreign workers left American Samoa, the impact on the unemployment rate would be smaller than if those workers remained. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

¹⁴Temporary federal jobs included those funded by the Recovery Act, by the U.S. Census Bureau for the Decennial Census, and by recovery efforts after the 2009 tsunami.

¹⁵The Governor shared these views in a 2011 letter and in the American Samoa government's comments on this report.

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- *Inflation-adjusted earnings of those employed.* Earnings data from SSA and consumer price data show that from 2008 to 2009, average inflation-adjusted earnings of those employed fell by 5 percent. This resulted from a decrease in average earnings of 2 percent, and an increase in prices of 3 percent. For the period from 2006 to 2009, average inflation-adjusted earnings fell by 11 percent. This resulted from a rise in average annual earnings of about 5 percent while local prices rose by about 18 percent. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers increased by more than inflation. The inflation-adjusted earnings of minimum wage cannery workers who retained their jobs and work hours rose by about 8 percent from 2008 to 2009 and by about 23 percent for the entire period from 2006 to 2009.

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

- *Tuna canning wages.* Without a minimum wage increase in American Samoa in 2010, there was no increase in the median wage of tuna canning workers—in both 2009 and 2010, the median tuna canning worker wage was \$4.76. Consistent with our last report, from 2007 to 2010, the median wage among workers in the tuna canning industry employed by questionnaire respondents rose by \$1.46 (44 percent). Based on questionnaire responses about workers' wages as of June 2010, the future minimum wage increases would affect the wages of 99 percent of current workers in the tuna canning industry by the time the minimum wage reaches \$7.25, increasing the average annual cost per worker in 2016 by \$4,660 since June 2010.¹⁶
- *Tuna canning employer actions.* The two employers in the tuna canning industry reported in our questionnaire that they had taken cost-cutting actions from June 2009 to June 2010, including laying off workers, reducing overtime hours, freezing hiring, decreasing benefits, temporarily closing, reducing operating capacity or services, and raising prices, among other actions. They reported plans to take the same types of cost-cutting actions by early 2012, including laying off additional employees. They attributed most of their past and planned actions largely to the minimum wage increases and did so more often than they attributed their actions largely to some other factors, such as

¹⁶The analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act. For 2011, employers must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

transportation and shipping costs and changes in business taxes and fees. However, they said a decrease in the number of customers, such as wholesale customers, was another important factor affecting their actions.

- *Tuna canning industry analysis.* In addition to the minimum wage increases, cannery officials also expressed concern about American Samoa's dwindling competitive advantage in the global tuna canning industry and said that current operations in American Samoa were not competitive with other models. Analysis of alternate models available to the industry suggests that moving tuna cannery operations—including unloading, loining (cleaning, cooking, and cutting), and canning fish—from American Samoa to another tariff-free country with lower labor costs would significantly reduce cannery operating costs. However, given that tuna facilities in American Samoa are among few in the United States that can meet the requirements of U.S. government contracts, many of which require U.S.-sourced and processed fish, maintaining some operations in American Samoa would allow the facility to continue to compete for these contracts. Despite the advantages of moving some operations to other countries, the remaining cannery's lease obligation through 2013 and the cost of building new facilities elsewhere may pose obstacles to near-term relocation. In addition, a new tuna facility operator has hired a small number of workers formerly employed by the cannery that closed, but it is unclear how many additional workers they will hire.
- *Tuna canning and other worker views.* Some workers said they had looked forward to the 2010 minimum wage increase and were disappointed to see the increase delayed. However, more workers, particularly tuna canning workers, expressed concern over job security than favored a minimum wage increase with the potential for subsequent layoffs.

See table 2 for key findings and appendix III for detailed findings and tables on American Samoa.

Table 2: American Samoa Key Findings

Employment	
All sectors: Percentage change in numbers employed, 2008-2009	19 percent decrease, ^a as well as direct loss of 2,000 jobs due to September 2009 cannery closure; full extent of employment change from loss of cannery unknown ^b
All sectors: Percentage change in numbers employed, 2006-2009	14 percent decrease ^a
Tuna canning industry: Percentage change in numbers employed, 2009-2010	55 percent decrease ^c
Tuna canning industry: Percentage change in numbers employed, 2007-2010	59 percent decrease ^c
Inflation-adjusted earnings	
Percentage change in average inflation-adjusted earnings of those employed, 2008-2009	5 percent decrease ^{a,d}
Percentage change in average inflation-adjusted earnings of those employed, 2006-2009	11 percent decrease ^{a,d}
Estimated percentage change in inflation-adjusted earnings of minimum wage cannery earners who kept employment and work hours, 2008-2009	8 percent increase ^{b,d}
Estimated percentage change in inflation-adjusted earnings of minimum wage cannery earners who kept employment and work hours, 2006-2009	23 percent increase ^{b,d}
Tuna canning wages	
Percentage of hourly-wage tuna canning workers employed by questionnaire respondents in 2010 with wages affected by the May 2009 minimum wage increase	69 percent ^c
Percentage of hourly-wage tuna canning workers employed by questionnaire respondents in 2010 who would be affected by minimum wage increases through 2016 (when tuna canning minimum wage reaches \$7.25)	99 percent ^c
Tuna canning employer actions	
Tuna canning employers that laid off workers from 2009 to 2010 and attribution to past minimum wage increases	<ul style="list-style-type: none">• The two employers in the tuna canning industry reported laying off hourly-wage workers• Employers attributed most of their actions largely to the past minimum wage increases^c
Tuna canning employers that planned to lay off additional workers by early 2012 and attribution to the minimum wage increases	<ul style="list-style-type: none">• The two employers in the tuna canning industry planned additional layoffs of hourly-wage workers• Employers attributed most of their planned actions largely to the minimum wage increases^c
Tuna canning and other worker views	
More workers, particularly tuna canning workers, expressed concern over job security than favored a minimum wage increase with the potential for subsequent layoffs. ^e	

Source: GAO analysis of data from GAO tuna canning industry questionnaire, SSA, Consumer Price Index, and GAO discussion groups.

Notes: Employers responding to GAO's first questionnaire in 2009 included the two tuna canning employers, as well as other employers with 50 or more employees. Questionnaire updates in 2010 covered the two tuna canning employers and excluded employers in other industries, smaller employers, and employers that had closed between 2007 and the date of our questionnaire. Based on U.S. Economic Census data, our respondents represented about 17 percent of the American Samoa private sector workforce in 2007. In addition, they represented about 100 percent of the tuna canning-related workforce. American Samoa questionnaire respondents provided hourly wage data on a total of 1,869 workers as of June 2010. Responses are not necessarily representative of all American Samoa workers and employers. Because one respondent covered a large percentage of workers employed by the two questionnaire respondents, these employers' responses significantly affected reported questionnaire data.

^aGAO analysis of SSA data.

^bGAO estimate.

^cGAO analysis of responses to GAO's American Samoa tuna canning employer questionnaire.

^dGAO analysis of Consumer Price Index data.

^eGAO analysis of American Samoa discussion group results.

CNMI Employment, Earnings, and Status of Key Industries

CNMI Employment Fell in 2008-2009 and Has Decreased Substantially since 2006, and Average Inflation-Adjusted Earnings Have Remained Largely Unchanged

- *Employment.* From 2008 to 2009, the total number of people employed fell by about 13 percent, according to CNMI government tax data. For the entire period from 2006 to 2009, the number employed fell 35 percent. The decrease largely reflected the early 2009 closure of the CNMI's last remaining garment factories, which employed many foreign workers.¹⁷ In addition, we estimated that less than 1,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available.¹⁸ In the tourism industry, employment among GAO questionnaire respondents fell 8 percent from 2009 to 2010 and fell 14 percent over the entire period from 2007 to 2010. Private sector employers reported in discussion groups some layoffs and hiring freezes, and they said minimum wage increases imposed additional costs during a time in which multiple factors made

¹⁷If many foreign workers left the CNMI, the impact on the unemployment rate would be smaller than if those workers remained. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

¹⁸Temporary federal jobs included those funded by the Recovery Act and by the U.S. Census Bureau for the Decennial Census.

it difficult to operate. They also expressed concerns about the departure of the garment industry, decline of the tourism industry, population loss, and changes to immigration law. According to CNMI government payroll data, about 17 percent of government workers are paid at or below \$7.25 and would be affected by the minimum wage increases by 2016.

- *Inflation-adjusted earnings of those employed.* From 2008 to 2009, based on CNMI government tax data and consumer price data, inflation-adjusted average earnings of those employed rose by 3 percent. This resulted from a 7 percent increase in average earnings, with a 3.5 percent increase in prices. Over the entire period from 2006 to 2009, average inflation-adjusted earnings remained largely unchanged, with a slight drop of .5 percent. This resulted from a 19 percent increase in average earnings and a 19.5 percent increase in prices. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers increased by more than inflation. The inflation-adjusted earnings of minimum wage workers who retained their jobs and work hours rose by about 9 percent from 2008 to 2009, and by about 25 percent for the entire period from 2006 to 2009.

The CNMI Tourism Industry Has Experienced Declines in Visitor Arrivals, and Hotels Have Absorbed Minimum Wage Increases Rather than Raising Room Rates

- *Tourism wages.* From June 2007 to 2010, a period that included three minimum wage increases, the median wage among workers employed by CNMI tourism industry questionnaire respondents rose by 95 cents (26 percent). In addition, in the tourism industry, the 2007 through 2010 wage increases narrowed the wage gap between the lowest and highest paid employees of questionnaire respondents by 52 percent. Employers said in interviews that the wage compression had lowered morale for more senior employees. Based on questionnaire responses about workers' wages as of June 2010, the future minimum wage increases would affect the wages of 95 percent of current workers in the CNMI tourism industry by the time the minimum wage reaches the U.S. minimum wage of \$7.25, increasing the average annual cost per worker in 2016 by \$4,707 since June 2010.¹⁹

¹⁹The analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act. For 2011, employers must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

-
- *Tourism employer actions.* Hotel and other employers in the CNMI tourism industry responding to our questionnaire reported having taken cost-cutting actions from June 2009 to June 2010, including reducing hours, freezing hiring, decreasing benefits, and raising prices of goods or services. Employers also reported plans to take the same types of cost-cutting actions by early 2012, as well as laying off workers. Few employers—weighted by numbers of employees—attributed their past actions largely to the minimum wage increases, and one half or less did so for each of the planned actions. Employers noted other factors, including changes in immigration law and a decrease in the number of customers, that largely contributed to their actions.
 - *Hotel industry analysis.* Due to competition from other vacation destinations and to declining visitor arrivals, CNMI hotels have generally absorbed minimum wage costs rather than raise room rates. Both visitor arrivals and flight seats available to the CNMI declined from 2005 to 2010, and the greatest declines in both by country were from Japan—the CNMI’s largest tourism market. Industry data show that since 2006 the hotel occupancy rate has remained between 58 and 64 percent, while inflation-adjusted room rates declined by about 12 percent from 2006 to 2009. If observed trends continue, scheduled minimum wage increases will increase the share of hotels’ total operating costs attributable to payroll from approximately 29 percent of operating costs in 2010 (with minimum wage increases representing about 1 percent of total operating costs) to 34 percent in 2016 (with minimum wage increases representing about 8 percent of the total). In discussion groups, some hotel and other tourism employers and managers expressed concern about the minimum wage increases, but others said the minimum wage increases were needed and manageable and that the primary difficulty was the CNMI tourism industry’s general decline.
 - *Tourism and other worker views.* Workers participating in our CNMI discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours. Participants said they wanted to receive the pay increases to help meet rising prices, including for utilities and consumer goods. However, they said they had observed that while some workers received pay increases, others lost jobs or work hours.

See table 3 for key findings and appendix IV for detailed findings and tables on the CNMI.

Table 3: CNMI Key Findings

Employment	
All sectors: percentage change in numbers employed, 2008-2009	13 percent decrease ^a
All sectors: percentage change in numbers employed, 2006-2009	35 percent decrease ^a
Tourism industry: percentage change in numbers employed by questionnaire respondents, 2009-2010	8 percent decrease ^b
Tourism industry: percentage change in numbers employed by questionnaire respondents, 2007-2010	14 percent decrease ^b
Inflation-adjusted earnings	
Percentage change in average inflation-adjusted earnings of those employed, 2008-2009	3 percent increase ^{a,c}
Percentage change in average inflation-adjusted earnings of those employed, 2006-2009	0.5 percent decrease ^{a,c}
Estimated percentage change in inflation-adjusted earnings of minimum wage earners who kept employment and work hours, 2008-2009	9 percent increase ^d
Estimated percentage change in inflation-adjusted earnings of minimum wage earners who kept employment and work hours, 2006-2009	25 percent increase ^d
Tourism industry wages	
Percentage of hourly-wage tourism workers employed by questionnaire respondents in 2010 with wages affected by September 2010 minimum wage increase	73 percent ^b
Percentage of hourly-wage tourism workers employed by questionnaire respondents in 2010 who would be affected by minimum wage increases through 2016 (when minimum wage reaches \$7.25)	95 percent ^b
Tourism employer actions	
Percentage of tourism employers that laid off hourly workers from 2009 to 2010 and percentage of those employers that attributed the action largely to the minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none">• Employers representing 3 percent of workers employed by questionnaire respondents laid off hourly-wage workers• Of those, none attributed layoffs largely to the minimum wage increases^b
Percentage of tourism employers that planned to lay off additional workers by early 2012 and percentage of those employers that attributed the planned action largely to the minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none">• Employers representing 62 percent of workers employed by private sector questionnaire respondents planned additional layoffs of hourly-wage workers• Of those, none attributed their plans largely to the minimum wage increases^b
Tourism and other worker views	
CNMI workers said they would like pay increases but were concerned about losing jobs and work hours. ^e	

Source: GAO analysis of data from GAO tourism industry questionnaire, CNMI government, Consumer Price Index, and GAO discussion groups.

Notes: Employers responding to GAO's first questionnaire in 2009 included hotels and other tourism-related employers, as well as other employers with 50 or more employees. Questionnaire updates in 2010 covered hotels and other tourism-related employers and excluded employers in other industries, smaller employers, employers that did not respond to the 2009 questionnaire, and employers that had closed between 2007 and the date of our questionnaire, including garment factories. Based on 2007 U.S. Economic Census data, respondents represented about 8 percent of the total CNMI private sector workforce and hotels represented 48 percent of the accommodation workforce. CNMI questionnaire respondents provided hourly wage data on a total of 1,567 workers as of June 2010. Responses are not necessarily representative of all CNMI workers and employers. Percentages of employers reporting actions are weighted by each employer's total number of workers in 2009. Percentages of employers that attributed each action largely to minimum wage increases are weighted to reflect those employers' number of workers relative to all workers employed by respondents that reported the action.

^aBased on CNMI tax data.

^bBased on responses to GAO's CNMI tourism industry questionnaire.

^cBased on analysis of Consumer Price Index data.

^dBased on GAO estimate.

^eBased on discussion group results.

Concluding Observations

Since the minimum wage increases began in 2007, both American Samoa and the CNMI have experienced substantial decreases in employment, largely resulting from the loss of one of two tuna canneries in American Samoa and, in the CNMI, loss of the garment industry. The local economies of both these insular areas differ from the U.S. economy in a number of ways, including that the percentage of workers paid the minimum wage is much higher than in the U.S. 50 states.

In American Samoa, tuna canning employers responding to our questionnaire attributed most past actions such as layoffs, work hour reductions, and hiring freezes largely to the minimum wage increases. CNMI tourism employers responding to our questionnaire also took actions including reducing hours, freezing hiring, and decreasing benefits. Few attributed past actions and one half or less attributed each of the planned actions to the minimum wage increases. In both areas, employers in discussion groups said the minimum wage increases were one of multiple factors making it difficult to conduct business.

The economic declines in American Samoa and the CNMI are substantial, and both areas face budget shortfalls that may threaten their ability to fund public services and make investments in support of future economic development. In addition, the expiration of federal assistance and temporary jobs funded through the Recovery Act and other programs will likely expose greater challenges. Both areas have tried to identify opportunities for new industries and growth, but so far neither has succeeded in attracting significant new investment. Identifying new growth opportunities and maintaining needed infrastructure and services

in the meantime will require substantial effort by the private sector and by both the local and federal governments.

Agency Comments and Our Evaluation

We provided a draft of this report to officials in DOC, DOI, DOL, SSA, and in the governments of American Samoa and the CNMI for review and comment. We received written comments from DOC, the American Samoa government, and the CNMI government, which are reprinted in appendixes VI, VII, and VIII, respectively. We also received technical comments from DOI and DOL, which we incorporated as appropriate. SSA had no comments. We shared excerpts of the draft with several private sector entities and experts and incorporated their comments as appropriate.

Following are summaries of the written comments from DOC, the American Samoa government, and the CNMI government, with our responses.

- *Department of Commerce.* In its written comments, DOC said it appreciated the opportunity to provide comments, and it provided additional technical comments.
- *American Samoa.* In its written comments, the American Samoa government generally agreed with our findings. However, it stated that employment losses and other aspects of economic decline in American Samoa are greater than the report suggests and constitute an economic depression. It stated that application of the U.S. minimum wage to American Samoa, pursuant to the scheduled increases mandated by Congress, continues to have devastating effects on American Samoa's economy and labor market. The American Samoa government also compared the economy and minimum wage increases in American Samoa to those in the U.S. states and concluded that the minimum wage increases caused severe employment decline in American Samoa. In addition, the American Samoa government recommended in its written comments and in a January 2011 letter that GAO explore alternative methods for setting minimum wage levels in American Samoa and issue recommendations. The government provided several alternative methods for consideration. While we considered these suggestions and summarized them in the report, our research objectives and methodology were developed in response to the legislative mandate and in discussions with congressional requesters. These objectives and methodology were designed to provide sufficient information and analysis to support congressional deliberation on minimum wage in American Samoa and the CNMI. In its written comments, the American Samoa government asked GAO or other

federal entities to consider the following recommendations: terminate increases in the minimum wage immediately in American Samoa; conduct a thorough analysis of why adverse economic effects of the minimum wage increases were greater in American Samoa than in the United States; and determine procedures for addressing minimum wage in American Samoa in a way that avoids future economic disasters. Appendix VII provides our more detailed evaluation of the American Samoa government's letter.

- *CNMI*. In its written comments, the CNMI government said the draft report fairly characterized current conditions in the CNMI and stated that the findings were similar to those in our last report. It noted that CNMI businesses were struggling to survive as they faced multiple factors, including the contracting economy, uncertainties surrounding the application of U.S. immigration law, rising energy costs, and the global recession. It raised several questions and concerns regarding the report methodology. First, the CNMI government questioned that for some key past and future actions, such as reducing regular work hours and freezing hiring, no CNMI employers attributed the actions to the minimum wage increases. We note that, as stated in the report, we present the weighted percentage of employers who attributed each action to the minimum wage increases “to a large extent” (not those who attributed the action to the minimum wage increases “to a small extent” or “to a moderate extent”). The CNMI government cited several of the limitations of the tourism industry questionnaire, as described in this report, and recommended that the reporting method be improved to gather a clearer picture regarding minimum wage increases and to improve data integrity. However, for any questionnaire based on self-reported data, we cannot eliminate the possibility that some employers' views of the minimum wage increases may have influenced their responses. In addition, the CNMI government stated that the analyses of CNMI residents' living standards should be strengthened, as required by congressional mandate. Although the original mandate (2009) specifically required us to study minimum wage effects on living standards, the current mandate (2010) does not. However, the report includes qualitative findings related to living standards based on discussion groups with employers and with workers, as well as quantitative findings on the inflation-adjusted earnings of average and minimum wage workers. Last, the CNMI government stated that it appreciated the delay in the minimum wage but was concerned about other factors. It recommended that this and future reports provide recommendations to Congress, federal agencies, and the local government on managing these challenges. Appendix VIII provides our more detailed evaluation of the CNMI government's letter.

We are sending copies of this report to interested congressional committees. We also will provide copies of this report to the U.S. Secretaries of Commerce, the Interior, Labor, to the Commissioner of Social Security, and to the Governors of American Samoa and the CNMI. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have questions about this report, please contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov, or Tom McCool at (202) 512-2642 or mccoolt@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IX.



David Gootnick
Director, International Affairs and Trade



Tom McCool
Director, Center for Economics, Applied Research and Methods

List of Committees

The Honorable Jeff Bingaman
Chairman
The Honorable Lisa Murkowski
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Tom Harkin
Chairman
The Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable John P. Kline
Chairman
The Honorable George Miller
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable Barbara Mikulski
Chairwoman
The Honorable Kay Bailey Hutchinson
Ranking Member
Subcommittee on Commerce, Justice, Science,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Jack Reed
Chairman
The Honorable Lisa Murkowski
Ranking Member
Subcommittee on Interior, Environment,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Harkin
Chairman
The Honorable Richard C. Shelby
Ranking Member
Subcommittee on Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Frank R. Wolf
Chairman
The Honorable Chaka Fattah
Ranking Member
Subcommittee on Commerce, Justice, Science,
and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Michael K. Simpson
Chairman
The Honorable James P. Moran
Ranking Member
Subcommittee on Interior, Environment,
and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Denny Rehberg
Chairman
The Honorable Rosa DeLauro
Ranking Member
Subcommittee on Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable John Fleming
Chairman
The Honorable Gregorio Kili Camacho Sablan
Ranking Member
Subcommittee on Fisheries, Wildlife, Oceans
and Insular Affairs
Committee on Natural Resources
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report updates our 2010 report on American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI)¹ with an additional year of information and describes, since the minimum wage increases began, (1) employment and earnings, and (2) the status of key industries.

To describe employment and earnings, we analyzed earnings data from the Social Security Administration (SSA) and tax data from the CNMI government, and we adjusted the earnings data using Consumer Price Index (CPI) data for each area. We also analyzed responses from GAO's questionnaire of large employers in the American Samoa tuna canning and CNMI tourism industries. To describe the status of key industries, we collected responses through the industry questionnaire. For both objectives, we conducted discussion groups with employers and workers and interviews with public officials. We provide additional information on each data source below.

In preparing this report, we interviewed officials from the U.S. Departments of the Interior (DOI), Commerce (DOC), and Labor (DOL), as well as from SSA. We reviewed relevant reports and data from DOL and other U.S. government sources. We also reviewed U.S. minimum wage laws and other relevant laws and regulations. We did not focus on the extent to which laws were properly enforced or implemented, although we considered enforcement as appropriate. The scope of our study also does not include workers in the underground economy.²

¹GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Wages, Employment, Employer Actions, Earnings, and Worker Views Since Minimum Wage Increases Began*, [GAO-10-333](#) (Washington, D.C.: Apr. 8, 2010).

²The underground economy would include any employers that may not comply with laws, including tax, minimum wage, immigration, and other laws. We did not review compliance with laws as part of this study.

Site Visits

As noted previously, the federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the Current Population Survey and the Current Employment Statistics program, do not cover these insular areas.³

Because these data sources were unavailable, we collected our own data in each area. During visits to American Samoa and the CNMI in October 2010, we conducted interviews and discussion groups with government officials, employers in a range of industries and sizes, other private sector representatives, workers, and community members to obtain views and information on the minimum wage increases and related topics. In each area, we established e-mail accounts to obtain comments from the public. We also collected detailed data from large employers in the American Samoa tuna canning and CNMI tourism industries through a questionnaire, as described below.

In American Samoa, we visited the island of Tutuila and interviewed officials in the Office of the Governor, the Department of Commerce, the Department of Human Resources, the Department of the Treasury, the Department of Program Planning and Budget Development, the Office of Samoan Affairs, the Department of Legal Affairs, and other American Samoa agencies. We met with officials of DOI's Office of Insular Affairs. We also interviewed representatives of the private sector, including representatives from the tuna canneries, and workers.

In the CNMI, we visited the island of Saipan and interviewed officials in the Office of the Governor, the Department of Commerce, and the Marianas Visitors Authority. We were not able to meet with some other CNMI agencies, and the Office of the Governor said the officials were not available because they had just returned to work following a government shutdown. We met with officials of DOI's Office of Insular Affairs and of DOL. We also interviewed representatives of the private sector, including

³The Office of Insular Affairs of DOI has provided technical assistance to American Samoa and the CNMI to help with data collection, including funding for the 2005 Household, Income, and Expenditures Survey (HIES) and past surveys. However, this assistance has not generated the scope of data collected by federal sources for the United States more generally. In addition, the 2005 HIES for American Samoa was not completed and is available only in draft form. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

representatives from hotels, and workers. In addition, we held a phone interview with the Tinian Chamber of Commerce.⁴

Employer Questionnaire

In American Samoa and the CNMI in 2010, we collected updated data on employment, wage structure, past and planned employer actions, and related topics covering 2009 and 2010 from employers in key industries who had responded to our 2009 questionnaire. We weighted employers' responses by the number of workers they employed. Questionnaire responses are limited to the American Samoa tuna canning industry and the CNMI tourism industry and are not representative of all workers and employers in each industry or each area.

For our 2009 questionnaire, we defined a large employer as one that employed 50 or more workers in recent years. The employers selected to receive the 2009 questionnaire comprised for-profit, not-for-profit, and public sector employers. We sent the questionnaire only to employers with 50 or more workers because we did not have sufficiently reliable frames from which to draw a probability sample of employers and because we could contact only a limited number of employers in each area, given available resources. By limiting our questionnaire to the largest employers, we were able to concentrate data collection efforts on those who employed a disproportionately large percentage of the workforce.⁵

In accordance with other federal employment surveys and with our 2009 questionnaire, our 2010 large-employer questionnaire asked for wage data for the pay period containing June 12. The questionnaire asked separately

⁴For [GAO-10-333](#), we visited the island of Tinian in September 2009 and the island of Rota in January 2010.

⁵In 2009, for American Samoa, we used local tax return data to identify employers that filed 50 or more employee wage and tax statements (i.e., Form W-2) in either 2007 or 2008, and we verified this list with the American Samoa government and Chamber of Commerce. We sent questionnaires to 40 employers in American Samoa, covering approximately 84 percent of the American Samoa public and private sector workforce. For the CNMI in 2009, we did not receive local tax return data in time to develop our list. We generated our original list from 2007 Labor and Immigration Identification and Documentation System data from the CNMI government. Because the data include only foreign workers, the CNMI government and Saipan Chamber of Commerce identified additional employers that likely had more than 50 employees. We sent questionnaires to 63 employers in the CNMI, covering approximately 37 percent of the CNMI public and private sector workforce, with greater coverage among public sector workers. The percentage of the workforce covered by our large-employer questionnaire was later calculated by the CNMI government's Department of Finance.

for data regarding workers paid an hourly wage and workers paid an annual salary. The questionnaire also included detailed questions about changes in benefits, about employers' past and possible future actions, and about the extent to which employers attributed these actions to past and future minimum wage increases. (The questionnaire is reproduced in app. V.) Because our questionnaire collected wage data as of June 12 of each year, the data do not reflect the CNMI's September 30, 2010, minimum wage increase.

Before sending the 2009 questionnaire to employers, we pretested it over the phone with three employers in the CNMI and two in American Samoa to make sure that the questions were clear and comprehensive, the data were readily obtainable, and the questionnaire did not place an undue burden on employers.⁶ While we eliminated some 2009 questions for the 2010 questionnaire, revisions to remaining questions were minor and did not require additional pretesting.

Most employers received the questionnaire by e-mail in an attached Microsoft Word form that they could return electronically after marking checkboxes or entering responses in open-answer boxes. Employers returned questionnaires by e-mail, mail, or fax.

We conducted nonresponse follow-up in person and by phone while in the insular areas. We also contacted nonrespondents by e-mail and phone. In addition, we contacted respondents to clarify responses and request any missing data.

Because of the lack of data on the entire workforce, it is difficult to precisely state the percentage of the workforce that our questionnaire represents. In 2010, both of the American Samoa employers that received our questionnaire provided responses—including the one remaining tuna cannery and a closely related business that manufactures and supplies cans—resulting in a response rate of 100 percent (both in terms of respondents and employees).⁷ Based on Social Security data, our

⁶Pretest participants included business owners or general managers and, where applicable, financial personnel responsible for maintaining the payroll system. The questionnaire was also reviewed by members of the American Samoa, Saipan, and Tinian Chambers of Commerce, which also provided their endorsements, and an independent GAO reviewer. We made appropriate changes to the content and format of the questionnaire after the pretests and independent reviews.

⁷At the time of our questionnaire, the new owners of the previously closed tuna canning facility had not yet acquired the facility and so were not included in the questionnaire.

respondents in 2010 represented about 12 percent of the total workforce in 2009. Based on U.S. Economic Census data, our respondents represented about 17 percent of the private sector workforce in 2007. In all, American Samoa questionnaire respondents provided hourly wage data on a total of 1,869 workers as of June 2010.

In the CNMI, 12 of 14 employers completed the questionnaire. We confirmed that one employer had closed, and thus we did not count the employer in the final unweighted response rate of 92 percent (12 of 13). Respondents included hotels and other employers in the tourism sector, such as tour operators. Based on CNMI tax data, our respondents represented about 6 percent of the total workforce in 2009. Based on Economic Census data, our respondents represented about 8 percent of the total private sector workforce in 2007. Our hotel respondents represented about 48 percent of workers in the CNMI accommodations industry, also based on Economic Census data. In all, CNMI questionnaire respondents provided hourly wage data on a total of 1,576 workers as of June 2010.

In reporting the percentages for questionnaire responses throughout our report, we weighted each percentage to reflect the proportion of workers employed by the responding employers relative to all workers employed by all questionnaire respondents. As a result, the responses of larger employers affect our findings more than those of smaller employers. We determined the number of employees at each employer by summing the number of hourly and salaried workers that employers reported in questionnaire responses. In addition to asking a direct question about number of employees, the questionnaire asked respondents to complete a separate table listing the number of employees at each wage or salary level. Separate tables were required for hourly wage and salaried workers. To apply the weights, we cross-multiplied the number of employees by the employer response, then divided by the total number of employees in the sample. For example, if three of five employers attributed an action to the minimum wage to a moderate extent, the unweighted response would be 60 percent. However, if those three employers represented 300 of 400 employees, the weighted response that we report would be 75 percent.

For our analyses of the effect of minimum wage increases, we obtained information on earnings and employment for both hourly wage and salaried workers during the pay periods that included June 12, 2010, from our questionnaire. We analyzed these responses in conjunction with data we collected from the same employers in 2009 regarding the pay periods that included June 12, 2007, 2008, and 2009. For hourly wage workers,

respondents were asked to provide the number of employees paid at each wage rate, and the number of both regular and overtime hours worked during the pay period. For salaried workers, respondents were asked the number of full-time and part-time workers paid at each salary level. However, we focused on the effect of minimum wage increases on hourly wage workers. Hourly wage workers represented about 98 percent of American Samoan workers and 90 percent of workers in the CNMI. One employer, which represented fewer than 20 employees, did not provide complete information on the distribution of hourly wage employees and so was excluded from analyses requiring that information. To determine the number of workers affected by each minimum wage increase, we assumed that all workers employed by questionnaire respondents were legally required to receive the minimum wage. If some are not covered or are exempt, the minimum wage increases would affect fewer workers.

After recording the questionnaire data, we verified all keypunched records by comparing them with the corresponding questionnaires and corrected the errors we found. Less than 0.5 percent of the data items we checked had random keypunch errors that would not have been corrected during data processing. Analysis programs were also independently verified. However, we did not independently verify that the wage and other information provided to us was correct.

The questionnaire responses cannot be used to make inferences about all employers and workers in each insular area, or about all employers and workers in the covered industries. First, because the lists of employers that received the questionnaire were intended to include only those in the American Samoa tuna canning and CNMI tourism industries who had responded to our 2009 questionnaire (with more than 50 employees), the lists were not representative of all employers or of all employers in those industries. Second, we were unable to survey employers that had closed between 2007 and our questionnaire date, including those in the CNMI garment industry. Third, some nonresponse bias may exist in some of the questionnaire responses, since characteristics of questionnaire respondents may differ from those of nonrespondents and nonrecipients in ways that affect the responses (e.g., if those that employ a larger number of workers would have provided different responses than those that employ a smaller number). Last, it is possible that some employers' views of the minimum wage increases may have influenced their responses.

In addition, the one tuna cannery in American Samoa employed a large percentage of workers employed by the two questionnaire respondents; as

a result, this employer's responses substantially affected our reported questionnaire data. Among CNMI employer responses, two hotels accounted for more than half of workers employed by questionnaire respondents, so those hotels' responses substantially affected our questionnaire results.

To study CNMI hotel minimum wage and payroll costs in relation to operating costs, we analyzed data provided by CNMI tourism questionnaire respondents on 2009 annual payroll before deductions for taxes and benefits, Social Security and Medicare contributions under the Federal Insurance Contributions Act (FICA), payments for employee benefits, and other operating expenses. For this and other analyses in this report, we excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under FICA. For 2011, employers must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

SSA Data

We obtained 2009 SSA data (as of October 2010) on the earnings and employment of individual taxpayers in American Samoa and the CNMI, to update our analysis of data for 2005 to 2008 (as of August 2009) in the previous report. While the SSA data cover all types of workers in American Samoa and were sufficiently reliable for our purposes, three large groups of people in the CNMI were not required to report earnings to SSA and thus are excluded from the SSA data—CNMI government workers and immigrant workers from the Philippines and Korea. In 2008, these three groups represented approximately half of all CNMI workers, according to CNMI government tax data. We have chosen not to report the CNMI SSA data due to these coverage gaps.

For American Samoa, SSA told us that all employees were subject to SSA withholding—no group was systematically excluded. In our prior report, we determined that the data were generally consistent with information from other sources, including local American Samoa W-2 data and our questionnaire results. We used SSA data to review trends in employment in American Samoa since the federal minimum wage increases were implemented, including to determine two aspects of employment of American Samoa workers from 2005 to 2009. First, we used SSA data to determine the level of employment. Our count of employed people was based on the number of people that had positive reported earnings to SSA. Second, we reported the average earnings per employed person in American Samoa (excluding those with zero earnings). In addition, we

estimated the proportion of employed persons that dropped out of our sample in the following year.

Because of data limitations, we were unable to report earnings that had not been reported to SSA, either because of a failure on the part of the employer or because the earnings were not subject to SSA withholding. We also were unable to report on earnings that exceeded the SSA withholding cap. In addition, because our data was as of October 2010, our sample did not include those individuals for whom W-2 records were entered into Social Security files created after October.

To assess the reliability of the data, we interviewed agency officials at SSA. To the extent possible, we compared employment counts from the SSA data to counts from other sources. In addition, the counts of American Samoa employment and earnings differ from those in our prior report because of the inclusion of additional earnings from late W-2 filers. We updated our analysis to better isolate the earnings of individuals working in American Samoa. We determined that the available data were adequate and sufficiently reliable for the purposes of depicting trends in employment and earnings in American Samoa.

Discussion Groups

We conducted structured discussion groups with Chamber of Commerce members in American Samoa and the CNMI to collect information on the impact of the minimum wage increases on employers.⁸ Employers represented a range of industries and sizes, and we determined that the most effective and least burdensome method of collecting information from smaller employers would be to conduct discussion groups. For each discussion group, the Chamber of Commerce invited members to participate. In the CNMI, we also held discussion groups with members of the Hotel Association of the Northern Mariana Islands and with hotel human resource managers. The number of participants in each group ranged from 7 to about 18 business owners or managers.

To collect information on workers' views of the minimum wage increases, we conducted structured discussion groups with various worker and community groups with different organizational affiliations. In each case, we asked the organizations' leadership to invite members to the discussion

⁸These included the American Samoa Chamber of Commerce and the Saipan Chamber of Commerce.

groups. In American Samoa, we conducted two worker discussion groups at the remaining cannery, one group with recipients of the U.S. Department of Agriculture's Women, Infants, and Children program, and one group with participants in a nonprofit organization providing job training to laid-off cannery workers. In the CNMI, we conducted one discussion group with U.S. Department of Agriculture Nutrition Assistance Program recipients and two discussion groups at the public library and publicized to employers, including members of the Hotel Association of the Northern Mariana Islands. The number of participants in each group ranged from 4 to 11.

All discussion groups were moderated by a GAO employee following a structured guide with open-ended questions about the minimum wage increases and related topics. Discussion groups are generally designed to obtain in-depth information about specific issues that cannot be easily obtained from single interviews. Methodologically, they are not designed to provide results generalizable to a larger population or provide statistically representative samples or quantitative estimates. They represent the views only of the participants in our groups and may or may not be representative of the population of employers and workers in these insular areas. Therefore, the experiences of other employers and workers may be different from those who participated in our discussion groups. In addition, the groups and participants in the groups were not random samples of employers and workers in these insular areas.

Local Administrative Data

The U.S. Bureau of Labor Statistics collects CPI data on the U.S. 50 states but not the insular areas. Therefore, we relied on other sources of data to compare changes in earnings or wage rates to changes in prices.

We analyzed American Samoa administrative and survey data, including CPI data. We analyzed CNMI administrative and survey data, including CPI data and CNMI data on the number and earnings of workers from the CNMI Department of Finance's tax returns. The CNMI tax data provide ranges of earnings for both public and private sector workers and for both citizens and noncitizens in 2009, allowing us to update our analysis of data for 2005 to 2008. The CNMI tax data provide ranges of earnings, including all payments to employees such as overtime, shift differentials, cash housing and meal allowances, bonuses, etc.

We obtained historical data on the CPI from both areas in order to estimate inflation-adjusted earnings.⁹ For both American Samoa and the CNMI, we used quarterly CPI data from the first quarter of 2006 to the fourth quarter of 2009. To produce an annual CPI series, we averaged the four quarters in each year. In addition, for American Samoa, because the CPI was rebased in the fourth quarter of 2007, we recalculated the quarterly index series from the fourth quarter of 2008 back to the fourth quarter of 2007 by finding a rebasing factor such that the old and new indexes in the fourth quarter of 2007 were identical.

For both CNMI and American Samoa, we interviewed agency officials and contractors responsible for producing the quarterly CPI estimates. During our interviews and review, we noted irregularities in the CNMI CPI data. After we brought this to the responsible agency officials' attention, they determined that there had been an error in the published CNMI CPI, and they provided to us a corrected index that did not exhibit the same irregularities. The revised CPI's inflation rate was approximately four percentage points lower than the one previously published. The CNMI CPI data cover the island of Saipan; CPI data for 2006 to 2009 were not available for the islands of Tinian and Rota.

We also analyzed industry data. For example, to determine hotel room prices and hotel occupancy rates in the CNMI, we collected data from the Hotel Association of the Northern Mariana Islands and conducted related interviews and correspondence. In addition, the Marianas Visitors Authority provided data on flight seats and arrivals by country of residence. We found the data used to be reliable and relevant for the purposes of our report.

Data Reliability and Limitations

In general, to establish the reliability of the data that we used for reporting trends and statistics for both American Samoa and the CNMI, we systematically obtained information about the way in which data were collected and tabulated. When possible, we checked for consistency across data sources. While the data had some limitations, we determined that the available data were adequate and sufficiently reliable for the purposes of our review.

⁹We received CPI data from the CNMI and American Samoa Departments of Commerce. The series were updated by a subcontractor funded through a grant from DOI's Office of Insular Affairs.

Our review had certain limitations in addition to those already noted. In particular, although our approach yielded information on trends in employment, wages, and earnings in both areas, it is difficult to distinguish between the effects of minimum wage increases and the effects of other factors, including the global recession beginning in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI. In addition, our review of minimum wage increases is limited to American Samoa and the CNMI, and we did not study minimum wage increases in the U.S. economy more broadly.

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

Appendix II: Background

American Samoa

American Samoa comprises five volcanic islands and two coral atolls with a combined land area of 76 square miles—slightly larger than Washington, D.C.—located about 2,600 miles southwest of Hawaii (see fig. 1). In 2005, American Samoa had a population of about 63,780.¹ Its capital, Pago Pago, is on the main island of Tutuila, which consists mostly of rugged terrain with relatively little level land; most economic activity and government operations in American Samoa take place in the Pago Pago Bay area.

Figure 1: Map of American Samoa



Source: Map Info (map).

¹American Samoa Government, Department of Commerce, Statistics Division, *Report on the 2005 American Samoa Household, Income, and Expenditures Survey (HIES)*. Data is based on the 2005 HIES for American Samoa, which was not completed and is available only in draft form.

American Samoa–U.S.
Relations

U.S. interest in the Samoan islands began in 1872 with the efforts of the U.S. Navy to establish a naval station in Pago Pago harbor. The protectorate over all the Samoan islands established by the United States, Britain, and Germany ended in 1899, when the islands composing American Samoa were placed under U.S. control. The U.S. Naval Station was established in 1900.² From 1900 through 1904, the U.S. government negotiated control over American Samoa,³ and the U.S. Navy subsequently took responsibility for federal governance of the territory. In 1951, governance was transferred to the Secretary of the Interior.⁴ In 1960, American Samoa residents adopted their own constitution. Amendments to the constitution of American Samoa can only be made by the U.S. Congress.⁵ Persons born in American Samoa are U.S. nationals but may apply to become naturalized U.S. citizens.⁶ U.S. noncitizen nationals from American Samoa have the right to travel freely, live, and work throughout

²Joseph Kennedy, *The Tropical Frontier: America's South Sea Colony* (Mangilao, Guam: University of Guam Micronesia Area Research Center, 2009) and J. Robert Shaffer, *American Samoa: 100 Years under the United States Flag* (Honolulu, Hawaii: Island Heritage Publishing, 2000).

³Two deeds of cession were initially completed between Samoan chiefs, or matai, and the United States in 1900 and 1904 and ratified by the federal government in 1929. In these deeds, the United States pledged to promote peace and welfare, to establish a good and sound government, and to preserve the rights and property of the people. See 45 Stat. 1253, c. 281 (Feb. 20, 1929), codified at 48 U.S.C. §1661.

⁴Transfer of Administration of American Samoa, Exec. Order No. 10,264, 16 Fed. Reg. 6419 (1951). The Secretary exercised broad powers with regard to American Samoa, including “all civil, judicial, and military powers” of government in American Samoa. 48 U.S.C. § 1661(c).

⁵48 U.S.C. § 1662a.

⁶American Samoa residents have many of the rights of citizens of the 50 states but cannot vote in U.S. national elections and do not have voting representation in the final approval of legislation by the full Congress. The Delegate from American Samoa has many of the same congressional privileges as other representatives, including a vote in committee, but cannot vote in the House of Representatives. Noncitizen nationals do not have the same preferences as U.S. citizens for sponsoring immediate family members for family-based immigration visas. In order to qualify for the same preference categories as citizens, noncitizen nationals must become naturalized citizens of the United States, which includes a requirement to reside in the United States for 3 months (8 C.F.R. §325.2). Additionally, individuals who are residents of the U.S. insular areas pay no federal income tax on income from sources within the insular areas; however, their wages are subject to Social Security and Medicare taxes.

the United States. American Samoa exercises authority over its immigration system and customs through locally adopted laws.⁷

Additionally, the U.S. government has supported American Samoa's economy through trade and tax policies that, respectively, have provided tariff-free access to the United States for tuna canned in American Samoa and have reduced federal taxes on income earned by qualifying U.S. corporations investing in American Samoa.⁸ However, changes to various free trade agreements within the last decade have lowered U.S. tariffs on tuna exported from several other countries, reducing the American Samoa canneries' competitive advantage.⁹ U.S. tax policies, designed to encourage certain U.S. corporations to invest in the U.S. insular areas and create jobs, expired and were recently extended through 2011.¹⁰

American Samoa Government
Fiscal Condition

The American Samoa government, excluding component units, spent approximately \$146.6 million in grants from several federal agencies in

⁷American Samoa is the only insular area that operates both its own customs and immigration programs. The U.S. government operates the immigration functions in other insular areas, such as Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands; however, each of these insular areas operates under its own customs laws.

⁸Under the Internal Revenue Code, qualifying American Samoa tuna canneries have received a tax credit for U.S. corporate income taxes. See 26 U.S.C. §936, 26 U.S.C. §30A note.

⁹From 1997 through 2007, U.S. trade laws and agreements helped American Samoa's tuna canning industry remain viable in spite of competition. As tuna exports from other countries into the U.S. market increased, exports from American Samoa remained constant. In August 2002, tariffs decreased on pouched tuna exported from countries covered by the Andean Trade Preference Act. The authority to extend duty-free treatment to Andean Trade Preference Act beneficiary countries expired on February 12, 2011, and has not been renewed. In January 2008, provisions of the North American Free Trade Agreement lifted tariffs imposed on canned tuna and other tuna products exported from Canada and Mexico. Nevertheless, some of American Samoa's foreign competitors still did not qualify for tariff-free access to the U.S. market.

¹⁰The tax credits under section 936 of the Internal Revenue Code expired for taxable years beginning after December 31, 2005. Section 30A of the Internal Revenue Code extends the Section 936 credits for American Samoa until January 1, 2012, subject to certain limitations. Corporations that were actively conducting business in American Samoa by 1995 who elected Section 936 status in the last taxable year before January 1, 2006, can claim a section 30A tax credit for taxable years that begin before January 1, 2012. See 26 U.S.C. §30A note, as amended by Pub. L. No. 111-312, §756, 124 Stat. 3296, 3322 (Dec. 17, 2010). Canneries in American Samoa have also benefited from an exemption from local taxes, renewable annually, for employers maintaining payrolls at certain levels. On January 6, 2011, the American Samoa government extended StarKist's local tax exemption until December 31, 2012. The term of the certificate began on April 1, 2010.

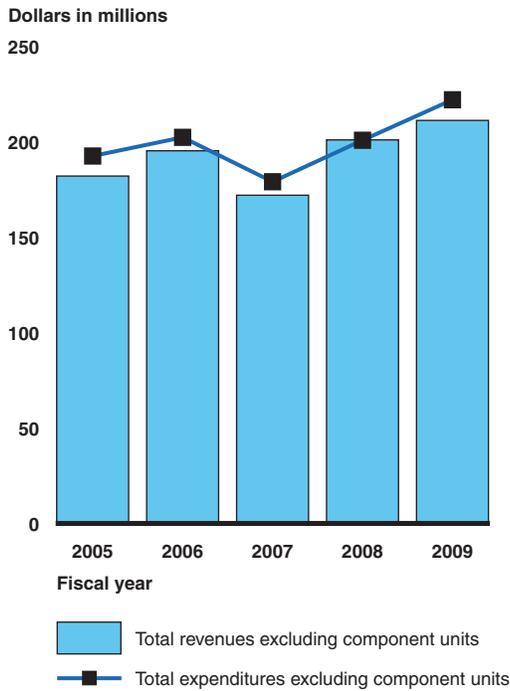
fiscal year 2009, according to the most recent American Samoa Single Audit Report.¹¹ American Samoa has received federal funds under the American Recovery and Reinvestment Act (Recovery Act) that temporarily supplement local government revenues.¹²

Excluding component units, local government spending exceeded revenues each year from 2005 to 2009, except for fiscal year 2008 (see fig. 2). From 2005 to 2009, the American Samoa government's budget deficit averaged 4 percent of total revenues. In 2010, government revenues were lower than expected, and local government officials have projected a \$7 million shortfall in local revenues for fiscal year 2011. The governor of American Samoa has submitted revenue generating measures for legislative approval; in February 2011, the governor implemented a reduction-in-work-hours plan for select local government employees whose salaries are paid by local revenues. In March 2011, the governor signed into law a 2 percent increase in the wage tax that is intended to raise local revenues.

¹¹R.C. Holsinger and Associates, P.C., *Territory of American Samoa Single Audit Report*, prepared at the request of the American Samoa Government, Department of Treasury, September 30, 2009 (June 2010). Additional federal funds go to component units of the American Samoa government not fully covered by the Single Audit Report's Schedule of Expenditures of Federal Awards, including the American Samoa Government Employees Retirement Fund, the American Samoa Economic Development Authority, the American Samoa Power Authority, the American Samoa Community College, Lyndon B. Johnson Tropical Medical Center, and the American Samoa Telecommunications Authority. In addition, the Schedule of Expenditures of Federal Awards does not include the fiduciary fund. In an effort to improve accountability for federal funds, DOI's Office of Insular Affairs has designated American Samoa as a "high-risk" grantee as provided in 43 C.F.R. §12.52, and as recommended by the Department's Inspector General and GAO. This designation allows the Office of Insular Affairs to require American Samoa grantees to comply with special conditions for future or existing grants. The office will remove this high-risk designation once the American Samoa Government demonstrates its compliance with certain fiscal and internal accounting requirements. See U.S. Department of the Interior, Office of Insular Affairs, *Budget Justifications and Performance Information: Fiscal Year 2011*.

¹²The American Recovery and Reinvestment Act (Recovery Act) was enacted in February 2009. Among other provisions—including the mandate for this and subsequent GAO reports—the act appropriates roughly \$787 billion in fiscal stimulus to the U.S. economy. By March 2011, federal agencies had reported the availability of Recovery Act funds for American Samoa totaling \$240.8 million and the disbursement of \$61.6 million.

Figure 2: American Samoa Government Revenues and Expenditures, Excluding Component Units, 2005-2009



Source: GAO analysis of American Samoa Single Audit Reports, 2005-2009.

Note: Revenues and expenditures data shown above exclude the following component units: the American Samoa Government Employees Retirement Fund, the American Samoa Economic Development Authority, the American Samoa Power Authority, the American Samoa Community College, Lyndon B. Johnson Tropical Medical Center, and the American Samoa Telecommunications Authority. In addition, the above data exclude some other funds, such as the proprietary fund.

American Samoa Economy

The U.S. Department of Commerce’s Bureau of Economic Analysis (BEA) estimated that in 2007 American Samoa’s gross domestic product (GDP) was \$532 million. From 2002 to 2007, real GDP increased at an estimated average annual rate of 0.4 percent while per capita real GDP decreased at an estimated average annual rate of 1.9 percent.¹³

¹³In early 2009, BEA began work on the Statistical Improvement Program—funded by the Department of the Interior’s Office of Insular Affairs—to develop the first official GDP estimates for American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands. In 2010, BEA released its first set of GDP estimates, for 2002 to 2007, and it plans to release 2008 and 2009 GDP estimates in 2011. BEA’s GDP estimates are based on limited source data and are subject to revision.

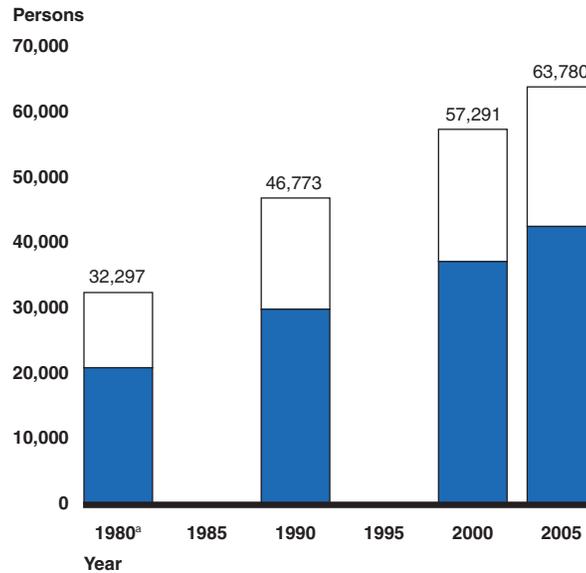
Key Industries

The tuna canning industry and the government sector have been American Samoa's two largest employers.¹⁴ In 2006, about a third of American Samoa's workforce was employed by the two tuna canneries; about a third was employed by other businesses, many supporting the tuna industry; and about a third worked in the government sector.¹⁵ Noncitizens, mostly from the independent state of Samoa, compose approximately a third of American Samoa's population of 63,780 in 2005 (see fig. 3) and roughly four-fifths of the canneries' employees. Many citizens of the independent state of Samoa reside in American Samoa on a long-term basis, including spouses and relatives of American Samoans.

¹⁴According to the U.S. Economic Census 2007, American Samoa's private sector economy included 812 establishments; 11,247 workers; total annual payroll of \$132.25 million; and transactions (sales, receipts, revenue, shipments) totaling \$1.278 billion. In particular, 44 percent of employees worked in manufacturing, the largest share of employment for any single industry. Establishments that are not covered by the Economic Census include agricultural establishments, some schools, and some government establishments, among others.

¹⁵U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa*, 2007 (Washington, D.C., May 2007).

Figure 3: Citizenship Status of American Samoa Population, 1980-2005



U.S. Census Bureau 2010 midyear population estimate: 66,000.

In 2008, the American Samoa Department of Commerce estimated that from 45 to 55 percent of the population was foreign born.

	Neither U.S. citizens nor nationals	11,514	NA	17,031	NA	20,251	21,370
	Percentage	36.7	NA	36.4	NA	35.3	33.5
	U.S. citizens or nationals	20,783	NA	29,742	NA	37,040	42,410
	Percentage	64.3	NA	63.6	NA	64.7	66.5

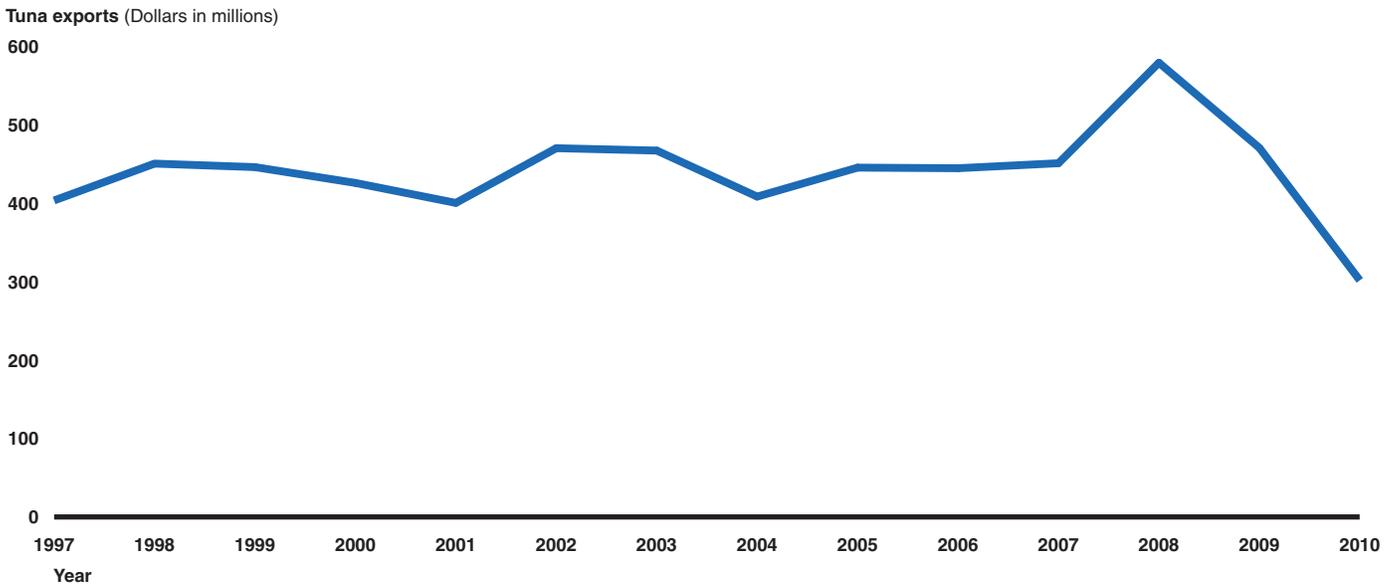
Sources: GAO analysis of decennial U.S. Census data and 2005 (draft) report by American Samoa government on household, income, and expenditures survey (bar chart); U.S. Census Bureau, Population Division, International Database (text box, 2010); and *Immigration and Population Growth in the Territory of American Samoa from 1980 to 2008—Analysis and Trends*, January 20, 2009 (text box, 2008).

Note: Comparable data were not available for years 1985 and 1995. U.S. Decennial Census data from 2010 were not available for our review.

^aFor 1980, the definition of U.S. citizen includes people born in the United States, the CNMI, Guam, and American Samoa. Persons with place of birth not reported are classified as not U.S. citizens.

The tuna canning industry, a mainstay of the American Samoa economy since the 1950s, maintained a relatively constant flow of exports to the United States until 2008, despite competition from other countries. From 2008 to 2010, tuna exports from American Samoa to the United States declined, as shown in figure 4. Tuna exports represented 97 percent of the total value of American Samoa’s commodity exports (over \$312 million) to the United States in 2010.

Figure 4: American Samoa Tuna Exports to the United States, 1997-2010



Source: GAO analysis of U.S. Department of Commerce data.

In addition, the canneries have provided many indirect benefits to other industries and the economy in American Samoa. For example, many businesses exist to support the canneries, such as the company that manufactures the cans. Maintenance for the canneries and for the vessels that supply the canneries also brings business and jobs to the island. Cannery workers spend money at local establishments, such as restaurants and retail stores. Additionally, exported cannery products and delivery of materials to the canneries reduced the shipping cost of bringing other goods to American Samoa.

Chicken of the Sea International,¹⁶ which operated one of the two canneries in American Samoa, closed its cannery operations in the territory at the end of September 2009.¹⁷ Chicken of the Sea relocated canning facilities to the U.S. state of Georgia while outsourcing the more

¹⁶Tri-Union Samoa Packing was the American Samoa facility of Tri-Union Seafood LLC (doing business as Chicken of the Sea International), which is a subsidiary of the Thailand-based Thai Union Group.

¹⁷In November 2006, Chicken of the Sea’s Samoa Packing operation employed 40 percent (1,906 workers) of the island’s fish canning and processing workers.

labor-intensive processes, including cleaning and cooking the tuna loins (a low-tariff U.S. import), to countries with lower labor costs. The remaining tuna cannery, StarKist,¹⁸ has expressed concerns about the costs of operating in American Samoa.

On October 5, 2010, Tri Marine International acquired the former Chicken of the Sea tuna cannery in American Samoa.¹⁹ While provisions in the company's local tax exemption certificate indicate opportunities for new employment and investment, expected short-range employment is well below the certificate's benchmark targets, according to the company.²⁰

On September 29, 2009, a tsunami following a strong earthquake left 34 people dead in American Samoa. Although the two tuna canneries were mostly spared, the tsunami caused severe damage to homes, businesses, and water and electrical infrastructure. The federal government issued a disaster declaration and has assisted with tsunami recovery efforts. As of September 21, 2010, the Federal Emergency Management Agency had provided more than \$37.4 million in grant assistance for housing and disaster-related needs.²¹

¹⁸StarKist Co. is a subsidiary of the South Korean-based Dongwon Group. Dongwon acquired StarKist in 2008 from Del Monte Foods, which had acquired StarKist from the H.J. Heinz Company in 2002.

¹⁹Samoa Tuna Processors, Inc. is part of Tri Marine, a privately owned group of companies primarily engaged in fishing, procurement, processing, and trading of tuna and other seafood products, and in supplying tuna and tuna products to various brands. Tri Marine does not own or supply its own brand of canned tuna. Tri Marine is headquartered in Bellevue, Washington, and was founded in Singapore.

²⁰Tri Marine's local tax exemption certificate requires that the company invest a minimum of \$5 million and employ 600 people within 5 years in order to retain local tax benefits.

²¹To expand disaster assistance available to American Samoa, on January 16, 2010, the President increased federal funding to American Samoa to cover 90 percent of costs resulting from public assistance, hazard mitigation, and other specified needs. The order also increased the federal share for debris removal and emergency protective measures, including increasing direct federal assistance under the public assistance program to 100 percent of total eligible costs for 30 consecutive days. Under the President's major disaster declaration of September 29, 2009, the federal government had assumed 75 percent of these costs. To be eligible for Federal Emergency Management Agency cash-assistance programs, an individual must be a U.S. citizen, noncitizen national, or a qualified alien with legal permanent residence. Other individuals may apply on behalf of their U.S. citizen child, or another adult household member may qualify the household. Individuals not meeting these requirements may qualify for short-term, noncash, emergency aid.

Local government and private sector officials have expressed interest in developing American Samoa's tourism industry in an effort to spur future economic development in the territory. In 2008, the American Samoa government created the American Samoa Visitors Bureau; in 2009, DOI funded the creation of a Tourism Master Plan—a written report that proposes next steps and discusses challenges for developing tourism in American Samoa.²² However, some public and private sector officials have indicated that challenges exist in developing the island's tourism industry, including restrictive immigration policies, lack of promotional material, and insufficient flight frequency. They also said that American Samoa is competing with neighboring Pacific islands with more developed tourism industries.

Personal Income and Poverty Rates

Current federal data on income and poverty levels in American Samoa do not exist; however, the most recent available data show that American Samoa had lower income and higher poverty rates than the mainland United States. For example:

- In 2004, the median household income in American Samoa was \$22,930,²³ while the U.S. 50-state and District of Columbia median household income was \$44,334.²⁴
- In 2004, the poverty rate for persons age 25 and older in American Samoa was 49.9 percent,²⁵ while the U.S. 50-state and District of Columbia poverty rate for all persons was 12.7 percent.²⁶

²²Resort Consulting Associates, LLC, Kiner Design Group, and Studio 81 International, *American Samoa Tourism Master Plan*, prepared for the American Samoa Government, Department of Commerce (June 2010).

²³American Samoa Government, Department of Commerce, Statistics Division, *Report on the 2005 American Samoa HIES* (draft).

²⁴Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports, Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

²⁵American Samoa Government, Department of Commerce, Statistics Division, *Report on the 2005 American Samoa HIES* (draft).

²⁶Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports, Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

Commonwealth of the
Northern Mariana Islands

Part of the Mariana Islands Archipelago in Micronesia, the CNMI is a chain of 14 islands in the western Pacific Ocean—just north of Guam and about 3,200 miles west of Hawaii (see fig. 5). Most of the CNMI population—65,927 in 2005,²⁷ with recent estimates of decline—resides on the island of Saipan, with additional residents on the islands of Tinian and Rota.

²⁷This population estimate includes 60,608 residents of Saipan; 2,829 residents of Tinian; and 2,490 residents of Rota. See Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 Household, Income, and Expenditures Survey (HIES)* (April 1, 2008). For recent estimates, see figure 9.

Figure 5: Map of the CNMI



Source: Map Info (map).

CNMI–U.S. Relations

The United States took control of the Northern Mariana Islands from Japan during the latter part of World War II, and after the war the U.S. Congress approved the Trusteeship Agreement making the United States responsible to the United Nations for the administration of the islands.²⁸

²⁸In 1947, the United Nations gave the United States authority to administer the Trust Territory of the Pacific Islands, which included the Northern Mariana Islands. The trusteeship over the Northern Mariana Islands was formally dissolved in 1986.

Later, the Northern Mariana Islands sought self-government and permanent ties with the United States. In 1976, after almost 30 years as a trust territory, the District of the Mariana Islands entered into a covenant with the United States establishing the island territory's status as a self-governing commonwealth in political union with the United States.²⁹ This covenant grants the CNMI the right of self-governance over internal affairs and grants the United States complete responsibility and authority for matters relating to foreign affairs and defense affecting the CNMI.³⁰ The covenant initially made many federal laws applicable to the CNMI, including laws that provide federal services and financial assistance programs.³¹ The covenant preserved the CNMI's exemption from certain federal laws that had previously been inapplicable to the Trust Territory of the Pacific Islands, including federal immigration laws, with certain limited exceptions,³² and certain federal minimum wage provisions. However, under the terms of the covenant, the federal government has the

²⁹Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, Pub. L. No. 94-241, § 1, 90 Stat. 263 (Mar. 24, 1976), 48 U.S.C. § 1801 note. See also Howard P. Willens and Deanne C. Siemer, *An Honorable Accord: The Covenant between the Northern Mariana Islands and the United States* (Honolulu, Hawaii: University of Hawaii Press, 2002).

³⁰Under the covenant, the U.S. government may enact legislation in accordance with its constitutional processes that will be applicable to the CNMI. To respect the CNMI's right of self-government under the covenant, certain provisions of the covenant may be modified only with the consent of both the federal government and the CNMI government. These provisions include those relating to the political relationship between the United States and the CNMI; the CNMI constitution, citizenship, and nationality; the application of the U.S. constitution to the CNMI; and the land ownership rights of CNMI citizens. Most other provisions of the CNMI covenant may be modified by the federal government without the consent of the CNMI government, and local CNMI laws that were not inconsistent with federal laws or treaties of the United States when the covenant was enacted remained in effect. In addition, international treaty obligations between the United States and other countries apply to the CNMI through the covenant.

³¹The covenant also made certain provisions of the Social Security Act, the Public Health Service Act, and the Micronesian Claims Act applicable to the CNMI.

³²Prior to November 2009, Section 506 of the covenant applied to the CNMI certain provisions of the Immigration and Nationality Act of 1952 (INA) relating to citizenship and family-based permanent immigration. Certain other nonimmigrant provisions of the act, related to victims of human trafficking and other crimes, also applied to the CNMI. See 8 U.S.C. § 1101(a)(15)(T)-(U). In addition, the covenant provided U.S. citizenship to legally qualified CNMI residents.

right to apply federal law in these exempted areas without the consent of the CNMI government.³³

Until recently, the CNMI retained legislative authority over most aspects of immigration, regulating entry into the CNMI through a permit system. In 2008, federal legislation amended the U.S.-CNMI Covenant to establish federal control of CNMI immigration; the law includes several provisions affecting access to the CNMI by foreign workers, tourists, and foreign investors that were implemented beginning in November 2009.³⁴ As we reported in August 2008, the potential impact of the legislation's implementation on the CNMI's labor market will largely depend on decisions that the U.S. Departments of Homeland Security (DHS) and DOL make in implementing a program to provide foreign workers temporary permits to work in the CNMI.³⁵ Although modest reductions in CNMI-only permits for foreign workers would cause minimal impact, any substantial and rapid decline in the availability of CNMI-only work permits for needed workers would have a negative effect on the economy, given foreign workers' prominence in key CNMI industries. As of May 2011, DHS had not issued final regulations for workers, nor has it made a permanent decision regarding access for visitors from Russia and China. It issued regulations for foreign investors in December 2010.³⁶

³³The Consolidated Natural Resources Act of 2008 created a nonvoting delegate seat in the U.S. House of Representatives for the CNMI (48 U.S.C. § 1751). In January 2009, the CNMI elected its first representative to the United States Congress. The Delegate from the CNMI has many of the same congressional privileges as other representatives, including a vote in committee, but cannot vote in the House of Representatives.

³⁴Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008). Certain provisions may be extended past 2014. The legislation's stated intent is to ensure effective border control procedures and to protect national and homeland security, while minimizing the potential adverse economic and fiscal effects of phasing out the CNMI's foreign worker permit program and while maximizing the CNMI's potential for economic and business growth. CNMI immigration law was in effect until the start of the transition period under the federal legislation; however, federal restrictions on the total number of foreign workers in the CNMI applied immediately.

³⁵[GAO-08-791](#).

³⁶Under the regulations issued by DHS in December 2010, previous long-term business investors with a minimum of \$50,000 in investments and foreign investors with a minimum of \$100,000 in an aggregate approved investment in excess of \$2,000,000, or a minimum of \$250,000 in a single approved investment can remain in the CNMI through the transition period that is scheduled to end in 2014. See 8 C.F.R. § 214.2(e)(23)(iii)(A)(2).

CNMI Government Fiscal Condition

The CNMI government, excluding component units, spent approximately \$64 million in grants from several federal agencies in fiscal year 2009, according to the most recent CNMI Report on the Audit of Financial Statements.³⁷ The CNMI has received federal funds under the American Recovery and Reinvestment Act that temporarily supplement local government revenues.³⁸

Excluding component units, local government spending exceeded revenues each year from 2005 to 2009 (see fig. 6). From 2005 to 2009, the CNMI government's budget deficit averaged 15 percent of total revenues. In October 2010, the CNMI government partially shut down due to a budget impasse. The shutdown was in effect for 10 days, and the local government has since enacted austerity measures, including eliminating paid holidays for government employees and reducing full-time employees' schedules by 16 hours per 2-week pay period.³⁹ Since June 2010, the local government has also occasionally delayed payroll and is currently considering laying off employees.

Additionally, the CNMI government has struggled to make payments to various local government departments and units. For example, the Northern Mariana Islands Retirement Fund actuarial assessment for fiscal year 2008 reported unfunded pension liabilities of about \$530 million.⁴⁰ In

³⁷Deloitte and Touche LLC, *Commonwealth of the Northern Mariana Islands: Report on the Audit of Financial Statements in Accordance with OMB Circular A-133, Year Ended September 30, 2009* (June 2010). Additional federal funds go to component units of the CNMI government not fully covered by the audit report's Schedule of Expenditures of Federal Awards, including the Public School System, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Ports Authority, the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, and the Marianas Visitors Authority.

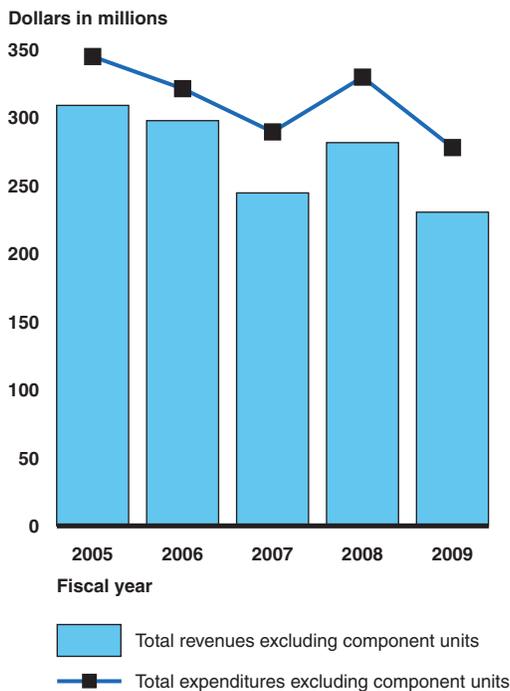
³⁸On November 10, 2009, the CNMI Governor certified the commonwealth's intent to request and use federal funds under the act. By March 2011, federal agencies had reported the availability of Recovery Act funds for the CNMI totaling \$135.7 million, and the disbursement of \$61.9 million. Among other initiatives, these federal funds supported infrastructure projects under the Commonwealth Ports Authority and augmented resources for nutrition assistance in the Department of Community and Cultural Affairs.

³⁹In August 2006, the CNMI government also enacted biweekly furloughs, along with other measures, during which government employees were not paid—through fiscal year 2007.

⁴⁰Government accounting standards define "unfunded liability" as the excess, if any, of government liabilities over government assets. Unfunded liabilities indicate formal commitments by a government to expend funds for which the government has set aside no assets.

December 2010, the CNMI government owed unpaid utility bills to the Commonwealth Utilities Corporation, resulting in disconnected power and water service for some local government departments, and the Marianas Visitors Authority had unfunded liabilities of about \$2 million. The Commonwealth Utilities Corporation has been operating under a state of emergency since August 2008.

Figure 6: CNMI Government Revenues and Expenditures, Excluding Component Units, 2005-2009



Source: GAO analysis of CNMI Reports on the Audit of Financial Statements, 2005-2009.

Note: Revenues and expenditures data shown above exclude the following component units: the Public School System, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI Workers' Compensation Commission, the Commonwealth Ports Authority, the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, and the Marianas Visitors Authority. In addition, the above data exclude some other funds, such as the fiduciary fund.

CNMI Economy

BEA estimated that the CNMI's GDP in 2007 was \$962 million. From 2002 to 2007, real GDP decreased at an estimated average annual rate of 4.2

percent. Per capita real GDP increased at an estimated average annual rate of 0.5 percent at least partly because of population loss.⁴¹

Key Industries

For years, the garment and tourism industries were the mainstay of the CNMI's economy, generating employment and bringing revenue from outside the CNMI.⁴² For example, in 1999, these two industries accounted for about 85 percent of the CNMI's total economic activity and 96 percent of its exports.⁴³

Several developments in international trade caused the CNMI's garment industry to decline dramatically. In January 2005, in accordance with a World Trade Organization 10-year phaseout agreement, the United States eliminated quotas on textile and apparel imports from other textile-producing countries, exposing the CNMI apparel industry's shipments to

⁴¹As noted earlier, in 2010, BEA released its first set of GDP estimates, for 2002 to 2007, and it plans to release 2008 and 2009 GDP estimates in 2011. BEA's GDP estimates are based on limited source data. In presenting the increase in per capita real GDP, BEA stated that the population of the CNMI decreased rapidly as foreign workers left the territory.

⁴²According to the U.S. Economic Census 2007, the CNMI's private sector economy included 1,191 establishments; 22,622 workers; total annual payroll of \$246.1 million; and transactions (sales, receipts, revenue, shipments) totaling \$1.284 billion. Manufacturing employed the largest share of the total workforce, with 31 percent. Twenty-one percent of employees worked in accommodation and food services, the second-largest share of employment for any single industry. Establishments that are not covered by the Economic Census include agricultural establishments, some schools, and some government establishments, among others.

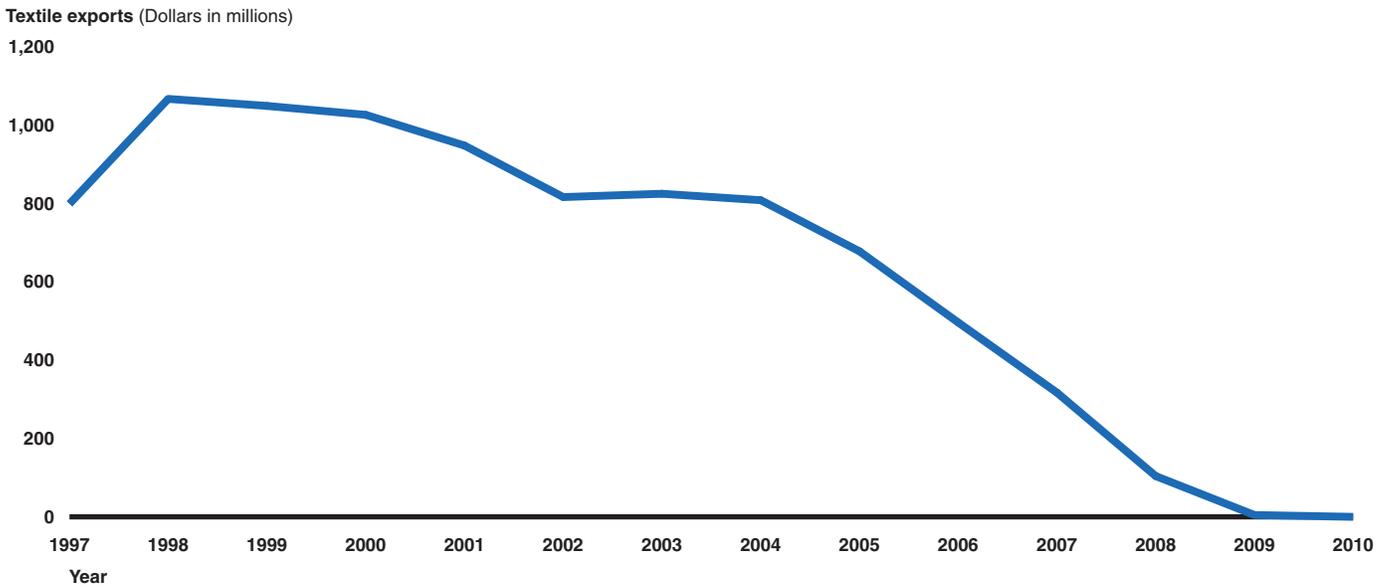
⁴³Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999). See also [GAO-08-791](#).

the United States to greater competition.⁴⁴ Subsequently, the value of CNMI textile exports to the United States dropped from a peak of \$1.1 billion in 1998 to close to zero in 2010 (see fig. 7).⁴⁵ The number of licensed CNMI apparel manufacturers decreased rapidly, from 34 firms in 1999 to 6 firms as of July 2008. By the end of the first quarter of 2009, the last garment factory in the CNMI had closed.

⁴⁴The apparel industry in the CNMI grew and expanded during a time when international rules governing apparel and textile trade were being renegotiated. Beginning in the 1960s, exporting and importing nations established the Multifiber Arrangement as a multilateral trade agreement to govern trade restrictions in textiles. Under the Multifiber Arrangement, importing countries could negotiate and implement quota restrictions. The Uruguay Round of Multinational Trade Negotiations, initiated in September 1986, agreed to an objective of integrating the textile sector into the General Agreement on Tariffs and Trade, thereby contributing to further trade liberalization. Negotiations on textiles began in 1987, and by December 1991 the proposed final agreement brought the sector into conformity with the General Agreement on Tariffs and Trade over a 10-year period; this would be accomplished through several stages by which imports could increase until all quota restrictions were ended after 10 years. In 1994, the United States agreed to the World Trade Organization Agreement on Textiles and Clothing to remove quota restrictions in a series of stages beginning on January 1, 1995, and ending with the removal of all remaining quotas on January 1, 2005. See Agreement on Textiles and Clothing, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, Multilateral Agreement on Trade in Goods – Results of the Uruguay Round, 33 I.L.M. 28. The end of U.S. quotas on apparel imports in 2005 negated the value of quota-free status for Guam and the CNMI. CNMI textile exports to the United States began to fall in advance of the final quota removal.

⁴⁵U.S. Department of Commerce, Economic and Statistics Administration, Foreign Trade Division, *U.S. Trade with Puerto Rico and U.S. Possessions*.

Figure 7: CNMI Textile Exports to the United States, 1997-2010

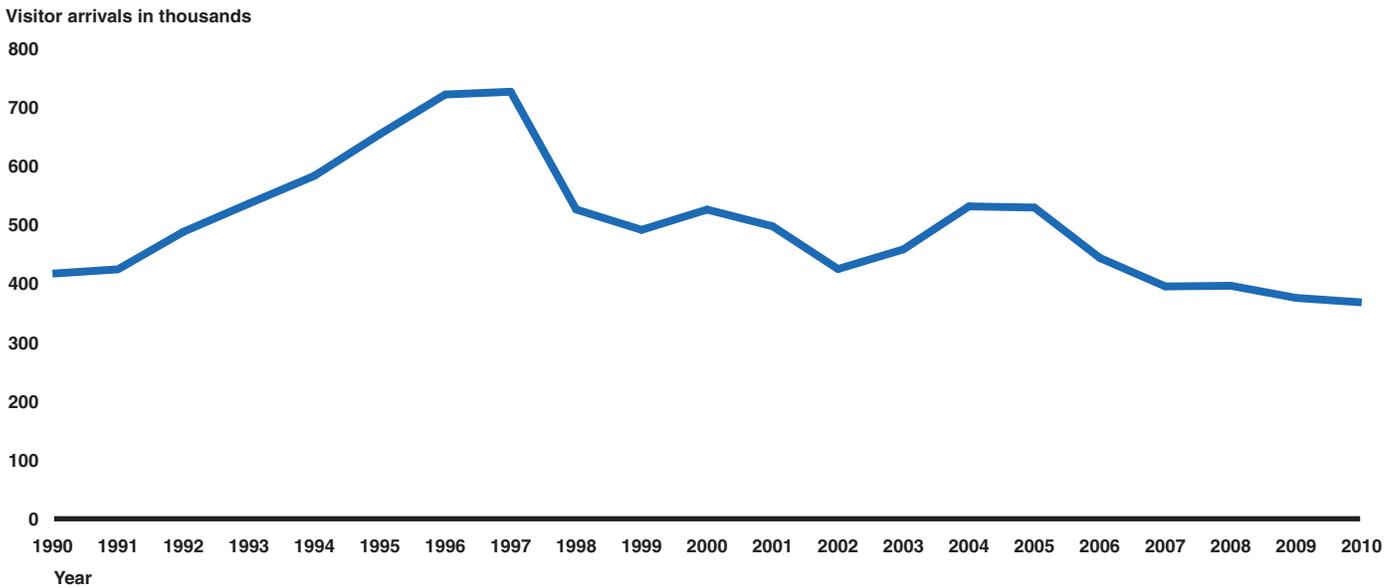


Source: GAO analysis of U.S. Department of Commerce data.

In addition, the CNMI economy has been negatively affected by trends and uncertainty in the tourism industry—the CNMI’s primary private sector industry. For example, tourism in the CNMI declined after peaking in the mid 1990s, beginning with the Asian financial crisis in the late 1990s. In 2003, according to CNMI officials, tourism slowed for several months in reaction to the severe acute respiratory syndrome epidemic, which originated in Asia, and the war in Iraq. Total visitor arrivals to the CNMI dropped from a peak of 726,690 in 1997 to 368,186 in 2010, a decline of 49 percent, as shown in figure 8. Japan, Korea, Russia, and China are the CNMI’s primary visitor markets, with Japan representing the largest share of any country and Russia and China representing emerging markets. CNMI government officials reported declines in Japanese visitor arrivals following the March 2011 earthquake and tsunami in Japan, and they expressed concern about the impact on the CNMI’s tourism industry. The tourism industry also may be affected by the November 28, 2009, implementation of a joint visa waiver program for visitors to the CNMI and

Guam, as part of the application of U.S. immigration law.⁴⁶ While an interim final rule currently governs the operation of the Guam-CNMI Visa Waiver Program, DHS has not issued final regulations for this program.

Figure 8: CNMI Visitor Arrivals, 1990-2010



Source: GAO analysis of Marianas Visitors Authority arrivals data.

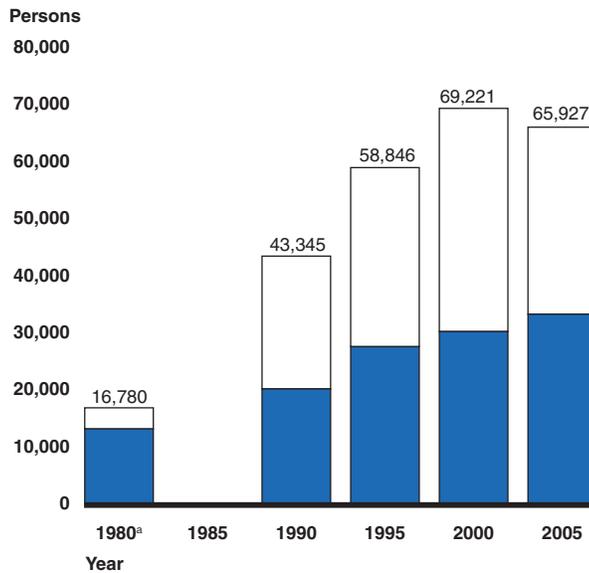
During the expansion of the CNMI garment and tourism industries prior to 1995, the CNMI economy became dependent on foreign labor, as the CNMI government used its authority over its own immigration policy to bring in large numbers of foreign workers and investors. In 1995, two-thirds of the CNMI working population were temporary residents, including about 93 percent of workers in the garment industry and slightly over 72 percent in the tourism industry. In contrast, in the same year, U.S. citizens and permanent residents of the CNMI held about 96 percent of jobs in the public sector. As a result, the CNMI economy developed a two-tiered wage structure, with U.S. citizens and permanent residents earning 3.5 times

⁴⁶The Consolidated Natural Resources Act of 2008 required the establishment of a joint visa waiver program for the CNMI and Guam by amending the authority for an existing visa waiver program for Guam visitors. The Guam-CNMI Visa Waiver Program exempts tourism and business visitors from certain countries who are traveling to the CNMI and Guam for up to 45 days from the standard U.S. visa documentation requirements. 8 C.F.R. § 212.1(q).

more in 1995 than temporary residents.⁴⁷ However, with the decline of the garment and tourism industries, the number and proportion of noncitizens in the CNMI labor force and population have decreased (see fig. 9). In 2005, noncitizen workers in the CNMI were predominantly from China or the Philippines. As noted above, the application of U.S. immigration law might result in further changes in the composition of the CNMI's workforce.

⁴⁷Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999). The study did not distinguish between U.S. citizens and U.S. lawful permanent residents, referring to the combined group as permanent residents.

Figure 9: Citizenship Status of CNMI Population, 1980-2005



U.S. Census Bureau 2010 midyear population estimate: 48,000.

In 2009 the CNMI Department of Labor reported that guest workers accounted for 16,500 (59 percent) of the CNMI workforce of 28,000 persons.

Neither U.S. citizens nor nationals	3,703	NA	23,263	31,357	39,089	32,749
Percentage	22.1	NA	53.7	53.3	56.5	49.7
U.S. citizens or nationals	13,077	NA	20,082	27,489	30,132	33,178
Percentage	77.9	NA	46.3	46.7	43.5	50.3

Sources: GAO analysis of decennial U.S. Census data (1980, 1990, 2000); report by CNMI government on population, labor force, and unemployment (1995); and report by CNMI government on household, income, and expenditures survey (2005) (bar chart); U.S. Census Bureau, Population Division, International Database (text box, 2010); and CNMI Department of Labor, Public Service Notice, April 7, 2009 (text box, 2009).

Note: Comparable data were not available for 1985. U.S. Decennial Census data from 2010 were not available for our review.

^aFor 1980, the definition of U.S. citizen includes people born in the United States, CNMI, Guam and American Samoa. Persons with place of birth not reported are classified as not a U.S. citizen.

In addition, the CNMI's economy may be affected in the future by the planned build-up of the U.S. military in neighboring Guam. By 2014, the U.S. Department of Defense intends to relocate 8,600 Marines and additional military units, as well as an estimated 9,000 dependents from Okinawa, Japan, to Guam, increasing Guam's current population by an

estimated 25,000 active duty military personnel and dependents.⁴⁸ The Department of Defense plans to use the island of Tinian to conduct training operations and construct firing ranges. Local government officials expect the build-up to have a small positive impact on the CNMI in the immediate future, with potentially greater positive impacts in the medium- to long-term. However, while it is possible that the build-up will result in new businesses and tourism opportunities for the CNMI, some local private sector officials anticipate that the build-up will have little to no economic benefit for the commonwealth.

In an effort to explore opportunities for future economic development, the local government has identified potential growth industries, including call centers, agriculture, and aquaculture. The CNMI's Comprehensive Economic Development Strategic Plan, 2009-2014 outlines a number of developmental projects in various industries.⁴⁹ However, the plan indicates that many challenges exist to implementing these projects and notes that, despite past studies and efforts to identify new industries, the CNMI has had difficulty attracting new investors and developing new industries.

Personal Income and Poverty Rates

Current federal data on income and poverty levels in the CNMI do not exist; however, the most recent available data show that the CNMI had lower income and higher poverty rates than the mainland United States. For example:

⁴⁸We reported in May 2008 that the Department of Defense was in the process of conducting a training study covering both Guam and the CNMI to identify options for training in the region. GAO, *Defense Infrastructure: Planning Efforts for the Proposed Military Buildup on Guam Are in Their Initial Stages, with Many Challenges Yet to Be Addressed*, [GAO-08-722T](#) (Washington, D.C.: May 1, 2008). Also see GAO, *High-Level Leadership Needed to Help Guam Address Challenges Caused by DOD-Related Growth*, [GAO-09-500R](#) (Washington, D.C.: Apr. 19, 2009) and *Defense Infrastructure: The Navy Needs Better Documentation to Support Its Proposed Military Treatment Facilities on Guam*, [GAO-11-206](#) (Washington, DC: Apr. 5, 2011).

⁴⁹CNMI Government, Department of Commerce, Commonwealth Economic Development Strategic Planning Commission, *Comprehensive Economic Development Strategic Plan 2009-2014 for the U.S. Commonwealth of the Northern Mariana Islands*, prepared under an award from the U.S. Department of Commerce Economic Development Administration (November 2009).

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- In 2004, the CNMI median household income was \$17,138,⁵⁰ while the U.S. 50-state and District of Columbia median household income was \$44,334.⁵¹
 - In 2004, the CNMI poverty rate for all persons was 53.5 percent,⁵² while the U.S. 50-state and District of Columbia poverty rate for all persons was 12.7 percent.⁵³

Minimum Wage Increases

U.S. Minimum Wage Law

The federal minimum wage was first enacted as part of the Fair Labor Standards Act of 1938 (FLSA). That first federally mandated minimum wage had repercussions in the U.S. Virgin Islands and Puerto Rico that led the United States, in 1940, to revise the application of the law in those territories; the overarching goal of the FLSA continued to be pursued there, but at a slower pace than in the U.S. 50 states. As of July 2009, the federal minimum wage was set at \$7.25 per hour.⁵⁴ Federal minimum wage laws apply generally to any employee engaged in commerce, with limited exceptions and exemptions.⁵⁵ Certain employees who would otherwise be covered under the FLSA definitions are exempted by law from the minimum wage requirements—for example, employees involved with

⁵⁰Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 CNMI HIES* (April 1, 2008).

⁵¹Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports, Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

⁵²Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 CNMI HIES* (April 1, 2008).

⁵³Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports, Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

⁵⁴29 U.S.C. § 206(a)(1)(C).

⁵⁵The federal minimum wage laws apply to employees engaged in commerce or the production of goods for commerce and to employees who work for enterprises engaged in commerce or the production of commerce. 29 U.S.C. § 206(a). An enterprise is deemed to be engaged in commerce or the production of goods for commerce only if it is an activity of a public agency, if its annual gross volume of business is at least \$500,000, or if it is engaged in the operation of a hospital, health facility, or school. 29 U.S.C. § 203(s). Businesses in which the only regular employees are immediate family members of the owner are not considered to be enterprises engaged in commerce.

seafood at sea are exempt.⁵⁶ Employees not covered by FLSA include, for example, individuals engaged in agriculture, if the employer is an immediate family member.

DOL's Wage and Hour division enforces a variety of U.S. labor laws, including laws related to minimum wage, overtime pay, child labor, and family medical leave. The division uses a number of enforcement strategies, including investigations and partnerships with external groups, such as states, foreign consulates, and employee and employer organizations.

Minimum Wage Law in American Samoa

From the passage of the FLSA in 1956 to 2007, employers in American Samoa were allowed to pay their employees at hourly rates less than the federal minimum wage. During that period, rates were set by special industry committees established by the U.S. DOL, through biennial reviews conducted with the participation of island stakeholders that included representatives of government, key industries, and workers.⁵⁷ The special industry committees system continued to exist until May 2007, when Congress required an incremental increase in the minimum wage for all industries in American Samoa, at \$.50 per year in each industry, until it reaches the full federal minimum wage.⁵⁸ In 2010, the U.S. enacted a law delaying the scheduled minimum wage increases for 2 years, providing for no increase in 2010 or 2011.⁵⁹ For example, if the current federal minimum wage of \$7.25 remains unchanged, the minimum wage for American Samoa tuna canning industry workers will reach \$7.25 in 2016 (see table 4).

⁵⁶29 U.S.C. § 213(a)(5). The exemption only applies to these activities when performed at sea, so employees engaged in these activities on shore would not qualify for the exemption. See 29 C.F.R. § 784.130.

⁵⁷The original FLSA allowed special industry committees to recommend wages for certain industries to DOL, within specified minimum and maximum limits, to move lower-wage industries gradually toward statutory minimums. In 1986, Special Industry Committee 17 mandated raising the minimum wage across several industries in American Samoa to the nationwide rate of \$3.35 per hour. This change was nullified by Congress in a subsequent law (Pub. L. No. 99-396, § 11, 100 Stat. 837 (Aug. 27, 1986)), which required that the minimum wage in American Samoa be reset to the rates that existed for each industry prior to the Special Industry Committee 17 rates; this returned the rate for cannery workers to \$2.82 per hour, until it was raised to \$2.87 in March 1991.

⁵⁸Pub. L. No. 110-28, § 8103(b)(2), 121 Stat. 112, 188 (May 25, 2007).

⁵⁹Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010).

Table 4: American Samoa Scheduled Minimum Wage Increases for Tuna Canning Industry Workers and for Workers Paid the Lowest Minimum Wage

Date	Minimum wage (tuna canning industry)	Lowest minimum wage
Before July 25, 2007	\$3.26	\$2.68
July 25, 2007	3.76	3.18
May 25, 2008	4.26	3.68
May 25, 2009	4.76	4.18
September 30, 2010	4.76 (no change)	4.18 (no change)
September 30, 2011	4.76 (no change)	4.18 (no change)
September 30, 2012	5.26	4.68
September 30, 2013	5.76	5.18
September 30, 2014	6.26	5.68
September 30, 2015	6.76	6.18
September 30, 2016	7.25	6.68
September 30, 2017	no change	7.18
September 30, 2018	no change	7.25

Source: GAO review of American Samoa Industry Committee wage categories, H.R. Rep. No. 111-386, Pub.L. No. 110-28, and Pub. L. No. 111-244.

Note: Under Pub.L. No. 110-28, any future changes to the minimum wage enacted under U.S. law also will apply to American Samoa and the CNMI. Wage rates vary for workers in the 17 industries other than tuna canning.

Minimum Wage Law in the CNMI

Under the terms of the CNMI-U.S. covenant, the CNMI was exempt from the minimum wage provisions of the FLSA and maintained control over its own minimum wage system.⁶⁰ Legislative changes to the federal minimum wage in 2007 specified that the CNMI would be subject to the federal minimum wage, through a staged \$.50 incremental approach. The law raised the CNMI minimum wage from \$3.05 to \$3.55 per hour in July 2007 and required a \$.50 increase every year thereafter until the FLSA-CNMI minimum wage equals the full federal minimum wage.⁶¹ In 2010, the U.S.

⁶⁰Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, §503(b). See 48 U.S.C. §1801 note.

⁶¹Pub. L. No. 110-28, § 8103(b)(1), 121 Stat. 112, 188 (May 25, 2007). For delay in increases until September 2010, see H.R. Rep. No. 111-366 (Dec. 8, 2009) (Conf Rep.).

enacted a law delaying the scheduled minimum wage increase for 1 year, providing for no increase in 2011⁶² (see table 5).

Table 5: CNMI Scheduled Minimum Wage Increases

Date	Minimum wage in the CNMI
Before July 25, 2007	\$3.05
July 25, 2007	3.55
May 25, 2008	4.05
May 25, 2009	4.55
September 30, 2010	5.05
September 30, 2011	5.05 (no change)
September 30, 2012	5.55
September 30, 2013	6.05
September 30, 2014	6.55
September 30, 2015	7.05
September 30, 2016	7.25

Source: GAO review of H.R. Rep. No. 111-386, Pub. L. No. 110-28, and Pub. L. No. 111-244.

Note: Under Pub. L. No. 110-28, any future changes to the minimum wage enacted under U.S. law also will apply to American Samoa and the CNMI.

Prior Studies of Minimum Wage Increases in American Samoa and the CNMI

The federal government has conducted or funded several reports on minimum wage increases in American Samoa and the CNMI in recent years.

- In May 2007, DOL’s Wage and Hour Division issued a report on the minimum wage in American Samoa as part of DOL’s biennial review process under the special industry committees.⁶³ The report analyzes American Samoa’s wage and employment structure based on a 2006 employment and wage survey, and it provides the numbers of employees in each industry who would be affected by a range of possible minimum wage increases. The report stated that the average hourly wage in the fish canning industry was \$3.60 and in the American

⁶²Pub. L. No. 111-244, 124 Stat. 2618 (Sep. 30, 2010).

⁶³U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa, 2007* (May 2007). DOL issued similar reports for previous industry committees. DOL did not issue a similar report for the CNMI because the CNMI set its own minimum wage until July 2007.

Samoa government was \$7.75. It found that 50 percent of American Samoa workers were paid less than \$4 per hour.

- In January 2008, DOL issued a report on the economic impact of minimum wage increases in both American Samoa and the CNMI,⁶⁴ as required by a 2007 law.⁶⁵
 - For American Samoa, the study noted concern that the tuna canneries would close before the minimum wage reached the U.S. federal minimum wage of \$7.25 per hour, causing substantial job losses. The report stated that over three-quarters of American Samoa workers earned under \$7.25 per hour and that if the U.S. minimum wage were increased to the level of the 75th percentile of hourly-paid U.S. workers, it would be raised to \$16.50 per hour.
 - For the CNMI, the study found that although data were not available to precisely quantify the impact of the scheduled minimum wage increases, it seemed likely that the CNMI's existing economic decline would be made worse and that the CNMI population would continue to decline.
- DOI-funded studies of the American Samoa and CNMI economies, including the minimum wage increases.⁶⁶
 - A February 2008 study assessing the relationships between different sectors of the American Samoa economy found that a doubling of American Samoa's minimum wage in a 7-year period could result in the end of the fish processing industry, which represented approximately one-half of American Samoa's economic base, and serious consequences for the economy.⁶⁷ The authors predicted that

⁶⁴U.S. Department of Labor, Office of the Assistant Secretary for Policy, *Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands* (January 2008). The report noted that data and time limitations constrained the study.

⁶⁵U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, § 8104, 121 Stat. 112, 189 (May 25, 2007).

⁶⁶We did not assess the methodologies or assumptions used in these studies.

⁶⁷Malcolm D. McPhee & Associates with Dick Conway and Lewis Wolman, *American Samoa's Economic Future and the Cannery Industry*, prepared for the American Samoa Government Department of Commerce under a grant award from the U.S. Department of the Interior, Office of Insular Affairs (February 2008).

costs would rise due to minimum wage increases in other industries, and transportation, energy, and utility costs would increase because the canneries would no longer be available to share those costs. They found that, under a worst-case scenario, American Samoa could lose 46 percent of all jobs in the territory. In this scenario, rising minimum wages would cause a complete closure of American Samoa's tuna canneries. A long recovery period would follow, with high unemployment rates, business closures or cutbacks, and declines in local revenue collection. They found that local government would be unable to adequately address the situation, requiring outside assistance.

- An October 2008 study of the CNMI economy examined the impact of both federal immigration policy and the minimum wage increases.⁶⁸ In framing this analysis, the study found that lifting of quotas on garment imports to the United States had rendered the CNMI's garment industry unfeasible and estimated that the loss of 16,800 garment jobs could ultimately cost the CNMI economy about 25,200 jobs, about 60 percent of peak employment in 2004. The study projects the combined effect of the closure of the garment industry with the implementation of the federal minimum wage and an application of federal immigration policy, whereby almost the entire foreign workforce is removed from the CNMI economy. In this projection, the employment of U.S.-qualified residents increases by 21 percent from 2005 to 2015, but real wages and salaries of U.S.-qualified residents fall by 19 percent. In addition, immigration-policy changes quickly remove foreign workers on government-approved contracts from the economy, and U.S.-qualified residents take jobs in the tourism industry. Despite the increased minimum wage, most of the jobs are projected to pay lower wages than U.S.-qualified residents had come to expect. The study also provides an alternative projection under which the minimum wage is held at \$4.05, foreign labor is not restricted, and an aggressive promotion program successfully doubles visitor arrivals by 2015. In this projection, the employment of U.S.-qualified residents increases by 4 percent from 2005 to 2015, and real wages

⁶⁸Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008). For the previous report, see Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999).

and salaries of U.S.-qualified residents increase by 15 percent. The authors suggested, among other recommendations, that the law extending the minimum wage requires further analysis and notes that officials are seeking to modify the scheduled increases. Possible modifications discussed include lengthening the period over which the minimum wage is increased, basing increases on measures of worker productivity, or using a special program for adjustment as had previously been done in American Samoa.

Appendix III: American Samoa

In American Samoa, SSA data show that total employment fell 19 percent from 2008 to 2009 and fell 14 percent from 2006 to 2009, though it increased in some years. Data from 2010 on total employment are not yet available. Questionnaire responses show that tuna canning employment dropped by 55 percent from 2009 to 2010, reflecting the September 2009 closure of one cannery and layoffs in the remaining cannery. In addition, we estimated that from 2,000 to 3,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available. Average inflation-adjusted earnings in American Samoa fell by 5 percent from 2008 to 2009 and by 11 percent from 2006 to 2009. However, over both periods, the minimum wage increased by significantly more than inflation. Private sector officials said the minimum wage was one of a number of factors making it difficult to do business, and public officials said they supported returning to biennial reviews of minimum wages or other alternatives to the scheduled increases. In the tuna canning industry, without a minimum wage increase in American Samoa in 2010, there was no increase in the median wage of tuna canning workers, which was \$4.76 in both 2009 and 2010. The most recent minimum wage increase in May 2009 affected the wages of 69 percent of hourly-wage cannery workers. Future minimum wage increases would affect the wages of 99 percent of current cannery workers. The two canning industry employers included in our questionnaire reported taking cost-cutting actions from June 2009 to June 2010, including laying off workers, reducing overtime hours, freezing hiring, and decreasing benefits, as well as raising prices. The employers reported plans to continue taking cost-cutting actions in 2011. The employers attributed most of their past and planned actions largely to the minimum wage increases. Cannery officials we interviewed expressed concern about American Samoa's dwindling competitive advantage in the global tuna canning industry. Though the cannery faces some near-term obstacles to relocating, our analysis suggests that relocating tuna cannery operations from American Samoa to a tariff-free country with lower labor costs would significantly reduce cannery operating costs and reduce American Samoa jobs; however, maintaining some operations in American Samoa would allow the facility to continue to compete for U.S. government contracts. Some workers said they were disappointed to see the minimum wage increase delayed in 2010 and 2011; however, more workers expressed concern over job security than favored a minimum wage increase with the potential for subsequent layoffs.

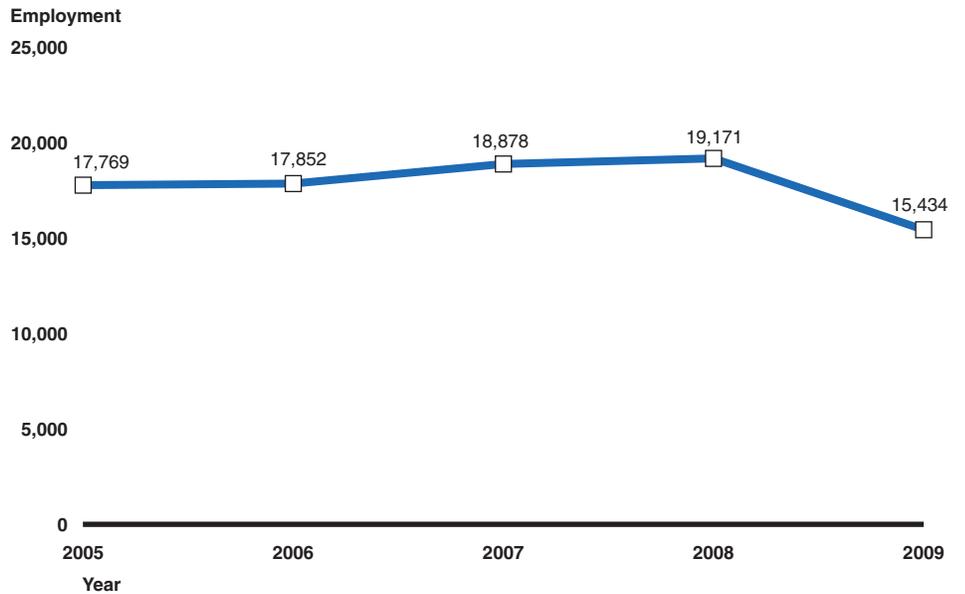
American Samoa
Employment Fell Sharply
in 2008-2009, and
Employment and Average
Inflation-Adjusted
Earnings Were Lower than
in 2006

American Samoa Employment
Declined 2006-2009, though
Employment Increased in Some
Years

Overall American Samoa employment declined from 2006 to 2009, based on Social Security data; however, employment increased in some years. As shown in figure 10, employment grew from 2006 to 2008 but then fell in 2009 to a level lower than in 2006. Specifically, available data show that from 2008 to 2009, the total number of people employed in American Samoa fell by 19 percent (from 19,171 to 15,434)¹ and that over the entire period from 2006 to 2009, employment fell by 14 percent (from 17,852 to 15,434, with a peak of 19,171 in 2008).

¹Because new people may enter the workforce, the decrease in employment between 2008 and 2009 (3,727) is not necessarily the same as the number of people who stopped working from one year to the next. Based on SSA data on individual workers in American Samoa, we estimated that 6,047 of those employed in 2008 were not employed in 2009, representing about one-third of the employed population. These may include workers who lost their jobs, who voluntarily chose to leave their jobs, or who stopped working for other reasons.

Figure 10: American Samoa Employment Based on SSA Data, 2006 through 2009



Source: GAO analysis of Social Security Administration data.

Because Social Security data are not available for 2010, we are unable to report on the overall level of employment for the year. However, the cannery that closed in September 2009 employed approximately 2,000 workers, and there were layoffs in the remaining cannery—most of these losses do not appear in the 2009 SSA data.² For the tuna canning industry, questionnaire responses from the remaining cannery and a closely related business show that employment of their workers—most of whom are foreign workers from independent Samoa—dropped by 55 percent from

²Because SSA data reflect the number of people with any earnings during the year, workers who lost their jobs when the cannery closed or who were laid off from the remaining cannery in 2009 are included in the number employed in 2009. The remaining cannery reduced its staff by about 350 workers between calendar years 2009 and 2010, based on the GAO questionnaire and additional information received from the remaining cannery. According to the additional information received, about 200 of the reductions resulted from layoffs. The remaining cannery reported that it increased employment by 500 in 2011. The company attributed the employment increase to a new contract it was awarded, the delays in the minimum wage increases in 2010 and 2011, the extension of federal tax credits, and local tax exemptions. However, the company said that the additional positions are not necessarily permanent or long-term, and it expects employment to continue to fluctuate.

2009 to 2010 (from 4,125 to 1,869) and dropped by 59 percent for the entire period from 2007 to 2010 (from 4,593 to 1,869).³

In addition, we estimated that from 2,000 to 3,000 jobs funded by the U.S. Census Bureau, the Recovery Act, and recovery efforts after the 2009 tsunami were temporary and will end when federal funding is no longer available.⁴ As a result, counts of the total number employed during this period will be higher than the number of long-term positions. The temporary jobs were funded beginning in June 2009, and the great majority of those were disaster recovery positions related to the tsunami. In addition, the Census Bureau employed enumerators and managers to assist with collection of 2010 Decennial Census data, and Recovery Act funds supported workers on infrastructure projects and in other fields.

In discussion groups, private sector employers generally opposed additional minimum wage increases but said that a number of other factors made it difficult to do business in American Samoa. For example, they said increases in prices of utilities, shipping, and raw materials; an outdated tax structure; low levels of investment; and business licensing problems also make it difficult to establish and do business in American Samoa. They said that federal tsunami recovery assistance, Recovery Act funds, and Decennial Census employment provided relief and increased business, particularly in the construction industry, temporarily obscuring the full force of American Samoa's economic downturn. As this temporary relief period ends, employers expect that American Samoa's economic situation will worsen. They also said that, with fewer tuna exports, they expect increases in shipping wait-times and costs. Many employers supported the 2010 and 2011 delays in the minimum wage increases, and some said it is important to use the 2-year delay to address business challenges. For example, they said that while it is difficult to develop tourism in American Samoa, it is important to try. They also said they were concerned about the fiscal status of the local government and the possibility of harmful tax increases.

³If many foreign workers left American Samoa, the impact on the unemployment rate would be smaller than if those workers remained. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

⁴GAO based this estimate on Recovery Act recipient reports and on information received from the American Samoa government. Much of this employment was not full-time and only covered part of the year.

An American Samoa government analysis found that the minimum wage increases would raise the government's wage and salary costs for its employees by about 1 percent (about \$9 million) over 7 years.⁵ Public officials said they supported a return to biennial reviews of minimum wage in American Samoa or other alternatives to the scheduled increases. In January 2011, the American Samoa governor signed a letter saying that the federal minimum wage increases had had devastating effects on American Samoa employment and the economy. The letter urged consideration of alternative methods of determining minimum wages in American Samoa, including the previous DOL biennial review process or some modification, or amending laws to specify the conditions to be considered in determining the minimum wage.⁶

Average Inflation-Adjusted
Earnings of Those Employed
Have Fallen Since 2006

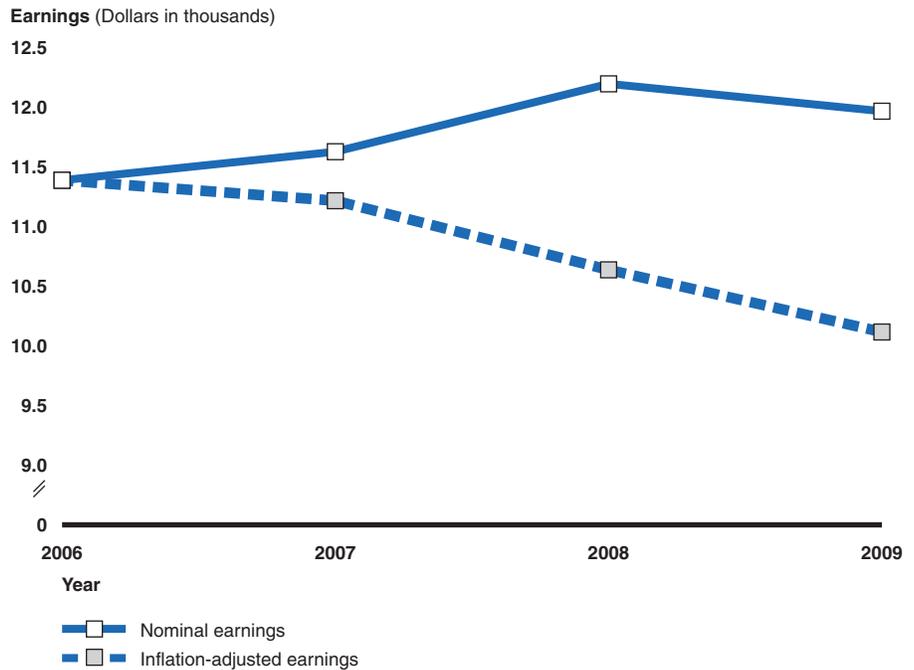
Average earnings of workers who maintained employment rose from 2006 to 2009, but available data show that the increase was not sufficient to overcome the increase in prices. As shown in figure 11, based on SSA and consumer price data, from 2008 to 2009 (the most recent year available), average inflation-adjusted earnings fell by 5 percent. This decline resulted from a decrease in average earnings of 2 percent, and an increase in prices of 3 percent. For the period from 2006 to 2009, average inflation-adjusted

⁵American Samoa government officials said that because contributions to Social Security, Medicare, workers' compensation, and retirement benefits are based on pay, the total costs of the minimum wage increases would be about \$10.5 million over the period. In [GAO-10-333](#), we found that, based on questionnaire responses, at most 30 percent of government workers earned wages no more than \$1.50 over the minimum in 2007 and therefore were directly affected by the first three minimum wage increases. The median government salary might have changed within the \$10,000 to \$20,000 range, but our data do not allow us to measure such variation.

⁶In the January 2011 letter, the Governor also suggested considering some form of negotiated minimum wage involving the public and private sectors; a process permitting some variation in minimum wage rates by industry and gross receipts levels; or other methods used in state minimum wage programs or those of other countries. In its written comments on this report, the American Samoa government asked that GAO or other federal entities consider the following recommendations: terminate increases in the minimum wage immediately in American Samoa; conduct a thorough analysis of why adverse economic effects of the minimum wage increases were greater in American Samoa than in the United States; and determine procedures for addressing minimum wage in American Samoa in a way that avoids future economic disasters.

earnings fell by 11 percent, due to a rise in average annual earnings of about 5 percent with an 18 percent increase in prices.⁷

Figure 11: American Samoa Average Nominal and Inflation-Adjusted Earnings Based on SSA Data, 2006 through 2009



Source: GAO analysis of Social Security Administration data and American Samoa Consumer Price Index data.

While Social Security earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs or left the area, the hourly wage of minimum wage workers increased by more than inflation. The inflation-adjusted earnings of minimum wage cannery workers who retained their jobs and work hours rose by about 8 percent from 2008 to 2009 and by about 23 percent for the entire period from 2006 to 2009.

⁷The American Samoa Consumer Price Index increased 4 percent from 2006 to 2007, 11 percent from 2007 to 2008, and 3 percent from 2008 to 2009. The U.S. Consumer Price Index increased 2.9 percent from 2006 to 2007 and 3.8 percent from 2007 to 2008, and it declined by .3 percent from 2008 to 2009.

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

Minimum Wage Increases through 2016 Would Affect Wages of Almost All Workers in American Samoa’s Tuna Canning Industry Employed in 2010

Minimum Wage Increases in 2007-2010 Increased Median Wage for Tuna Canning Industry Employees

Without a minimum wage increase in American Samoa in 2010, there was no increase in the median wage of workers in the tuna canning industry—in both 2009 and 2010, the median tuna canning worker wage was \$4.76. Consistent with our last report, the median hourly wage rose from \$3.30 in June 2007 to \$4.76 in June 2010, a 44 percent increase, according to tuna canning questionnaire responses (see table 6). During this period, the minimum wage for canning workers increased three times from \$3.26 to \$4.76, an overall increase of 46 percent.

Table 6: Median Wages for Hourly-wage Workers in the American Samoa Tuna Canning Industry, June 2007 to June 2010

Year	Median wage	Percentage change year to year
2007 (after zero minimum wage increases)	\$3.30	
2008 (after two minimum wage increases)	4.26	29%
2009 (after three minimum wage increases)	4.76	12%
2010 (after three minimum wage increases)	4.76	0%

Source: GAO analysis of wage data provided in American Samoa tuna canning industry questionnaire, as of June 12 each year.

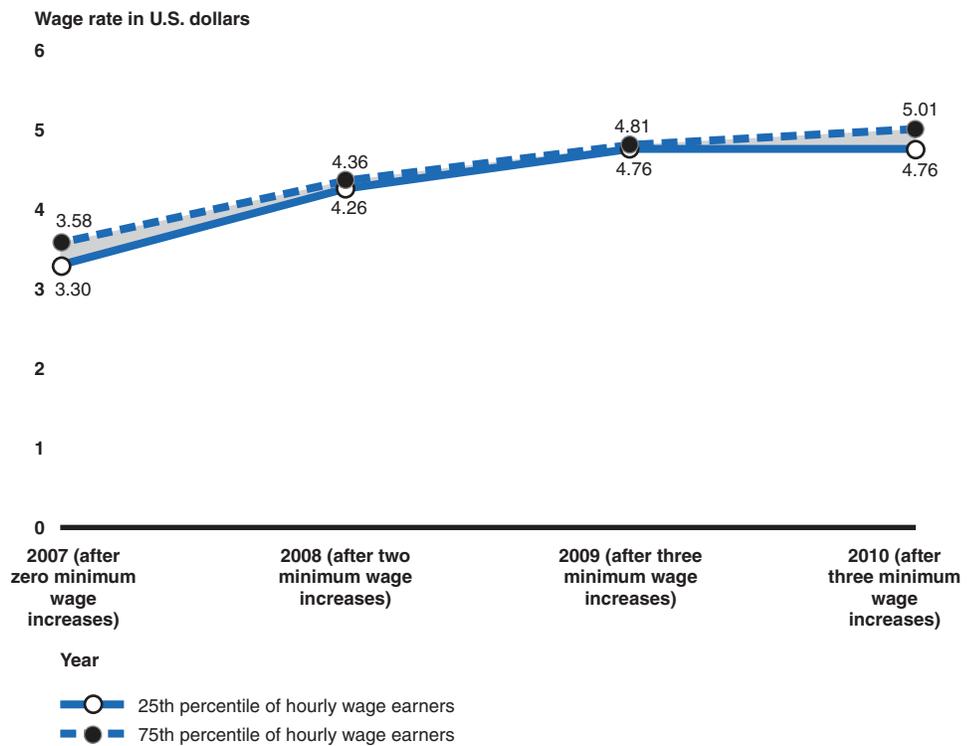
Note: The minimum wage for workers in the tuna industry in American Samoa was \$3.26 in June 2007, \$3.76 in July 2007 (first increase), \$4.26 in May 2008, and \$4.76 in May 2009 and in 2010. It is scheduled to remain at \$4.76 until the next increase in September 2012; there was no minimum wage increase in 2010 and none scheduled for 2011.

Minimum Wage Increases in 2007-2010 Slightly Narrowed the Wage Gap between Lower- and Higher-Paid Workers Employed by Questionnaire Respondents in Tuna Canning Industry

Responses to our questionnaire indicate that the minimum wage increases narrowed the gap between the wages of lower- and higher-paid workers in American Samoa’s tuna canning industry (see fig. 12). Specifically, the gap between the wages of the lowest- and highest- paid tuna canning workers

was \$0.28 in June 2007 and \$0.25 in June 2010, a small decline of 11 percent.

Figure 12: Changes in Wages of Hourly-wage Workers Employed by American Samoa Tuna Canning Questionnaire Respondents



Source: GAO analysis of wage data provided in American Samoa tuna canning industry questionnaire, as of June 12 each year.

Note: The minimum wage for workers in the tuna industry in American Samoa was \$3.76 in July 2007 (first increase), \$4.26 in May 2008, and \$4.76 in May 2009 and in 2010. It is scheduled to remain at \$4.76 until the next increase in September 2012; there was no minimum wage increase in 2010 and none scheduled for 2011.

Minimum Wage Increases in 2010-2018 Would Affect Wages of Almost All Workers in Tuna Canning Industry

As the minimum wage increases continue, they will affect a growing percentage of workers in American Samoa’s tuna canning industry. Based on questionnaire responses about workers’ wages as of June 2010, 69 percent of canning industry workers were at the minimum wage in 2009 and 2010. The future minimum wage increases would affect the wages of

99 percent of current canning industry workers by the time the minimum wage reaches \$7.25 in 2016. By 2016, the extra annual cost added by minimum wage increases after June 2010 (reflecting the 2009 increase) would be \$4,660 per worker (see table 7). We identified the additional cost by calculating the difference between the cost per worker in June 2010 and the cost per worker through 2016, based on the scheduled minimum wage increases and averaged across all workers.

Table 7: Distribution and Increased Annual Cost Since June 2010 per Hourly-wage Worker in American Samoa Tuna Canning Industry Due to Minimum Wage Increases

Year of minimum wage increase	Percent of hourly-wage workers in June 2010 at or below the new minimum wage	Minimum wage of cannery workers	Increased average hourly cost since June 2010 per hourly-wage worker	Increased average annual cost since June 2010 per hourly-wage worker
2010 (September 30)	69%	\$4.76	0	\$0
2011 (September 30)	69%	\$4.76	0	\$0
2016 (September 30)	99%	\$7.25	\$2.24	\$4,660 ^a

Source: GAO analysis of June 12, 2010 wage data provided in American Samoa tuna canning industry questionnaire.

Note: To estimate the annual cost of future minimum wage increases, we first calculated the difference between the hourly wage for each worker in June 2010 (reflecting the 2009 minimum wage of \$4.76) and all scheduled minimum wage increases through 2016 (scheduled to occur in September 30 of each year except for 2010 and 2011). We multiplied that value by 2,080 (annual hours worked per full-time worker) to obtain an annual estimate for each worker. Finally, we reported the average of that value. For workers in June 2010 paid above a scheduled minimum wage, we assumed that the cost of that minimum wage for those workers would be zero (that they would receive no increase in pay). The average wage of canning industry workers in June 2010 was \$5.02. We calculated the average cost for all workers, not only workers affected by the minimum wage. In contrast, by 2016 the cost for workers affected by the minimum wage would be \$4,736. There was no minimum wage increase in 2010 and none scheduled for 2011.

^aThe cost of the 2016 minimum wage is not adjusted for inflation. For illustration purposes, adjusting for projected U.S. inflation using the Congressional Budget Office’s projection of the GDP price index shows that the real minimum wage cost in 2016 would be \$4,275, an 8.3 percent decrease. The analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under FICA. For 2011, employers must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

American Samoa Tuna Canning Employers Reported Past and Planned Actions to Reduce Costs and Lay Off Workers, with Most Actions Attributed to Minimum Wage Increases

Tuna Canning Employers Reported Cutting Costs and Laying Off Workers from 2009 to 2010, with Most Actions Attributed to Minimum Wage Increases

The two employers in the tuna canning industry reported in our questionnaire that they had taken cost-cutting actions from June 2009 to June 2010. For example, the two respondents reported having taken cost-cutting actions affecting workers’ income, including laying off hourly and salaried workers, reducing overtime hours for hourly workers, freezing

hiring, and temporarily closing. The employer representing the majority of workers employed by questionnaire respondents also reported having decreased hourly workers' benefits and reduced regular work hours for hourly workers. The two employers reported additional cost-cutting actions, including reducing operating capacity or services offered and implementing other cost- and labor-saving strategies or technology. The employer representing the majority of workers employed by questionnaire respondents also reported having delayed expansions. Both employers reported that they had raised prices of goods or services. For most of these actions, employers attributed their actions largely to the minimum wage increases.

Tuna Canning Employers Reported Plans to Take Additional Actions by Early 2012, with Most Planned Actions Attributed to Minimum Wage Increases

The two questionnaire respondents in the tuna canning industry also reported plans to take the same types of cost-cutting actions in the next 18 months, by early 2012. They reported planning to take cost-cutting actions affecting workers' income, including laying off additional hourly and salaried workers and freezing hiring. The employer representing the majority of workers employed by questionnaire respondents reported planning to decrease benefits of both hourly and salaried workers and reduce regular and overtime hours. The two employers also reported plans to take additional cost-cutting actions, including implementing other cost- and labor-saving strategies or technology. The employer representing the majority of workers employed by questionnaire respondents reported planning to delay expansions and reduce operating capacity or services offered. The employer representing fewer workers employed by questionnaire respondents reported planning to raise prices. Employers attributed most of these plans largely to the minimum wage increases. Employers in American Samoa's tuna canning industry reported that any actions by the larger employer will affect the smaller employer.

Tuna Canning Employers Attributed Their Actions to Minimum Wage Increases More Often than to Other Factors

Employers attributed their actions largely to the minimum wage increases more often than they attributed their actions largely to other factors, such as transportation and shipping costs and changes in business taxes and fees. However, they said a decrease in the number of customers, such as wholesale customers, was another important factor affecting their past

American Samoa Tuna Canning Industry Faces Challenges, and Relocating to Alternate Locations Would Significantly Reduce Business Costs but Eliminate American Samoa Jobs

and planned actions. Employers also attributed their past and planned actions to increased utility costs to a moderate extent.

Cannery Officials Are Concerned about American Samoa's Dwindling Competitive Advantage in Global Tuna Canning Industry

Cannery company officials we interviewed indicated that labor costs, including the minimum wage increases, continued to place American Samoa at a significant cost disadvantage compared with other canned tuna exporting countries. As we previously reported, by raising the hourly minimum wage for cannery workers in American Samoa from \$3.26 in 2006 to \$4.76 in May 2009 (remaining at \$4.76 in 2010 and 2011)—a total increase of 46 percent—the three minimum wage increases to date have further widened the gap between American Samoa and production sites with lower labor costs, such as Thailand, which has a minimum wage of less than \$1 an hour. Cannery officials continued to state that wage increases were one of many factors affecting the tuna canning industry in American Samoa.⁸ Officials from the remaining cannery said that in previous years uncertainty regarding the minimum wage increases meant they could not plan American Samoa operations further than months in advance, impacting their ability to make a long-term commitment to maintaining operations in American Samoa. They said that although they continue to consider relocation or closure of the American Samoa facility as one of many possible scenarios, knowing that wages would be stable through 2012 had allowed them to better stabilize operations in American Samoa.

In addition to higher wages, company officials noted that the continued increases in shipping and utility rates—partly owing to increased fuel costs in recent years—add to increased operating costs. Loss of eligibility for certain U.S. tax benefits also contributed to rising costs. Furthermore, as a result of the September 2009 cannery closure, the remaining cannery has since been responsible for all maintenance costs—such as waste disposal and water discharge—that the two canneries previously shared, as well as increased power and water costs. Opportunities for shared services between the remaining cannery and the newly acquired facility

⁸Our tuna industry questionnaire asked respondents about the extent to which they attributed each action they took or planned to take to the minimum wage increases, regardless of whether other factors also contributed. We separately asked about other contributing factors. In interviews, officials provided more information about contributing factors.

will depend on the scope of operation at the new facility, which remains unknown.

Officials at the remaining cannery noted that, while duty-free access to the U.S. market for canned tuna exports from American Samoa once made production in American Samoa advantageous, trade liberalization has since significantly reduced tariff advantages.⁹ Additionally, cheaper operating costs in alternative locations expand the cost gap between canned tuna produced in American Samoa and canned tuna produced elsewhere. As a result of the factors discussed, representatives from the remaining cannery report that they have shifted a portion of production to facilities outside of American Samoa and continue to report that it is no longer cost-effective to operate a canning facility in American Samoa.

As we previously reported, cannery officials stated that minimum wage increases were a significant factor in the closure of one of the two canneries in American Samoa but that other factors also contributed to the cannery's closure. In addition to those mentioned above, cannery officials said that factors that contributed to the cannery's closing included an attractive environment for investment in alternative locations and the high costs associated with environmental regulations.¹⁰

Although a new tuna facility operator acquired the facility that closed, operations planned in the short-term are more limited than those before the facility closed. Company officials indicated that they are considering using the plant as a logistics and storage facility for handling fresh, and potentially frozen, fish and for the company's existing fleet in the Western

⁹Global trade liberalization has reduced trade barriers on some tuna products from certain countries, which leads to the erosion of the tariff-free benefits for American Samoa exports. For example, tariffs have declined on pouched tuna from beneficiary countries under the Andean Trade Preference Act, the benefits of which expired in February 2011. According to cannery officials, trade liberalization also made it easier for domestic competitors to outsource labor-intensive work away from American Samoa and into low-wage countries.

¹⁰Local governments have provided various forms of incentives to attract manufacturing, such as tuna canning. American Samoa has provided various tax exemptions and benefits to the tuna canning industry, such as a graduated tax exemption on corporate income taxes, employee tax benefits, and tax exemptions for owners and operators of vessels that supply the canneries. The cannery that moved its canning operations to the U.S. state of Georgia has received local and state incentives, including county and city tax exemptions and contributions from the state to cover part of the build-up cost. According to cannery officials, the Thai government also provides incentives to attract businesses, such as a tax rebate on investment in new manufacturing facilities.

and Central Pacific Ocean. These operations would require between 50 to 100 employees. The company will continue to evaluate and reconstruct the facility and has hired a small number of workers who had remained employed at the facility after its closure. As of March 2011, the company expected plant renovations to last 12 to 18 months, though some limited operations may begin before renovations are complete. However, company officials stated that all future employment and investment plans will depend on several factors, most important of which are the scheduled minimum wage increases. Specifically, officials said the opportunity to produce canned tuna could depend on American Samoa's labor cost relative to alternate locations.

Industry Experts Said Prices and Other Factors Are a Constraint as Tuna Canning Industry Becomes More Competitive

In addition to factors affecting American Samoa operations in particular, industry experts noted that the global tuna industry is changing in many ways. For example, various fishery management organizations and other parties have increased restrictions on fishing some tuna target species, including tuna used for canning, in the western and central Pacific Ocean. Additionally, experts and industry officials said price dynamics are a major constraint to the industry; as the industry becomes increasingly competitive, profit margins decrease. The highly competitive global market for tuna products makes it increasingly difficult to pass along higher labor and operating costs to consumers by raising prices. For example, industry officials note that it is difficult for companies to raise prices when supermarket brands offer consumers very low prices. Growing supermarket and consumer demand for assurances of social and environmental responsibility also contributes to changing industry dynamics.¹¹

Comparison of Four Tuna Canning Business Models

Although American Samoa is located near rich fishing grounds, its labor costs are significantly higher than those in competing countries, both

¹¹For additional factors affecting the tuna processing industry, see Hamilton A., Lewis A., McCoy M.A., Havice E., Campling L., forthcoming, *Impact of Industry and Market Drivers on the Global Tuna Supply Chain*, Pacific Islands Forum Fisheries Agency, Honiara; and Campling, L., E. Havice and V. Ram-Bidesi 2007, *Pacific Island Countries, the Global Tuna Industry and the International Trade Regime - a Guidebook*, Pacific Islands Forum Fisheries Agency, Honiara.

before and after the minimum wage increases. Cannery officials said that current operations in American Samoa were not competitive with other models. We compared the labor and tariff costs associated with alternate business models for tuna canning in order to illustrate how the costs differ under each estimated model. The following analysis provides cost estimates under four possible scenarios for cannery operations currently located in American Samoa, assuming constant total production under each model, and including two models presented in our previous report.¹² It considers only labor costs and tariffs, in order to show the effect of variation in different countries. It excludes other associated costs, including transportation, refrigeration, opening of a new plant (if needed), and other costs associated with establishing multiple production locations. It also excludes nonwage labor costs, such as the costs of employer payroll tax contributions.¹³

- **Model A (loining and canning located in American Samoa):** Tuna processing currently done in American Samoa remains entirely in American Samoa. Canneries located in American Samoa hire local and foreign workers to loin (clean, cook, and cut) and can the fish. In addition, the plant processes some frozen loins imported from countries with lower wages. The canned tuna from American Samoa is exported directly to the United States and benefits from tariff-free access to the U.S. market. With an estimated workforce of 1,500 employees in American Samoa, the associated labor cost is \$14.9 million in 2010 and \$23.4 million in 2016, with zero tariff costs.
- **Model B (relocating loining to Thailand or another country with lower labor costs, and canning frozen loins in the U.S. 50 states):** The loining operation—the most labor-intensive part of the operation—moves to low labor-cost countries, such as Thailand, Trinidad, Fiji, Mauritius, or Papua New Guinea, where the fish loin is frozen. The frozen fish is exported to the United States, where it is canned. The frozen fish carries a tariff of \$11 per metric ton, and

¹²In [GAO-10-333](#), we found that a model relying on frozen fish loins sourced from outside the United States and canned in the U.S. 50 states, as compared to a model of loining and canning in American Samoa, would have annual labor savings of \$12 million in 2009 that would more than offset annual tariff costs of \$320,000. In 2006, before the minimum wage increases began, labor costs were estimated at \$13 million under the American Samoa model and \$5.6 million under the frozen loins model.

¹³For example, for 2011, employers in the U.S. must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

workers are employed in a low labor-cost country at \$0.75 per hour.¹⁴ The combined labor and tariff cost in 2010 and 2016 of this model is \$11.4 million.¹⁵ No workers remain in American Samoa cleaning fish, and 300 workers are employed in the U.S. 50 states at \$14.00 per hour.¹⁶ Tuna facilities in American Samoa are currently among few in the United States that can meet the requirements of U.S. government contracts, many of which require U.S.-sourced and -processed fish.¹⁷ While facilities outside American Samoa may qualify for these contracts based on their location, it is unclear whether their production models meet the requirements, according to an industry expert. Facilities under this model might not meet the requirements of U.S. government contracts and could lose this business.

- **Model C (relocating all loining and canning to a tariff-free country):** Loining is done in a country with zero tariffs on canned tuna exported to the United States.¹⁸ Workers are employed at \$1 per hour. The basis for tariff-free access to the United States—the Generalized System of Preferences—expired at the end of 2010; however, the Office of the U.S. Trade Representative is supporting reauthorization in 2011. Under this model, the American Samoa cannery closes, and all 1,500 positions are relocated to a tariff-free country. The cost is \$3.1 million for 2010 and 2016, assuming no wage increases in the tariff-free country. As with Model B, facilities under this model might not meet

¹⁴We chose Thailand because a significant portion of tuna processing currently takes place in the country.

¹⁵Model B estimates differ somewhat from those in our last report ([GAO-10-333](#)), because the current analysis is based on the decreased number of workers employed in the American Samoa tuna canning facility.

¹⁶We assume U.S. workers are paid \$14.00 per hour, based on statements from industry officials.

¹⁷U.S. government contracts for meal programs under the U.S. Department of Agriculture and for the U.S. military currently require that the canned tuna be processed in the United States using fish caught by U.S. flag vessels. For the purposes of these contracts, “United States” refers to the U.S. 50 states, the U.S. territories—including American Samoa—and the freely associated states of the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau. Some military purchases are exempt from the above requirements, including ships that need certain items when they are docked in foreign waters.

¹⁸For example, independent Samoa is near American Samoa and, through December 31, 2010, was allowed to export tuna to the United States tariff-free under trade agreements with the United States.

the requirements of U.S. government contracts and could lose this business.

- **Model D (hybrid, with one half of production, including for U.S. government contracts, located in American Samoa and the other half relocated to a tariff-free country):** The American Samoa cannery continues to supply canned tuna for U.S. government contracts (20 percent of production from Model A), and another 30 percent of production remains in American Samoa.¹⁹ The remaining 50 percent of production moves to a country that exports canned tuna tariff-free to the United States. For this model, we assume that the workforce remaining in American Samoa will be 50 percent of the current total workforce, and the other 50 percent will be in a tariff-free country. The associated cost is \$8.6 million in 2010 and \$12.9 million in 2016, with zero tariff costs.

Considering only labor and tariff costs, figure 13 shows that a business model in which all loins are processed in American Samoa (Model A) has higher costs than the alternatives. The model that presents the highest combined labor and tariff cost savings involves moving operations to a tariff-free country and closing operations in American Samoa (Model C). This model would result in approximately 1,500 fewer jobs in American Samoa. The next cost-saving option is to move 50 percent of production to a tariff-free country and keep 50 percent in American Samoa (Model D), while retaining eligibility for U.S. government contracts. This model would result in about 750 fewer jobs in American Samoa.²⁰ Moving the loining operations to a country with lower wages (Model B) presents significant cost savings; however, under this scenario tariffs on imported frozen loins are imposed, and the canning process is done in the U.S. 50 states at higher wages than in competing tuna processing countries. Additionally,

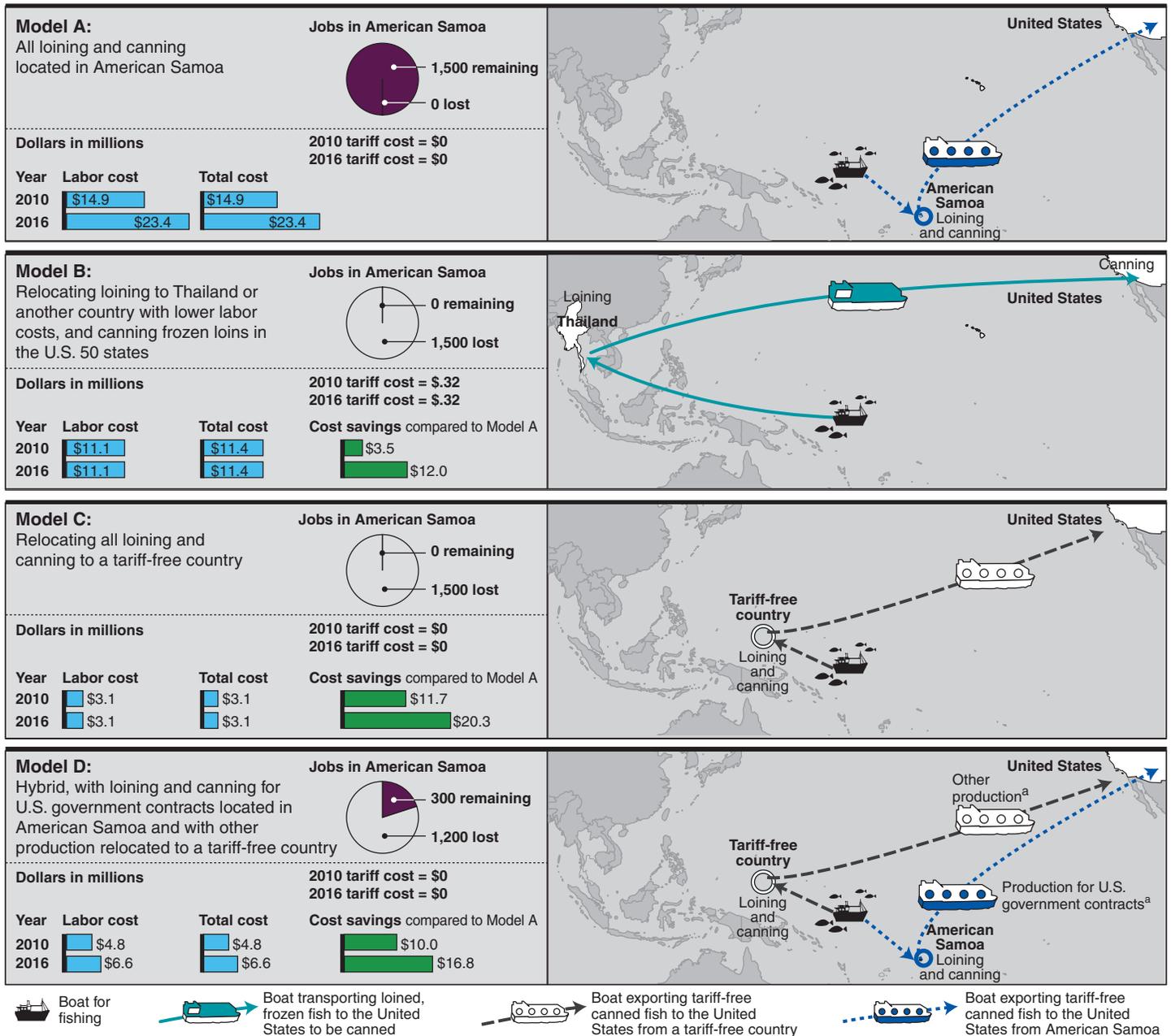
¹⁹Tuna industry officials stated that 20 percent of production is not sufficient to cover overhead costs and operate a cannery in American Samoa. We assume that another 30 percent of production remains in American Samoa in order to illustrate a hybrid production model. The actual minimum production threshold for canning in American Samoa is not publicly available.

²⁰Estimates of job loss include only workers directly employed in tuna canning. If we included workers employed by the company manufacturing cans, who would lose their jobs without the cannery, the estimates of job loss would be higher. Additionally, actions taken by American Samoa's tuna canning industry are likely to have ripple effects on other businesses.

lease obligations in American Samoa and the cost of building new facilities may pose obstacles to near-term relocation.²¹

²¹The lease of the remaining cannery expires in February 2013. In addition, the American Samoa Power Authority has regained land formerly leased to the cannery.

Figure 13: Comparison of Estimated Wage and Tariff Costs for Tuna Canneries Using Alternate Business Models



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

For Model D, we assume that 50 percent of production (20 percent for U.S. government contracts and 30 percent for other production) remains in American Samoa, and the remaining 50 percent of production moves to a country that exports canned tuna tariff-free to the United States.

While cannery company officials and industry experts continue to report that American Samoa's competitive advantage in the global tuna canning industry is decreasing, they have also stated that the ability to qualify for U.S. government contracts is one of the few remaining factors making American Samoa an attractive location for tuna canning. Although the comparison of labor and tariff costs under different business models shows the greatest savings by moving operations to a tariff-free country and closing operations in American Samoa (Model C), operations under this model would lose eligibility for U.S. government contracts for canned tuna. In addition, savings from moving the loining operations to a country with lower wages (Model B) also would be partially offset by the loss of U.S. government contracts. The model moving 50 percent of production to a tariff-free country and keeping 50 percent in American Samoa (Model D) would retain eligibility for these contracts.

American Samoa Tuna Canning Workers Generally Opposed the Minimum Wage Increases, While Other Workers Shared Mixed Views

In discussion groups, most participants working in the tuna canning industry said they opposed further minimum wage increases. However, some participants supported the increases, especially to help with cost-of-living increases.

- **Job insecurity.** More tuna canning workers expressed concern over job security than favored a minimum wage increase with the potential for subsequent layoffs. Many workers said that their current wages are enough and that they prefer to remain at the current wage and keep their jobs. In addition, participants said that they fear the remaining cannery will close with more minimum wage increases, causing more job loss.
- **Minimum wage increase delays.** Many participants supported the delays to the 2010 and 2011 minimum wage increases. However, some said they had looked forward to the 2010 minimum wage increase and were disappointed to not receive an increase after they had expected it. A few said they were tired of the process of considering the minimum wage increases. Some supported waiting until 2012 to make a decision about future increases.
- **Cost of living.** Many participants said that the cost of living is increasing substantially, including the prices of bus fare, food, water,

electricity, and health care. Some of these workers said that the cost of living increases as the minimum wage increases.

- **Cannery closure.** Participants are concerned about the spillover effects of cannery closures and layoffs on the rest of the American Samoa economy. They said that the economy and other businesses rely on the tuna canning industry and will suffer without canneries. Participants noted that there is high unemployment in American Samoa and that they fear additional unemployment.
- **Reduced benefits and work hours.** Participants reported that their benefits had been reduced, including paid holidays and vacations. In addition to reductions in benefits, participants are concerned that future wage increases will mean a reduction in hours.
- **Foreign workers.** Discussion group participants noted that workers from independent Samoa have fewer options for jobs and benefits. They said that some who were laid off have stayed in American Samoa and others have returned home.

Discussion group participants outside the tuna canning industry shared mixed views on the minimum wage increases. Laid off workers said they supported the minimum wage increases more than employed cannery workers, though some were concerned about job loss and availability. Like discussion group participants in the tuna canning industry, participants outside the cannery fear that the remaining cannery will close with more minimum wage increases and that other companies will not invest in American Samoa. Participants said it is hard to find jobs and that American Samoa needs new jobs. In addition to noting that the cost of living is increasing, participants also said they thought that enrollment in social services is increasing. Participants said that people leave American Samoa in difficult times, but many return.

The text box lists some of the comments by discussion group participants.

American Samoa Workers' Views Based on Discussion Groups

Job insecurity

- “I’m scared of the wage increases because I might lose my job again.”
- “It’s better to have something than nothing, better to have a job than none. What’s the point of a minimum wage increase if you lose your job?”
- “What we have now [wages] is enough. Add 50 cents and we lose our jobs or the company closes. I don’t want to lose my job.”

Minimum wage increase delays

- “It’s a very good idea for this island and us people to stop minimum wage for this year and next year.”
- “It’s disappointing to think you’re going to get an increase and then not get it.”
- “As long as I have a job, I don’t mind the delay. I’ll wait until 2012.”

Cost of living

- “The cost of food is sky high, and water and electricity is high also.”
- “As increases in wages come, so do price increases in everything—food, power.”

Cannery closure

- “Minimum wage is a problem—it is too high, and companies are moving out.”
- “I think minimum wage is the reason companies are failing.”
- “The economy here depends on the cannery. Without it, the economy falls apart.”

Reduced benefits and work hours

- “There has been cost-cutting. They got rid of benefits. There’s no annual leave or vacations.”
- “If we have another 50 cent increase, hours are reduced—no more eight hours a day, it’ll be six hours a day. So if the [hourly] rate goes up, it doesn’t matter.”

Foreign workers

- “If there’s no job for me, because I’m from Western Samoa, where can I find work and money for my family?”
- “Those that lost their jobs after [the cannery] closed are staying at home, doing nothing, went back home [to Western Samoa], or they’re on social services.”

Appendix IV: CNMI

CNMI employment fell by about 13 percent from 2008 to 2009 and by about 35 percent from 2006 to 2009, largely reflecting the closure of the CNMI's last remaining garment factories. In addition, we estimate that less than 1,000 temporary federal jobs funded beginning in June 2009 will end when federal funding is no longer available. Inflation-adjusted average earnings of CNMI workers who maintained employment rose by 3 percent from 2008 to 2009 and remained largely unchanged, with a slight drop of .5 percent, from 2006 to 2009, according to CNMI government data. In addition, over both periods, the minimum wage increased by significantly more than inflation. In discussion groups, private sector employers said minimum wage increases imposed additional costs during a time in which multiple factors made it difficult to operate. According to CNMI government payroll data, about 17 percent of government workers are paid at or below \$7.25 and would be affected by the minimum wage increases by 2016. In the tourism industry, close to three-quarters of hourly-wage workers in June 2010 were at the current minimum wage, and future scheduled increases through 2016 would affect 95 percent of those workers. Tourism questionnaire employers reported that they took cost-cutting actions from June 2009 to June 2010, including reducing hours and freezing hiring; employers also reported plans to take the same types of actions by early 2012, as well as laying off workers. Few employers—weighted by numbers of employees—attributed their past cost-cutting actions largely to the minimum wage increases, and one-half or less did so for each of the planned actions. Due to the decline in visitors and to competition from other destinations, hotels have generally absorbed minimum wage costs rather than raise room rates, and they have postponed other investments and renovations. Both visitor arrivals and flight seats available to the CNMI declined from 2005 to 2010. Industry data show that from 2006 to 2010 the CNMI hotel occupancy rate remained between 58 and 65 percent, and inflation-adjusted room rates declined. If observed trends continue, payroll will represent an increasing share of total operating cost for hotels in the CNMI, due to the minimum wage increases. In discussion groups, some tourism employers and managers expressed concern about the minimum wage increases, but others said the minimum wage increases were needed and manageable and that the primary difficulty was the CNMI tourism industry's general decline. Workers participating in our CNMI discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours.

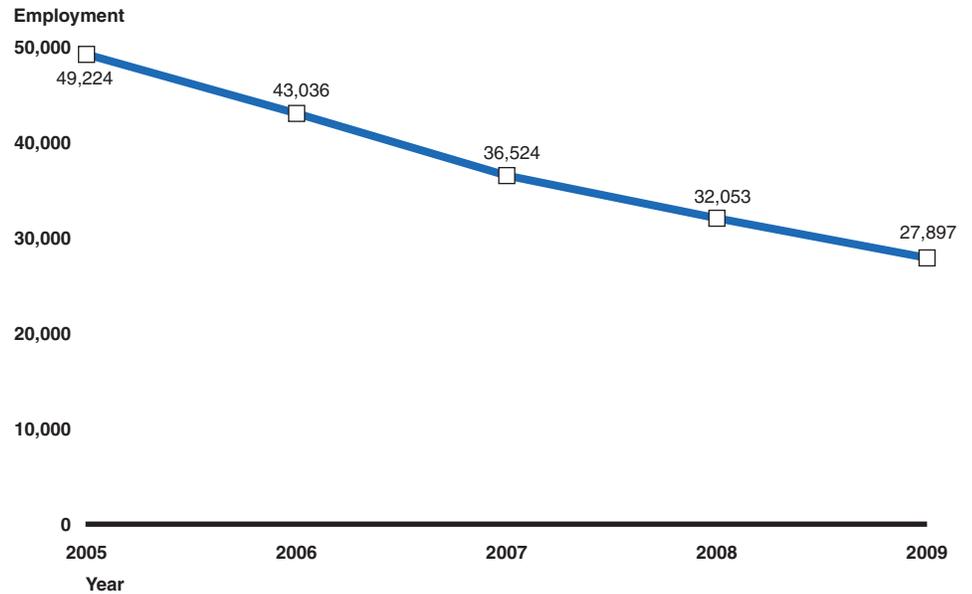
**CNMI Employment Fell in
2008-2009 and Has
Decreased Substantially
Since 2006, and Average
Inflation-Adjusted
Earnings Have Remained
Largely Unchanged**

**CNMI Employment Decreased
Substantially 2006-2009**

Overall CNMI employment fell substantially from 2006 to 2009, with drops in the numbers employed in every year, based on CNMI tax data. As shown in figure 14, based on CNMI tax data, from 2008 through 2009 the total number of people employed fell by about 13 percent. For the entire period from 2006 through 2009, the number employed fell 35 percent. A large part of this decline, especially early in this period, is likely attributable to the closure of the CNMI's last remaining garment factories, which employed many foreign workers.¹

¹If many foreign workers left the CNMI, the impact on the unemployment rate would be smaller than if those workers remained. Although the U.S. Decennial Census collects data on employment status in American Samoa and the CNMI, Decennial Census data from 2010 were not available for our review.

Figure 14: CNMI Employment Based on CNMI Government Tax Data, 2006 through 2009



Source: GAO analysis of CNMI annual tax data.

Because CNMI tax data are not available for 2010, we are unable to report on the overall level of employment for the year. Wage data from the 12 respondents to our 2010 tourism questionnaire show that hourly-wage employment in the tourism industry (including hotels and other employers, such as tour operators) fell 8 percent from 2009 to 2010 (from 1,703 to 1,567) and fell by 14 percent over the period from 2007 to 2010 (from 1,827 to 1,567).

In addition, we estimated that less than 1,000 jobs funded by the U.S. Census Bureau and Recovery Act funds were temporary and will end when federal funding is no longer available. As a result, counts of the total number employed during this period will be higher than the number of long-term positions.² The temporary jobs were funded beginning in June 2009 and included Census enumerators and managers to assist with

²GAO based this estimate on Recovery Act recipient reports and information received from the CNMI government. Much of this employment was not full-time and only covered part of the year.

collection of 2010 Decennial Census data, as well as jobs in infrastructure and other areas supported by Recovery Act funds.

In interviews and discussion groups, private sector employers reported declines in employment due to layoffs and hiring freezes, as well as cuts in hours and benefits. Many discussion group participants said the minimum wage increases were one of multiple factors in a “perfect storm” that made it difficult to operate businesses in the CNMI. They expressed concern about increases in crime and in poverty, including people without water and power. They said the departure of the garment industry and the inability to replace the industry had initiated a downward economic spiral that hurt businesses, including by contributing to higher shipping costs and reduced flights. The tourism industry has declined, and population loss from people leaving the CNMI also has resulted in decreased sales. In addition, businesses faced high and increasing costs of inputs, including power and other utilities, gas, and food. They said the legitimate economy was shrinking, while the underground economy—including some employers that do not pay the minimum wage—was growing. Private sector employers expressed particular concerns about changes to immigration law and incomplete regulations, which created uncertainty regarding access to needed foreign workers and to visitors. In general, they said minimum wage increases imposed additional costs at a particularly difficult time for CNMI businesses. They also expressed concerns about instability and possible tax increases from the local government, and some said that the federal government had made insufficient efforts to improve living conditions and to collect and monitor data on the CNMI.

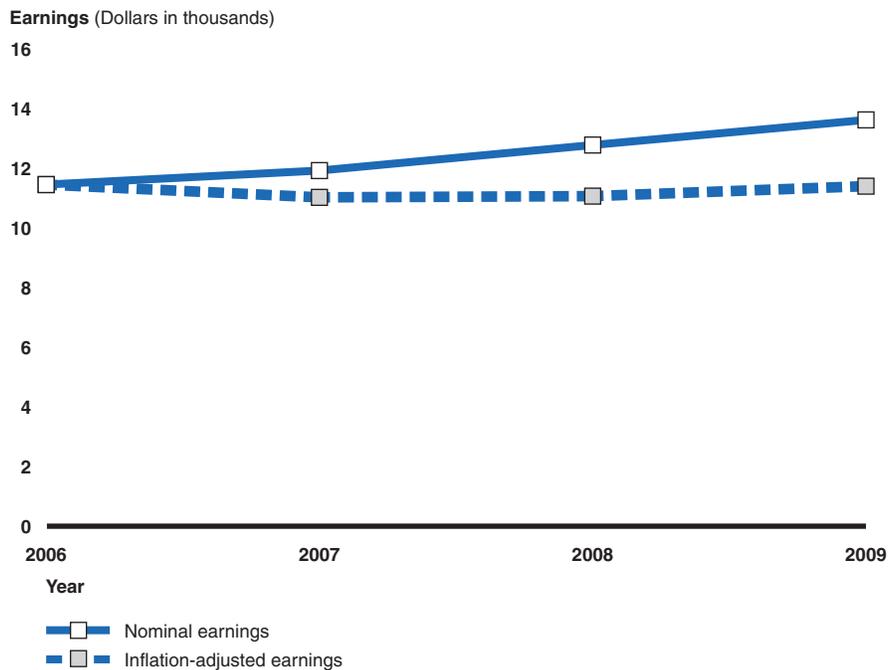
According to CNMI government payroll data, about 17 percent of government workers are paid at or below \$7.25 and would be affected by the minimum wage increases by 2016. In addition, after a partial government shutdown in October 2010, the CNMI government made significant cuts to government employees’ work hours.

CNMI Average Inflation-Adjusted Earnings of Those Employed Have Remained Largely Unchanged Since 2006

Average earnings for those who maintained employment rose from 2006 to 2009, but prices increased by about the same amount. As shown in figure 15, based on CNMI tax and consumer price data, from 2008 to 2009 (the most recent year available) average inflation-adjusted earnings rose by 3 percent. This increase resulted from an increase in average earnings of 7 percent and an increase in prices of 3.5 percent. For the period from 2006

to 2009, average inflation-adjusted earnings remained largely unchanged, with a slight drop of about 0.5 percent, due to a rise in average annual earnings of about 19 percent and a 19.5 percent increase in prices.³

Figure 15: CNMI Average Nominal and Inflation-Adjusted Earnings Based on CNMI Government Tax Data, 2006 through 2009



Source: GAO analysis of CNMI annual tax data and CNMI Consumer Price Index data.

Although CNMI tax data do not allow for a direct comparison of average and minimum-wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers increased by more than inflation. The inflation-adjusted earnings of minimum wage workers who retained their jobs and work hours rose by about 9 percent from 2008 to 2009 and by about 25 percent for the entire period from 2006 to 2009.

³The CNMI Consumer Price Index increased 8.1 percent from 2006 to 2007, 6.8 percent from 2007 to 2008, and 3.5 percent from 2008 to 2009. The U.S. CPI increased 2.9 percent from 2006 to 2007 and 3.8 percent from 2007 to 2008, and it declined by .3 percent from 2008 to 2009.

CNMI Tourism Industry Experienced Declines in Visitor Arrivals, and Hotels Have Absorbed Minimum Wage Increases Rather than Raising Room Rates

Minimum Wage Increases in 2007-2010 Increased Median Wage for Workers in Tourism Industry, and 2010-2018 Increases Would Affect Wages of Almost All Tourism Workers

Minimum Wage Increases in 2007-2010 Increased Median Wage for Tourism Industry Employees

From June 2007 to June 2010, the median hourly wage in the CNMI tourism industry rose from \$3.65 to \$4.60, a 26 percent increase, according to our questionnaire responses (see table 8).⁴ During this period, the minimum wage increased from \$ 3.05 to \$4.55, an increase of 49 percent. Because our questionnaire collected wage data as of June of each year, these data cover the first three minimum wages (in 2007, 2008, and 2009) but do not reflect the September 2010 minimum wage increase.

⁴Ninety-two percent of CNMI questionnaire recipients (12 of 13, with one additional recipient having closed) responded, and respondents included hotels and other employers in the tourism sector, such as tour operators.

Table 8: Median Wages for Hourly-wage Workers in the CNMI Tourism Industry, June 2007 to June 2010

Year	Median wage	Percentage change
2007 (after zero minimum wage increase)	\$3.65	-
2008 (after two minimum wage increases)	4.05	11%
2009 (after three minimum wage increases)	4.55	12
2010 (after three minimum wage increases)	4.60	1
Percent change 2007-2010	-	16

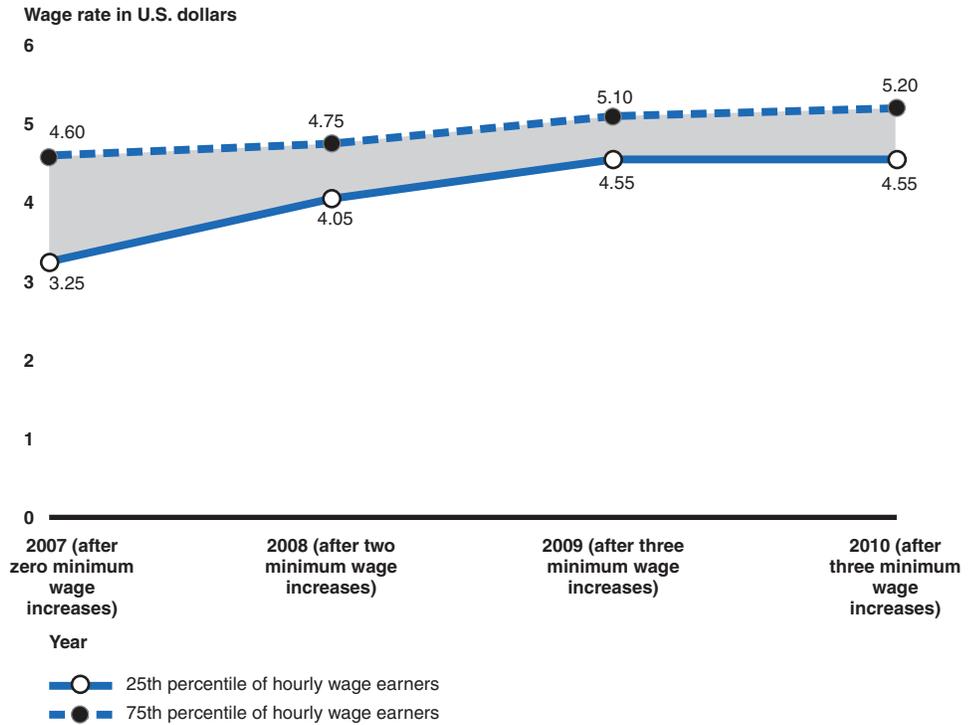
Source: GAO analysis of wage data provided in CNMI tourism industry questionnaire, as of June 12 each year.

Note: The minimum wage for the CNMI was \$3.05 in June 2007, \$3.55 in July 2007 (first increase), \$4.05 in May 2008, \$4.55 in May 2009, and \$5.05 in October 2010 (not included in table). Because our questionnaire collected wage data as of June 12 of each year, the data do not reflect the CNMI's September 30, 2010, minimum wage increase.

Minimum Wage Increases in 2007-2010 Narrowed Wage Gap between Lower- and Higher-Paid Workers Employed by Questionnaire Respondents in Tourism Industry

Responses to our questionnaire indicate that the timing of minimum wage increases corresponded to narrowing of the gap between the wages of lower- and higher-paid workers in the CNMI's tourism industry (see fig. 16). Specifically, the gap between the wages of the lowest- and highest-paid hourly-wage workers of hotels and other tourism employers dropped from \$1.35 in June 2007 to \$0.65 in June 2010, a decline of 52 percent.

Figure 16: Changes in Wages of Hourly-wage Workers Employed by CNMI Hotel and Other Tourism Questionnaire Respondents



Source: GAO analysis of wage data provided in CNMI tourism industry questionnaire, as of June 12 each year.

Note: The minimum wage for the CNMI was \$3.55 in July 2007 (first increase), \$4.05 in May 2008, \$4.55 in May 2009, and \$5.05 in October 2010. Because our questionnaire collected wage data as of June 12 of each year, the data do not reflect the CNMI's September 30, 2010, minimum wage increase.

Some hotel and other tourism employers said in interviews that the compression of wages had resulted in lower morale for more senior employees who now earned little more than new employees. Other employers told us that their voluntary efforts to provide pay increases to workers above the minimum wage had increased the total costs of the minimum wage increases.

Minimum Wage Increases in 2010-2018 Would Affect Wages of Almost All Workers in Tourism Industry

As the minimum wage increases continue, they will affect a growing percentage of workers in the CNMI's tourism industry. Based on

questionnaire responses about hotel and other tourism workers' wages as of June 2010, 73 percent of hourly-wage workers were at the current minimum wage. The future minimum wage increases would affect the wages of 95 percent of current workers by the time the minimum wage reaches \$7.25 in 2016. By 2016, the extra annual cost added by minimum wage increases after June 2010 (reflecting the 2009 increase) would be \$4,707 per worker (see table 9). We identified the additional cost by calculating the difference between the cost per worker in June 2010 and the cost per worker through 2016, based on the scheduled minimum wage increases and averaged across all workers.

Table 9: Distribution and Increased Annual Cost Since June 2010 per Hourly-wage CNMI Tourism Worker Due to Minimum Wage Increases

Year of minimum wage increase	Percent of hourly-wage workers in June 2010 at or below the new minimum wage	Minimum wage	Increased average hourly cost since June 2010 per hourly-wage worker	Increased average annual cost since June 2010 per hourly-wage worker
2010 (September 30)	73%	\$5.05	\$0.36	\$757
2011 (September 30)	73	5.05	0.36	757
2016 (September 30)	95	7.25	2.26	4,707 ^a

Source: GAO analysis of June 12, 2010 wage data provided in CNMI tourism industry questionnaire.

Note: To estimate the annual cost of future minimum wage increases, we first calculated the difference between the hourly wage for each worker in June 2010 (reflecting the 2009 minimum wage of \$4.55) and all scheduled minimum wage increases through 2016 (scheduled to occur September 30 of each year except for 2011). We multiplied that value by 2,080 (annual hours worked per full-time worker) to obtain an annual estimate for each worker. Finally, we reported the average of that value. For workers in June 2010 paid above a scheduled minimum wage, we assumed that the cost of that minimum wage for those workers would be zero (that they would receive no increase in pay). The average wage of tourism workers in June 2010 was \$5.10. We calculated the average cost for all workers, not only workers affected by the minimum wage. In contrast, by 2016 the cost for workers affected by the minimum wage would be \$4,971. No minimum wage increase is scheduled for 2011.

^aThe cost of the 2016 minimum wage increases has not been adjusted for inflation. For illustration purposes, adjusting for projected U.S. inflation using the Congressional Budget Office's projection of the GDP price index shows that the real minimum wage cost in 2016 would be \$4,318, a 8.3 percent decrease. The analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act. For 2011, employers must contribute the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

CNMI Hotel and Other Tourism Employers Reported Past and Planned Actions to Reduce Costs and Raise Prices, but Few Attributed Past and One-Half or Less Attributed Each Planned Action Largely to Minimum Wage Increases

Tourism Employers Reported Cutting Costs and Raising Prices from 2009 to 2010, but Few Attributed Their Actions Largely to the Minimum Wage Increases

Hotel and other employers in the tourism industry reported in our questionnaire that they had taken cost-cutting actions, including those affecting workers' income or benefits, and had raised prices from 2009 to 2010. While few—weighted by numbers of employees—attributed their actions largely to the minimum wage increases, some attributed hiring freezes to the minimum wage increases.

Cost-Cutting Actions Affecting Workers' Income or Benefits in 2009-2010:

- **Reduced overtime hours.** Employers representing 96 percent of all workers employed by tourism questionnaire respondents reported that they had decreased overtime work hours for hourly-wage workers. Of these, employers representing 1 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.
- **Reduced regular hours.** Employers representing 91 percent of all workers employed by tourism questionnaire respondents reported having reduced regular work hours for hourly-wage workers. Of these, employers representing 1 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.
- **Froze hiring.** Employers representing 79 percent of all workers employed by tourism questionnaire respondents reported that they had implemented a hiring freeze. Of these, employers representing 40 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.⁵
- **Decreased benefits.** Employers representing 50 percent of all workers employed by tourism questionnaire respondents reported that they had decreased the level of hourly-wage workers' benefits, while employers representing 56 percent reported that they had decreased

⁵Employers representing 3 percent of workers employed by questionnaire respondents laid off hourly and salaried workers. Of those, none attributed layoffs largely to the minimum wage increases.

the level of salaried workers' benefits. Of those that reported reducing benefits of hourly-wage workers, employers representing 3 percent of workers employed by these respondents attributed the action largely to the minimum wage increases. Of those that reported reducing benefits of salaried workers, employers representing 2 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.

Additional Cost-Cutting Actions in 2009-2010:

- **Implemented other labor- and cost-saving strategies or technology.** Employers representing 95 percent of all workers employed by questionnaire respondents reported that they had implemented other labor- and cost-saving strategies or technology. Of these, employers representing 4 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.
- **Reduced capacity or services.** Employers representing 63 percent of all workers employed by questionnaire respondents reported that they had reduced their operating capacity or customer services. Of these, employers representing 5 percent of workers employed by these respondents attributed the action largely to the minimum wage increases.

Price Increases in 2009-2010:

- **Raised prices.** Employers representing 76 percent of all workers employed by tourism questionnaire respondents reported that they had raised prices of goods or services.⁶ Of these employers, none attributed the action largely to the minimum wage increases.

Tourism Employers Reported Plans to Take Cost-Cutting Actions by Early 2012, and One-Half or Less Attributed Each Action Largely to the Minimum Wage Increases

Hotel and other employers in the tourism industry reported in our questionnaire plans to take additional cost-cutting actions in the next 18

⁶Our questionnaire did not distinguish between the price of hotel rooms versus the price of other goods or services. For example, prices may include those for hotel services such as restaurants and concessions, in addition to hotel rooms.

months, by early 2012. More employers—weighted by numbers of employees—attributed their future actions than their past actions to the minimum wage increases. Specifically, one-half or less attributed each planned action largely to the minimum wage increases.

Planned Cost-Cutting Actions Affecting Workers' Income or Benefits:

- **Reduce overtime hours.** Employers representing 93 percent of all workers employed by questionnaire respondents reported planning to decrease overtime work hours for hourly workers. Of these, employers representing 35 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Reduce regular hours.** Employers representing 87 percent of all workers employed by tourism questionnaire respondents reported planning to reduce regular work hours for hourly-wage workers. Of these employers, none attributed the planned action largely to the minimum wage increases.
- **Freeze hiring.** Employers representing 83 percent of all workers employed by tourism questionnaire respondents reported planning to freeze hiring. Of these employers, none attributed the planned action largely to the minimum wage increases.
- **Decrease benefits.** Employers representing 63 percent of all workers employed by questionnaire respondents reported planning to decrease benefits of both hourly and salaried workers. Of those that reported planning to reduce benefits of hourly-wage workers, employers representing 1 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases. Of those that reported planning to reduce benefits of salaried workers, none attributed the planned action largely to the minimum wage increases.
- **Lay off workers.** Employers representing 62 percent of all workers employed by tourism questionnaire respondents reported planning to lay off hourly-wage workers, and employers representing 61 percent planned to lay off salaried workers. Of these employers, none attributed the planned action largely to the minimum wage increases.

Additional Planned Cost-Cutting Actions:

- **Implement other cost-saving strategies.** Employers representing 88 percent of all workers employed by questionnaire respondents reported planning to implement other cost-saving strategies. Of these, employers representing 44 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Implement labor-saving strategies or technology.** Employers representing 81 percent of all workers employed by questionnaire respondents reported planning to implement labor-saving strategies or technology. Of these, employers representing 40 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Reduce capacity or services.** Employers representing 62 percent of all workers employed by tourism questionnaire respondents reported planning to reduce operating capacity or customer services. Of these, employers representing 51 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

Planned Price Increases:

- **Raise prices.** Employers representing 80 percent of all workers employed by tourism questionnaire respondents reported planning to raise prices of goods or services. Of these employers, none attributed the planned action largely to the minimum wage increases.

Tourism Industry Employers Attributed Past and Planned Actions Largely to Factors Other than Minimum Wage Increases

Hotel and other tourism industry questionnaire respondents reported that factors other than the minimum wage increases largely contributed to their past and planned actions. For example, employers representing 32 percent of workers employed by questionnaire respondents cited changes to U.S. immigration laws, and employers representing 55 percent of workers cited the decrease in numbers of customers. Employers noted that these factors contributed to their future plans as well. Specifically, employers representing 57 percent of workers employed by questionnaire respondents cited changes to U.S. immigration laws, and employers

CNMI Hotel Occupancy Has Stagnated, and Hotels Have Generally Absorbed Costs of Minimum Wage Increases

representing 25 percent of workers cited the decrease in numbers of customers.⁷

Due to the decline in visitors and to competition from other destinations, hotels have generally absorbed minimum wage costs rather than raising room rates, and they have postponed other investments and renovations that could make their properties more attractive to potential visitors. Both visitor arrivals and flight seats available to the CNMI declined from 2005 to 2010, particularly those from Japan. Industry data show that from 2006 to 2010 the CNMI hotel occupancy rate remained between 58 and 65 percent, and inflation-adjusted room rates declined. If observed trends in room and occupancy rates continue, payroll will represent an increasing share of total operating costs for hotels in the CNMI, due to the minimum wage increases. Payroll costs as a percentage of total operating costs will increase from approximately 29 percent in 2010 (with minimum wage increases representing about 1 percent of total operating costs) to 34 percent in 2016 (with minimum wage increases representing 8 percent), assuming other costs remain constant. In discussion groups, some tourism employers and managers expressed concern about the minimum wage increases, but others said the minimum wage increases were needed and manageable and that the primary difficulty was the CNMI tourism industry's general decline.

Both CNMI Visitor Arrivals and Flight Seat Availability Have Declined

Visitor arrivals to the CNMI have decreased 31 percent—from 529,557 in 2005 to 368,186 in 2010. Seats available on flights to the CNMI have decreased 27 percent—from 740,673 in 2005 to 541,399 in 2010, as shown in figure 17. Arrivals account on average for 71 percent of overall flight seat capacity during this period.⁸

Airline service to the CNMI has fluctuated in recent years and remains unpredictable. For example, in September 2005, Japan Airlines discontinued service to the CNMI. Other flights have been added and

⁷In addition, employers noted that other factors such as increased costs of materials, maintenance costs, transportation and shipping costs, and utility costs, as well as changes in business taxes and fees, contributed to their past and planned actions to a moderate extent.

⁸The data provided do not allow us to draw conclusions about the causal relationship between visitor arrivals and flight seats.

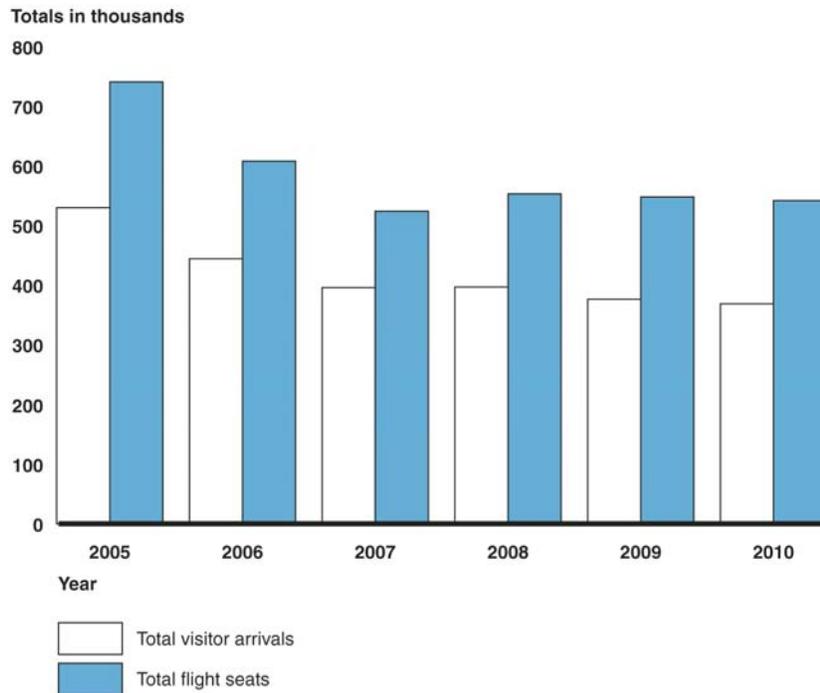
subsequently removed; for example, Northwest Airlines added routes from Narita and Osaka, Japan, to the CNMI in 2005, but the Osaka flight was suspended the next year. Flights from these cities are now only available seasonally throughout the year, and the local government passed a bill providing financial incentives to travel agents in an effort to stabilize this service.⁹ A new airline, Fly Guam, established flights between the CNMI and Hong Kong in March 2011. Because of the lack of flights to and from China, Chinese visitors arrive largely on charter flights instead of regularly scheduled flights.

The CNMI's greatest declines in both visitors and flight seats by country were from Japan, which represents the largest share of visitors of any country. The Japanese market share dropped from 71 percent of the tourist arrivals in 2005 to 50 percent in 2010. In particular, the Japanese arrivals decreased 51 percent from 2005 to 2010 (from 376,263 to 182,820).¹⁰ Korean arrivals increased from 65,049 in 2005 to 108,079 in 2010, and the Korean market share increased from 12 percent to 29 percent in the same period. Some visitors may arrive on airlines to or from countries other than their own. For example, Korean visitors may arrive on flights from Japan. In addition, there are no flights from Russia to the CNMI; Russian travelers arrive on flights through other countries. China and Russia still have a combined share of less than 10 percent of the total tourist arrivals, but they are emerging markets, and Russia accounts for a disproportionate percentage of tourism expenditures.

⁹The financial incentives program has not yet been funded, and the government is working to change the related regulations to extend the incentives to countries other than Japan, after the March 2011 earthquake and tsunami.

¹⁰In addition, CNMI government officials said that many Japanese visitors had cancelled their hotel reservations and tour packages after the earthquake and tsunami in Japan, and they expressed concern about the impact on the CNMI's tourism industry. In May 2011, the Marianas Visitors Authority reported that from April 2010 to April 2011, Japanese visitor arrivals to the CNMI had dropped 26 percent and overall visitor arrivals had dropped 18 percent, following the tsunami crisis in Japan.

Figure 17: Total CNMI Visitor Arrivals and Flight Seats Available, Fiscal Years 2005 to 2010



Source: GAO analysis of Marianas Visitors Authority data.

Note: Visitor arrivals include those from China, Japan, Korea, Russia, the United States, and other countries. Flight seats include the total number available on flights from China (primarily charter flights), Japan, and Korea. There are no flights from Russia to the CNMI.

Due Partly to Stagnant Occupancy Rates and Declines in Inflation-Adjusted Room Rates, CNMI Hotels Have Absorbed Costs of Minimum Wage Increases

Due to competition from other vacation destinations, such as Guam, and to declining visitor arrivals and occupancy rates remaining between 58 and 65 percent, economic reasoning suggests that hotels in the CNMI have limited ability to raise prices, as shown in recent stagnation in nominal hotel room rates and decline in inflation-adjusted room rates. If CNMI hotels had more flexibility in pricing, some of the costs of minimum wage increases could be passed on to consumers. However, due to the decline in visitors, hotels have generally absorbed these costs, and hotel managers

said they have postponed other investments and renovations that could make their properties more attractive to potential visitors.¹¹

Occupancy. Data from the Hotel Association of the Northern Mariana Islands, which covers 12 CNMI hotels, show that from 2009 to 2010, the overall occupancy rate increased by 7.5 percent, as shown in table 10. For the overall period from 2006 through 2010, the occupancy rate has no significant changes, with a slight decrease of 1.5 percent, and remained between 58 and 65 percent.

Room rates. Room rates decreased by 8 percent from 2009 to 2010, as shown in table 10. For the overall period from 2006 to 2010, room rates decreased slightly, by 2 percent. When adjusted for inflation in the CNMI, real room rates declined by almost 12 percent from 2006 to 2009.

Number of workers. Our questionnaire responses show that for the period from 2007 to 2010, the number of hourly hotel workers declined by 13 percent.¹²

Table 10: CNMI Hotel Occupancy and Room Rates, 2006 through 2010

Year	Occupancy rate	Percent change	Nominal room rate (\$)	Percent change	Inflation-adjusted room rates in 2006 dollars	Percent change
2006	64%	-	\$91	-	\$91	-
2007	59	-7.2%	92	0.7%	85	-6.9%
2008	62	4.9	98	6.3	85	-0.4
2009	58	-5.8	97	-1.2	81	-4.5
2010	63	7.5	89	-7.5		
Percent change 2006-2010	-1.5	-	-2.2%	-	-11.5%	-

Source: Hotel Association of the Northern Mariana Islands (HANMI) data and CNMI CPI data.

¹¹In [GAO-10-333](#), we found that raising room rates to cover higher wage costs could cause a 2.6 to 13.7 percent decline in visits to the CNMI.

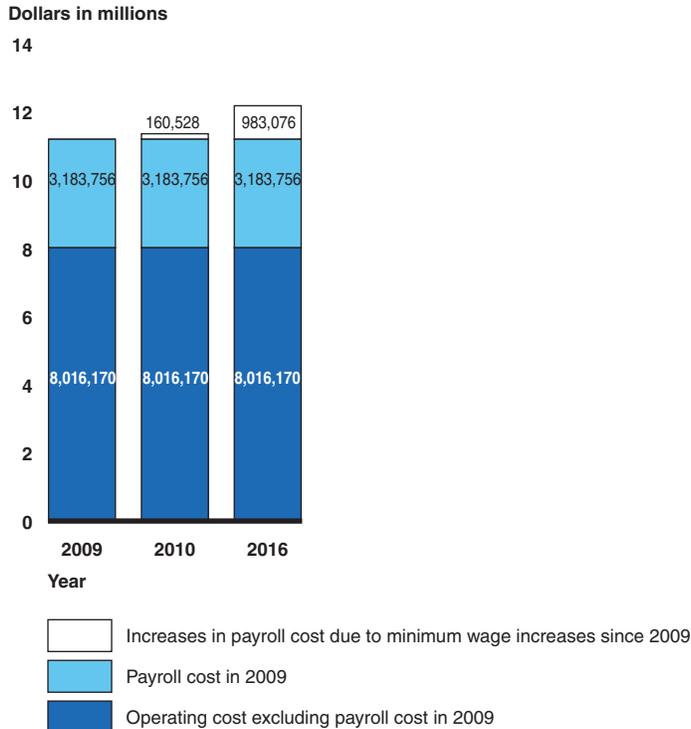
¹²Our questionnaire covers the tourism industry and includes hourly wage data on 8 CNMI hotels. CNMI hotel and other tourism employers told us in the questionnaire and in discussion groups that they had not laid off workers but had taken other steps to cut costs, such as implementing hiring freezes. The decreases in hotel employment may reflect these hiring freezes.

Note: Data cover HANMI members only. We were unable to calculate 2010 inflation-adjusted room rates because 2010 CNMI CPI data are not available. HANMI data on number of workers in 2010 are not available. In addition, we used the CPI because a CNMI Producer Price Index was not available. During this period, the number of available rooms has remained essentially unchanged.

Scheduled Minimum Wage Increases and Payroll Will Represent an Increasing Percentage of Total Operating Costs

If observed trends in room rates and occupancy rates continue, payroll will represent an increasing share of total operating costs for hotels in the CNMI, due to the minimum wage increases. We estimate that for the hotels that responded to our questionnaire, the minimum wage increases from 2010 through 2016 will raise average annual payroll costs by approximately \$160,528 and \$983,076, respectively, from their average payroll costs in 2009. As a result, payroll costs as a percentage of total operating costs will slightly increase from approximately 28 percent in 2009, to 29 percent in 2010 (with minimum wage increases representing about 1 percent of total operating costs), to 34 percent in 2016 (with minimum wage increases representing almost 8 percent). Figure 18 shows the estimated average impact of the minimum wage increases on these hotels' payroll costs in 2010 and 2016 (assuming that the number of employees and other operating costs remain constant).

Figure 18: Estimated Average Impact of Minimum Wage Increases on CNMI Hotels' Payroll Costs in 2010 and 2016, Relative to Average Payroll and Other Costs in 2009



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

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

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

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

Hotel and Other Tourism Employers Said Multiple Factors Made It Difficult to Attract Increased Numbers of Visitors

In discussion groups, some hotel and other tourism employers and managers expressed concern about the minimum wage increases, saying that the CNMI competed with similar tourism destinations with lower wages and was very different from the U.S. economy.¹³ Others said the minimum wage increases were needed and manageable and that the primary difficulty was the general decline in the CNMI tourism industry. Some said they had taken steps to reduce regular and overtime hours—including cutting operating hours—and to reduce the cost of benefits. They also described other cost-saving measures, including consolidating office space and cutting utility costs by reducing phone lines. Employers said CNMI tourism business had decreased, with fewer visitor arrivals and expenditures, including substantial loss of the Japanese market. They said that too few flights from key tourism countries and frequent changes in flight availability deterred visitors and led travel agents to send clients to other destinations. In addition, employers expressed concern about whether the CNMI tourism industry would retain access to foreign workers, including those with needed language and other skills, and access to visitors from China and Russia under U.S. immigration law. They expressed concern that the quality of the destination had declined and that the CNMI needed investment in new or updated attractions and hotel renovations. However, they said uncertainty about immigration rules, flight availability, and visitor arrivals had discouraged new investment. Employers said the CNMI needed more tourism promotion, possibly including incentives for airlines and assistance from the federal government.

Tourism and Other Workers Said They Would Like Pay Increases but Were Concerned about Job Availability

Workers participating in our CNMI discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours. Workers in the tourism industry generally expressed greater concern about the minimum wage increases than other workers and unemployed workers.

- **Price increases.** Participants said they wanted to receive minimum wage increases to help them meet rising prices, including for utilities such as power and water and for food and other consumer goods.

¹³They also said the CNMI competes with Guam, which they said has lower prices for power, water, commodities, and other expenses. Given high utility costs, most CNMI hotels generate their own power and water.

However, they said the minimum wage increases had not kept pace with changes in the price of goods, and some said the minimum wage increases had not made a difference.

- **Job insecurity.** Workers were concerned about the impact of the wage increases on their ability to find and retain jobs, which was already difficult. They said they had observed that while some workers received pay increases, others lost their jobs or work hours. Several said they would rather keep their jobs and work hours and stay at the current wage. They also said that many people were leaving the CNMI to find work.
- **Poverty and crime.** Some said that with or without the minimum wage, people in the CNMI were suffering from poverty. People who have lost jobs or had their hours reduced rely on food stamps and other benefits, though some said they would like to find jobs rather than relying on benefits. One said he planned to find and sell cans from the street to generate income. Participants also expressed concern about rising crime rates resulting from decreased employment, and several said they had been victims of theft.
- **Immigration.** Participants said that both workers and employers were worried about the transition to U.S. immigration law, including increased immigration fees and the status of foreign workers.

The text box lists some of the comments by discussion group participants.

CNMI Workers' Views Based on Discussion Groups

Price increases

- “Groceries here are pretty expensive. Prices keep going higher and higher.”
- “It’s very hard to pay for everything just with our salary. Power is expensive.”
- “The minimum wage that was raised is good for people working. We want to try that minimum wage ourselves.”
- “Every time the minimum wage goes up, I notice stores raise the price of commodities.”

Job insecurity

- “Minimum wage going up to \$7.25 is great for workers, but at the same time is a big burden to employers.”
- “Minimum wage increases are useless. They cut hours so, in the end, our paychecks are the same.”
- “When minimum wage increased I was laid off and up to now have not been able to find a job.”
- “With minimum wage some are getting a benefit of higher wages, but others are losing their jobs.”
- “I’d rather wait for my increase than be laid off.”

Poverty and crime

- “Crime is skyrocketing—I’m not ok with that, but it’s because of the cost of living going up.”
- “Nothing changes, even with the delay in the minimum wage. People are suffering.”

Immigration

- “Federal immigration is hurting foreign workers now that we have to pay fees to go back.”
- “Employers and employees are scared of the transition in the next few years. They’re all just waiting.”

Appendix V: GAO Questionnaire Used in Report

Note: The questionnaire reproduced below was provided to American Samoa tuna canning employers who had responded to our 2009 questionnaire. CNMI tourism employers who had responded in 2009 received a questionnaire with nearly identical wording, except as noted and except where “American Samoa” was replaced with “CNMI.” In addition, the CNMI questionnaire included the following:

24. Which one of the following best describes this establishment’s principal kind of business?

(Please check only ONE box)

Accommodations/ hotels

Other tourism-related → Please specify:

Other non-tourism-related → Please specify:

Appendix V: GAO Questionnaire Used in Report

Instructions for Completing the Questionnaire Update Onscreen

- Please use your mouse to navigate, clicking on the field or check box you wish to answer.
- To select a check box or a button, click on the center of the box.
- To change or deselect a check box response, click on the check box and the 'X' will disappear.
- To answer a question that requires that you write a comment, click on the answer box _____ and begin typing. The box will expand to accommodate your answer.

START HERE

NOTE: The reporting unit for this questionnaire is an establishment. An *establishment* is generally (1) a single physical location where business is conducted or where services or industrial operations are performed or (2) a permanent office, payroll office, or other place where business activities are conducted.

PART I. ESTABLISHMENT INFORMATION

These questions cover basic information about this establishment.

1. What is the 9-digit Employer Identification Number (EIN) for this establishment?

If you or your employer operates establishment in American Samoa with more than one EIN, please fill out one questionnaire per EIN.

(Please enter numerals only)

2. What is this establishment's name?

PART II. EXPENSES AND INCOME

These questions ask about this establishment's labor and capital expenses in order to better understand this establishment's cost structure and ability to absorb cost increases.

3. The questions in Part II will refer to the 12-month period that includes June 12th in a given year. How does your establishment prefer to provide expense data — for a calendar year (January through December) or for a fiscal year as defined by your establishment?

Calendar year..... → Skip to QUESTION 4
 Fiscal year..... →

3a. What is the first and last month of your establishment's fiscal year that includes June 12th?

First month of fiscal year	Last month of fiscal year
(MM)	(MM)

The data reported in questions 4 through 8 will be used to determine this establishment's total costs incurred for its employees. Each question asks you to report a different type of employee cost that most establishments incur—total payroll, FICA contributions, and costs of employee benefits. Specific definitions of each of these three categories are provided below.

4. What was the total U.S. dollar amount of this establishment's payroll before employee deductions for taxes and benefits for the 12-month period for 2009 identified in question 3?

For each year, <u>only include</u> the following as payroll expenses: <ul style="list-style-type: none"> • Wages and salaries, including overtime pay, commissions, and bonuses, paid only to employees of this establishment • Paid holidays, vacation, sick leave, and other paid leave for all employees 	12-month period that includes <u>June 12th</u>	
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>	
	2009	\$, , .00

Appendix V: GAO Questionnaire Used in Report

5. What was the total U.S. dollar amount of this establishment's FICA contributions for the 12-month period for 2009 identified in question 3?

FICA contributions are those made for <ul style="list-style-type: none"> • Social Security (OASDI) and • Medicare 	12-month period that includes <u>June 12th</u>
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>
	2009 \$, , .00

6. What was the total U.S. dollar amount of this establishment's payments for employee benefits (other than FICA) for the 12-month period for 2009 identified in question 3?

For each year, <u>only include</u> the following as benefits if offered to any employee who earned an annual salary or an hourly wage: <ul style="list-style-type: none"> • Insurance contributions (e.g., health, life) • Payments for health expenses • Pension or 401(k) contributions • Housing or food allowances • Transportation payments for local or international travel • Payments for education expenses • Workers' compensation • Other benefits not listed above 	12-month period that includes <u>June 12th</u>
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>
	2009 \$, , .00

Appendix V: GAO Questionnaire Used in Report

PART III. EMPLOYMENT AND WAGES DATA

These questions ask for detailed data about employment and wages for employees at this establishment for 2010. These data are necessary to develop a historical time series of comparable employment and wage data for large employers in American Samoa.

NOTE: The questions in Part III ask about employees on this establishment's payroll. When answering, please refer to the following definition of employee:

Include the following in your count of employees:

- Full- and part-time employees, including executives, who earn an hourly wage or annual salary
- Employees on paid leave during any part of the stated pay period

Exclude the following in your count of employees:

- Employees on the payroll of establishments with a different EIN from this establishment
- Proprietors, owners, or partners of unincorporated establishments
- Employees on unpaid leave for the entire stated pay period
- Unpaid family members
- Pensioners

Several questions in Part III also ask about employees covered by the **Fair Labor Standards Act (FLSA)**. The FLSA establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments.

9. Are any of the employees on this establishment's payroll **paid an hourly wage** instead of an annual salary?

(Please check only ONE box)

- Yes..... →Continue with QUESTION 10
No..... →Skip to QUESTION 14
Don't know →Skip to QUESTION 14

10. The reporting period for questions in Part II was either a calendar or fiscal year. The reporting period for the questions in Part III will now be a **pay period**. A pay period is a recurring length of time over which employee work time is recorded and paid. What length of time defines a pay period for employees paid an hourly wage at this establishment?

(Please check only ONE box)

- 1 week.....
2 weeks
1 month
Other..... →Please specify: _____

Appendix V: GAO Questionnaire Used in Report

11. For employees paid an hourly wage, what were the start and end dates of the pay period including June 12th for 2010?

If this establishment was not in operation during the pay period that included June 12th in any year, please check the appropriate box in the last column of the table.

(Please enter two numerals per answer box)

Start date of pay period that includes <u>June 12, 2010</u>		End date of pay period that includes <u>June 12, 2010</u>		Establishment was not in operation on <u>June 12, 2010</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

12. What was the total number of employees paid an hourly wage on this establishment's payroll during the pay period that included June 12th 2010?

If this establishment was not in operation during the pay period that included June 12th, please enter a "0" in the corresponding box.

(Please enter numerals in each box below)

	Pay period that includes <u>June 12, 2010</u>
Total number of employees paid an hourly wage	

Appendix V: GAO Questionnaire Used in Report

14. Are any of the employees on this establishment's payroll paid an annual salary instead of an hourly wage?

(Please check only ONE box)

Yes..... → Continue with QUESTION 15

No..... → Skip to QUESTION 17

Don't know → Skip to QUESTION 17

15. What was the total number of employees paid an annual salary on this establishment's payroll during the pay period that included June 12th 2010?

If this establishment was not in operation during the pay period that included June 12th in any year, please enter a "0" in the corresponding box.

(Please enter numerals in each box below)

	Pay period that includes June 12, 2010
Total number of employees paid an annual salary	

PART IV. QUESTIONS ABOUT THE MINIMUM WAGE INCREASES

The questions in this section ask about past and future actions this establishment has taken and what factors contributed to the decisions to implement each action.

17. Between June 2009 and June 2010, did this establishment implement any of the following actions?

(Please check ONE box per action)

	Yes ▼	No ▼	Don't know ▼	Not applicable ▼
a. Introduced labor-saving strategies or technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduced other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduced operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delayed expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocated business outside of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Closed establishment temporarily.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Laid off salaried employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Laid off employees who are paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduced regular work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduced overtime work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decreased level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decreased level of benefits for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implemented a hiring freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raised prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Others (Please specify):				
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

↓

If you checked YES for ANY of these actions, continue to question 18.

If you did not check YES for any of these actions, skip to question 20.

Appendix V: GAO Questionnaire Used in Report

18. To what extent did the minimum wage increases (past or future) contribute to this establishment's decision to implement each action listed in question 17 for which you checked YES?

(Please check ONE box per action)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Introduced labor-saving strategies or technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduced other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduced operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delayed expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocated business outside of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Closed establishment temporarily.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Laid off salaried employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Laid off employees who are paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduced regular work hours for employees paid an hourly wage..	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduced overtime work hours for employees paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decreased level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decreased level of benefits for employees paid an hourly wage...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implemented a hiring freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raised prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Others (Please specify):					
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix V: GAO Questionnaire Used in Report

19. To what extent did each of the following factors contribute to this establishment's decision to implement actions listed in question 17?

(Please check ONE box per cost)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Increased utility costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Increased costs of materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Increased transportation/ shipping costs...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Increased maintenance costs.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Decreased number of customers.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Changes to U.S. immigration laws.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Changes in business taxes or fees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Others (please specify): _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix V: GAO Questionnaire Used in Report

20. Do you think this establishment will implement any of the following actions in the next 18 months?

(Please check ONE box per action)

	Yes ▼	No ▼	Don't know ▼	Not applicable ▼
a. Introduce labor-saving strategies or technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduce operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delay expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocate business outside of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Close establishment temporarily.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lay off salaried employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Lay off employees who are paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduce regular work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduce overtime work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decrease level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decrease level of benefits for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implement a hiring freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raise prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Close establishment permanently	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p. Others (Please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

↓

<p>If you checked YES for ANY of these actions, continue to question 21.</p> <p>If you <u>did not</u> check YES for any of these actions, skip to question 23.</p>
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Appendix V: GAO Questionnaire Used in Report

21. To what extent do you think the minimum wage increases (past or future) will contribute to this establishment's decision to implement each action listed in question 20 for which you checked YES?

(Please check ONE box per action)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Introduce labor-saving strategies or technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduce operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delay expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocate business outside of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Close establishment temporarily.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lay off salaried employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Lay off employees who are paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduce regular work hours for employees paid an hourly wage....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduce overtime work hours for employees paid an hourly wage.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decrease level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decrease level of benefits for employees paid an hourly wage....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implement a hiring freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raise prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Close establishment permanently	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p. Others (Please specify):					
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix V: GAO Questionnaire Used in Report

22. To what extent do you think each of the following factors will contribute to this establishment's decision to implement the actions listed in question 20?

(Please check ONE box per cost)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Increased utility costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Increased costs of materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Increased transportation/ shipping costs...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Increased maintenance costs.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Decreased number of customers.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Changes to U.S. immigration laws.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Changes in business taxes or fees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Others (please specify): _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

23. Do you have any other comments to add that you feel would help us understand (or provide context for):
 - your responses to any specific question(s) in this questionnaire or
 - the impact the increases in the minimum wage or other factors had or will have on this establishment or its employees?

24. What is the name, title, and contact information of the primary person who completed this questionnaire in case GAO needs to follow up on information provided in this questionnaire?

- a. Name of person completing the questionnaire: _____
- b. Title of person completing the questionnaire: _____
- c. E-mail address of person completing the questionnaire: _____
- d. Phone number of person completing the questionnaire: _____
- e. Fax number of person completing the questionnaire: _____

25. What is this establishment's mailing address?

This concludes the questionnaire. Thank you very much for your assistance!

Appendix VI: Comments from the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES DEPARTMENT OF COMMERCE
The Secretary of Commerce
Washington, D.C. 20230

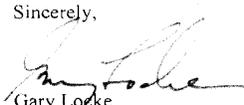
May 25, 2011

Mr. David Gootnick
Director
International Affairs and Trade
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Gootnick:

The U.S. Department of Commerce appreciates the opportunity to provide comments on the U.S. Government Accountability Office's draft report titled *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began* (GAO-11-427). The Department of Commerce's comments on this report are enclosed.

Sincerely,



Gary Locke

Enclosure

See comment 1.

The following is GAO's comment on the Department of Commerce's letter,
dated May 25, 2011.

GAO Comment

1. The Department of Commerce provided technical comments in addition to the signed letter. In discussions with the Department of Commerce, we agreed to include only the signed letter and not the technical comments.

Appendix VII: Comments from the American Samoa Government

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



TOGIOLA T.A. TULAFONO
Governor

FAOA A. SUNIA
Lieutenant Governor

OFFICE OF THE GOVERNOR
American Samoa

Telephone: (684) 633-4116
Fax: (684) 633-2269
go@americansamoa.gov

Serial: 410

May 25, 2011

Mr. David Gootnick
Director, International Affairs and Trade
United States Government Accountability Office
411 G Street, N.W.
Washington, DC 20548

Subject: GAO Draft Report (GAO-11-427) American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began

Dear Mr. Gootnick:

Thank you for the opportunity to submit our response on GAO's Draft Report on the effects of recent minimum wage increases in American Samoa.

We are generally in agreement with the findings presented in the report. However, we would like to bring attention to several fundamental concerns we have regarding this GAO study.

1. The draft report itself does not capture or convey the magnitude of the economic disaster that has befallen American Samoa. The economic impact analysis is so fragmented as to suggest a form of recession (page 56). On the contrary it is an economic depression. Rates of unemployment may be or soon reach 20-25 percent (Answer to GAO question, 3-25-11 email). This is a very important order of magnitude estimate.
2. The report is replete with admonitions that the minimum wage was only one of several factors influencing economic conditions in American Samoa. Nevertheless, it is absolutely clear that American Samoa's cannery employment losses, plant closures and other adverse actions were attributed significantly and most often to the minimum wage increases (pages 62-65).
3. The report finds that economic conditions are serious in American Samoa and that employers expect things to get worse when this temporary relief period ends. In other words, American Samoa's economy is in dire straits, and the forces that caused the decline remain intact to prevent an economic recovery (page 56).

1

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There is more than sufficient evidence in the report to support our recommendations.

1. Terminate increases in the minimum wage immediately in American Samoa.
2. Conduct a thorough analysis of what caused the minimum wage increases to lead to such adverse economic effects in American Samoa and not in the US.
3. Determine procedures for dealing with the minimum wage in American Samoa in such a manner as to avoid such economic disasters in the future.

Our contention is that someone must address these issues for Congress in order for them to formulate appropriate legislation. As it stands, the magnitude of the impacts is unclear, and there is nothing in the report to give Congress any guidance as to what could be done to remedy the situation or prevent it from occurring again.

We understand the GAO has its particular charter, its legislative mandates and research conventions that may limit the extent of interpretation it has to work with. Nevertheless, Congress needs answers to the following key questions:

1. Congress needs to know the general magnitude of the economic impacts

The GAO report seriously understates its own case. As with the previous report, employment loss estimates are never combined in any coherent manner to suggest the true magnitude of the economic impacts. For example, consider the table below combining GAO numbers to provide an order of magnitude impact estimate. These employment numbers are found on pages 55 and 56.

**Estimated Employment Losses in American Samoa,
2009-2010**

	2009	2010-11
SSA Estimates	3737	3737
Cannery Questionnaire		2256
Current Temp Workers		2000
Total	3737	7993

This table is very conservative. It shows employment losses of almost 8000 by 2010-11, approximately a 40 percent decline from the 2008 peak of 19,171. It is conservative because it assumes (a) no further non-cannery employment losses in 2010, (b) no additional cannery losses or closures in 2010, and (c) the low estimate of GAO temporary worker job loss range.

It would not take much change in these conservative assumptions for total employment losses in 2010-11 to reach 10-12,000, or roughly 50 to 60 percent declines in total employment in American Samoa from 2008.

See comment 1.

This information is in the report, but it is spread throughout even in footnotes. It does not appear in any integrated form that would provide any clear statement of the magnitude or seriousness of the impacts.

This economic impact is a great deal more serious than conveyed in the GAO report. This is very important for Congress to know.

2. Congress needs to know why the US minimum wage has had such adverse economic effects on the territories but not on the US.

We went to a great deal of effort to shed light on this issue for the GAO in a letter to you of January 31, 2011. We saw brief reference to the matter in the report but no serious consideration.

Our view was that Congress itself recognized the danger in the original minimum wage legislation in 1938 designed explicitly to help maintain a “minimum standard of living...without substantially curtailing employment or earning power”.

When Congress applied the US minimum wage in American Samoa in 2007, it did not consider that the US minimum wage would be applied to a much larger proportion of American Samoa’s economy than was the case for the US.

The result was that American Samoa suffered a vastly more severe relative employment decline than ever could have been anticipated in the US.

- a. American Samoa’s minimum wages and average wages were only a fraction of the US averages.
- b. About half of American Samoa’s workers had wages below the US minimum compared with about 2 percent for the US.
- c. Scheduled minimum wage increases could result in a one-third increase in total wage costs in American Samoa. Such increases could not be absorbed through increased productivity, reduced profits, or higher prices. Therefore, the rising wage costs would have to be absorbed through major employment reductions.
- d. The U.S. minimum wage would have to be raised to more than \$16.50 per hour to expand minimum wage coverage in the US to the same proportion that it applies in American Samoa.
- e. American Samoa’s production per person is less than one-fifth that of the US as measured by per capita GDP.

Application of the US minimum wage to American Samoa, pursuant to the scheduled increases mandated by Congress, continues to have devastating effects on American Samoa’s economy. It is causing severe distortions in American Samoa’s labor market. It has driven up labor costs such that businesses are being forced to cut employment, close or relocate.

Congress must now address how American Samoa’s minimum wage should be determined to remedy and avoid these catastrophic employment losses in the future. We recommended that the GAO explore alternative methods for setting minimum wage levels in American Samoa that will have less damaging effects on its economy. Congress is obligated by its own legislation to establish a minimum wage “without substantially curtailing employment or earning power”.

See comment 2.

See comment 3.

See comment 2.

See comment 2.

The GAO has been instrumental in the preparation of this knowledge base. The GAO should have some latitude to explore the extent to which a new minimum wage should apply to American Samoa, especially in light of the requirement of the original minimum wage legislation that minimum wages be imposed without substantially curtailing employment or earning power.

We recommended to GAO that in its September 1, 2011 report to Congress it address how the minimum wage can be determined without substantially curtailing employment or earning power in American Samoa.

Accordingly, it was recommended that GAO explore alternative procedures for setting minimum wage levels in American Samoa. Alternatives include but are not limited to the following:

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

3. We now recommend the following:

- a. Increases in the minimum wage should be terminated immediately in American Samoa.
- b. Conduct a thorough analysis of what caused the minimum wage increases to lead to such adverse economic effects in American Samoa and not in the US.
- c. Determine procedures for dealing with the minimum wage in American Samoa in such a manner as to avoid such economic disasters in the future.

It may now be too late to include action on these recommendations in the GAO final report (GAO-11-427). However, these recommendations should be the subject of follow-up studies by the GAO, the US Department of Labor, or some other appropriate agency.

We thank the GAO for its work and offer our assistance and support for any future efforts on minimum wage for American Samoa.

Sincerely,



TOGIOLA T.A. TULAFONO
Governor of American Samoa

See comment 2.

The following are GAO's comments on the American Samoa government's letter, dated May 25, 2011.

GAO Comments

1. The American Samoa government developed its own estimates of employment loss based on the information included in our report. It concluded that American Samoa employment fell by 3,737 in 2009 and by 7,993 in 2010-2011. Our report does not include an estimate of total employment losses in 2009 because the data come from multiple sources that cannot be combined. Specifically, it is unclear the extent to which the SSA data reflect some losses of cannery jobs in addition to other job losses, so these cannot be added to cannery job losses from our industry questionnaire. In addition, the SSA data count the number of employed people, while the questionnaires count the number of jobs held at each firm. It is possible that the same person could hold positions at multiple firms. Moreover, the SSA data include workers who had earnings in American Samoa at any point in the year, while the questionnaire reflects the number of jobs in the tuna canning industry as of June of each year. Furthermore, because many of the temporary federal jobs began after our SSA counts of employment in American Samoa, and because workers can hold multiple jobs, it is unclear how the temporary federal jobs will affect employment counts based on SSA data.
2. The American Samoa government recommended in its written comments and in a January 2011 letter that GAO explore alternative methods for setting minimum wage levels in American Samoa. The government provided several alternative methods for consideration. While we considered these suggestions and summarized them in the report, our research objectives and methodology were developed in response to the legislative mandate and in discussions with Congressional requesters. These objectives and methodology were designed to provide sufficient information and analysis to support congressional deliberation on minimum wage in American Samoa and the CNMI.
3. The American Samoa government provided statements comparing the economy and minimum wage increases in American Samoa to those in the U.S. states. We agree that the minimum wage applies to a much larger proportion of American Samoa (and CNMI) workers than of workers in the U.S. states. Our report states, "In our April 2010 report,¹

¹GAO-10-333.

we found that before the first minimum wage increase in July 2007, 37 percent of all workers and about three-quarters of private sector workers employed by American Samoa questionnaire respondents earned wages close enough to the minimum wage to be directly affected by the first increase.² In the CNMI, 18 percent of all workers and about a third of private sector workers were directly affected by the first increase. For both areas, we found that most private sector workers would be directly affected by the increases once the minimum wage reached \$7.25. In contrast, according to Bureau of Labor Statistics estimates, in 2006 approximately 2.2 percent of all hourly workers in the U.S. states earned the federal minimum wage of \$5.15 or less.” The report also states, “Current federal data on income and poverty levels in American Samoa do not exist; however, the most recent available data show that American Samoa had lower income and higher poverty rates than the mainland United States.”

²In [GAO-10-333](#) and in this report, we use the term “directly affected by the minimum wage increase” to refer to workers who received pay increases because they were paid at or below the new minimum wage. The term does not include workers who may be indirectly affected by the minimum wage increases, such as those who lost jobs or work hours, or those who were above the minimum wage but received pay increases in order to preserve parity in the pay scale.

Appendix VIII: Comments from the Commonwealth of the Northern Mariana Islands Government

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



Department of Commerce

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
Caller Box 10007 CK, Saipan, MP 96950
Tel. (670) 664-3000 • Fax: (670) 664-3067
email: commercedept@pticom.com

May 26, 2011

David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Subject: Response to CNMI Employment, Earnings, and Status of Key Industries
Since Minimum Wage Increase Began

Dear Mr. Gootnick:

The CNMI Department of Commerce is pleased with the opportunity to comment on the GAO report # 11-427 on the minimum wage increases in the CNMI. Please find our responses as attached.

If we can be of further assistance in the issuance of the final report, please let us know.

Thank you,


SIXTO K. IGISOMAR
Deputy Secretary
For the Department of Commerce

cc: Governor, CNMI

**Appendix VIII: Comments from the
Commonwealth of the Northern Mariana
Islands Government**

The draft GAO report # 11-427 on Employment, Earnings, and Status of Key Industries since Minimum Wage Increases Began for the CNMI intends to update the 2010 GAO # 10-333 report.

Overall, we find the findings remained relatively unchanged since the last GAO report #10-333, as illustrated below:

GAO -10-333 Released 2010	Draft GAO-11-427 to be released Spring 2011
Findings:	Findings:
1) Future increases will affect wages of more than 80 percent of those employers' workers by 2015	1) Future increases will affect 95 percent of workers in the tourism industry by 2016
2) Employment continued on an existing downward trend by 22 percent in 2006 to 2007	2) Employment fell 13 percent from 2008 to 2009
3) Inflation adjusted earnings declined by 6 percent from 2006 to 2008	3) Inflation adjusted earnings rose by 3 percent from 2008 to 2009 and remained largely unchanged from 2006 to 2009
4) Increase in room rates may cause a 2.6 to 13.7 percent decline in visits	4) Hotels generally absorbed minimum wage costs rather than raise room rates
5) Small employers and other private sector officials expressed mixed views about the future increases, and many expressed greater concern about immigration changes.	5) In discussion groups, private sector employers said minimum wage increases imposed additional costs during a time in which multiple factors made it difficult to operate.
6) In discussion groups, CNMI workers generally expressed support for the minimum wage increases and cited other factors affecting living standards.	6) Workers in discussion groups expressed mixed views regarding the minimum wage increases and said they would like pay increases but were concerned about losing jobs and work hours.
7) Employers reported having taken cost-cutting actions, such as freezing hiring, since the increases began and also reported planning such actions by the end of 2010.	7) Tourism employers reported that they took cost-cutting actions from June 2009 to June 2010 and planned to take additional actions, including laying off workers.

Although the draft report fairly presents the current condition in the CNMI, we feel that factors from the previous report remained relatively the same with the exception of the ongoing uncertainties of the U.S. Immigration Law application, the already anticipated delay in minimum wage increase for year 2011, and the effect of the severe austerity measures implemented by the government.

Appendix VIII: Comments from the
Commonwealth of the Northern Mariana
Islands Government

We wish to highlight the report's limitations, interview responses, and the concluding observations and our input, below:

Methods, Scope, and Limitations

We agree with the limitations and challenges posed by the report:

- "...it is difficult to distinguish between the effects of minimum wage increases and the effects of other factors, including the global recession beginning in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI." (pg. 6)

Planning for the minimum wage increase is not the only factor affecting businesses on island. As an isolated island economy, global events significantly affect the CNMI in comparison to other U.S. States. Not only do CNMI businesses try to brace themselves with a minimum wage increase, they are constantly in a survival mode as they thread through the contracting economy, the uncertainties surrounding the U.S. immigration application, rising energy cost, and global recession.

We recommend addition of the recent statement release by Marianas Visitors Authority, reporting a 26% drop of tourist arrival from Japan, and an overall drop of 18% for all arrivals for the month of April 2011. In addition, as we previously discussed in our teleconference, the projected drop may have been attributed to the Japan tsunami and radiation crisis. We feel this addition will add value to the report.

Employers Interview/Questionnaire (Pg. 81-81)

We do question the responses from employers. The draft report mentioned responses did not attribute the below actions as effects of the minimum wage increases. See below actions:

- a) Cutting of regular hours (87% of respondents; none attributed to minimum wage)
- b) Freeze hiring (83% of respondents; none attributed to minimum wage)
- c) Decrease benefit (63% of respondents; none attributed to minimum wage)
- d) Lay off workers (62% of respondents; none attributed to minimum wage)

We find these high responses interesting that they are not attributed to the minimum wage. Although the reports mentions that the information and data obtained are reasonable basis for the product (pg. 6), we believe that disclaimers within the report as stated below (pg. 26) counters the logic:

- The questionnaire cannot be used to make inferences about all employers and workers in each insular area
- It is possible that some employers' views of the minimum wage increases may have influenced their responses.

We recommend that the reporting method be improved to gather a much clearer picture on the minimum wage issue and improve the data integrity.

See comment 1.

See comment 2.

See comment 3.

**Appendix VIII: Comments from the
Commonwealth of the Northern Mariana
Islands Government**

Draft report Concluding Observations (Pg. 17)

- *The economic declines in American Samoa and the CNMI are substantial, and both areas face budget shortfalls that may threaten their ability to fund public services and make investments in support of future economic development.*
- *Identifying new growth opportunities and maintaining needed infrastructure and services in the meantime will require substantial effort by the private sector and by both the local and federal governments*

Inference from the report indicates that living standards, employment, earnings and other industries will continue to decline substantially. Except for CNMI residents' living standards, the other areas were fairly quantified in the report.

We recommend all future studies to report on current living standards of the residents of the CNMI, as required by congressional mandate, since the implementation of the minimum wage, as well as report on the outlook of such living standards in the future. Page 91 of the report presents quotes observed from discussion groups on workers' opinions on price increases, job security, poverty and crime, and immigration. These are essential parts of this report and in order to satisfy or comply with the congressional mandate, such must be quantified. For instance, the report should include findings on whether minimum wage increases have improved people's lives above the poverty line, made no significant changes, or actually pushed living standards below the poverty line.

CONCLUSION:

In five years or by 2016, US Public Law No. 110-28, as amended by PL No. 111-117, mandates that the CNMI must meet the US minimum wage of \$7.25. The delay by the amendment is a welcome reprieve but what remains largely unchanged will worsen if the other factors outside of the minimum wage remain as they are or continue to deteriorate.

Although we welcome and applaud the efforts of this GAO report #11-427, we highly recommend that a more comprehensive survey and discussion be added to future reports.

Finally, we agree that substantial effort is needed by both the local and federal governments to identify new growth opportunities, and we highly recommend that this and future reports provide further recommendations to the US Congress, federal agencies, and the local government on how to support efforts to manage these challenges.

See comment 4.

The following are GAO's comments on the CNMI government's letter, dated May 26, 2011.

GAO Comments

1. The CNMI government provided information on decreases in CNMI visitor arrivals from Japan following the earthquake and tsunami in Japan. We have added this information to the existing statements on this topic in our report.
2. The CNMI government questioned that for some key past and future actions, such as reducing regular work hours and freezing hiring, no CNMI employers attributed the actions to the minimum wage increases. We note that, as stated in the report, we present the weighted percentage of employers who attributed each action to the minimum wage increases "to a large extent" (not those who attributed the action to the minimum wage increases "to a small extent" or "to a moderate extent").
3. The CNMI government cited several limitations of the tourism industry questionnaire, as we described in this report, and recommended that the reporting method be improved to gather a clearer picture regarding minimum wage increases and to improve data integrity. However, for any questionnaire based on self-reported data, we cannot eliminate the possibility that some employers' views of the minimum wage increases may have influenced their responses.
4. The CNMI government stated that the analyses of CNMI residents' living standards should be strengthened, as required by congressional mandate. Although the original mandate (Pub. L. No. 111-5, § 802, 123 Stat. 115, 186, Feb. 17, 2009) specifically required us to study minimum wage effects on living standards, the current mandate (Pub. L. No. 111-244, 124 Stat. 2618, Sep. 30, 2010) does not. However, the report includes qualitative findings related to living standards based on discussion groups with employers and with workers, as well as quantitative findings on the inflation-adjusted earnings of average and minimum wage workers.

Appendix IX: GAO Contacts and Staff Acknowledgments

GAO Contacts

David Gootnick, (202) 512-3149 or gootnickd@gao.gov
Tom McCool, (202) 512-2642 or mccoolt@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Emil Friberg, Assistant Director; Mark Speight, Assistant General Counsel; Marissa Jones, analyst-in-charge; Ashley Alley; Pedro Almoguera; Benjamin Bolitzer; David Dayton; Etana Finkler; Jill Lacey; Luann Moy; Nalylee Padilla; and Vanessa Taylor made key contributions to this report. Technical assistance was provided by Holly Dye, Patrick Dudley, Kay Halpern, Dave Hancock, Michael Hoffman, Rhonda Horried, Michael Kendix, Courtney LaFountain, John Mingus, Jena Sinkfield, and Wayne Turowski.

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