



December 2016

AMERICAN SAMOA

Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level

GAO Highlights

Highlights of [GAO-17-83](#), a report to congressional committees

Why GAO Did This Study

The federal minimum wage, established by the Fair Labor Standards Act of 1938, has not been applied in American Samoa for many years. In 2007, Congress passed legislation to incrementally raise minimum wages in American Samoa to the federal level. Subsequent legislation postponed or reduced these increases.

Pub. L. No. 114-61, enacted in October 2015, included a provision for GAO to report on alternative ways of increasing minimum wages in American Samoa to keep pace with the territory's cost of living and eventually equal the federal minimum wage. In addition, Pub. L. No. 111-5, enacted in February 2009, included a provision for GAO to report periodically on the economic impact of minimum wage increases in the territory. This report examines (1) the history of minimum wage implementation in American Samoa; (2) the status of the American Samoa economy, including changes in employment, earnings, and key industries since scheduled minimum wage increases began in 2007; and (3) alternative approaches for increasing minimum wages in American Samoa to meet GAO's two reporting criteria in Pub. L. No. 114-61. GAO reviewed American Samoa local and federal earnings information; collected data from American Samoa employers in a key industry through a questionnaire; and reviewed methods used to set minimum wages in the United States and around the world.

Commenting on a draft of this report, the Department of the Interior suggested further study and the American Samoa government suggested creating a committee to set minimum wages in the territory.

View [GAO-17-83](#). For more information, contact David Gootnick at (202) 512-3149, or gootnickd@gao.gov.

December 2016

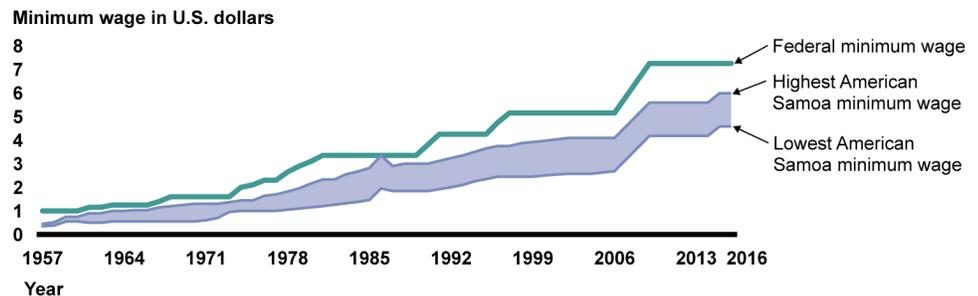
AMERICAN SAMOA

Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level

What GAO Found

Federal legislation passed in 2007 created a schedule of periodic increases to minimum wages in American Samoa. During the previous 50 years, special industry committees had periodically recommended industry-specific minimum wages. Historically, minimum wages in the U.S. territory have generally remained below the federal minimum wage (see fig.). The current schedule of increases would raise all American Samoa minimum wages to the current federal hourly rate of \$7.25 by 2036. However, any new increase in the federal rate will lengthen the time required to achieve convergence.

Minimum Wages in American Samoa Relative to the Federal Minimum Wage, 1957-2016



Source: GAO analysis of Department of Labor data. | GAO-17-83

American Samoa's gross domestic product (GDP) per capita is less than a quarter of the U.S.'s GDP per capita and, adjusted for inflation, has declined over the past decade. Local government and tuna canneries are the largest employers, accounting in 2014 for 42 percent and 14 percent of the workforce, respectively. From 2007 to 2014, overall employment fell by 4 percent, and workers' average inflation-adjusted earnings fell by about 11 percent. During the same period, cannery employment decreased by 50 percent, and the minimum wage for cannery workers rose. Cannery officials reported labor costs and fisheries access among the challenges of operating in the territory, and one of the two canneries announced plans to suspend operations indefinitely in December 2016. The American Samoa government has expressed concern that continued minimum wage increases are at odds with sustainable economic development.

There are two basic approaches for increasing American Samoa's minimum wages to keep pace with the cost of living in American Samoa and to eventually equal the federal minimum wage—the criteria included in the provision for GAO to report on this issue. The first approach relies on indexing minimum wages to the cost of living. The second approach relies on using a schedule of future adjustments. Aspects of each approach could also be combined, as needed, with respect to the amount and timing of future increases to the territory's minimum wages. Given concerns about potential negative effects of increasing American Samoa's minimum wage on the territory's economy, other design options could be incorporated to safeguard against such effects. For example, minimum wage increases could be reduced or suspended based on economic indicators that reflect the general health of the American Samoa economy or critical sectors.

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Abbreviations

BEA	Bureau of Economic Analysis (U.S. Department of Commerce)
BLS	Bureau of Labor Statistics (U.S. Department of Labor)
CBO	Congressional Budget Office
CNMI	Commonwealth of the Northern Mariana Islands
CPI	consumer price index
CPI-U	Consumer Price Index for All Urban Consumers
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
DOL	Department of Labor
FLSA	Fair Labor Standards Act
GDP	gross domestic product
ILO	International Labor Organization
NOAA	National Oceanic and Atmospheric Administration (U.S. Department of Commerce)
PCE	personal consumption expenditures
SIC	special industry committee

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December 2, 2016

Congressional Committees

American Samoa, a U.S. territory, has historically had higher levels of poverty than the U.S. states and has not been subject to the federal minimum wage for many years. In 2007, Congress passed legislation that established a schedule of periodic increases that would have raised minimum wages in American Samoa¹ to the current federal minimum wage² (\$7.25 per hour) by 2016.³ In subsequent years, Congress passed legislation postponing or reducing the scheduled increases.

The most recent of these legislative actions, adopted in 2015, included a provision for GAO to report on alternative ways of increasing minimum wages in American Samoa to keep pace with the cost of living in the territory⁴ and to eventually equal the federal minimum wage.⁵ In addition,

¹In this report, “minimum wages in American Samoa” refers to federally established minimum wages for the territory under 29 C.F.R. Part 697. However, the American Samoa government may set local minimum wages, which would be applicable to the extent that they were in excess of the coverage or rate, or both, provided by the federal minimum wages for the territory.

²In this report, the term “federal minimum wage” refers to the minimum wage required by the Fair Labor Standards Act (FLSA) in the United States, as provided by 29 U.S.C. § 206(a)(1). Currently the federal minimum wage is in effect in the 50 U.S. states, the District of Columbia, and any territory or possession of the United States, subject to certain exceptions.

³Pub. L. No. 110–28, § 8103 (May 25, 2007); 29 U.S.C. § 206 note, Applicability of minimum wage to American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI). The act also set a schedule for increasing the CNMI’s minimum wage to equal the federal minimum wage. The minimum wage provision of the FLSA had not previously applied to the CNMI under the 1976 Covenant with the United States (Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, Pub. L. No. 94-241, § 503(c) (Mar. 24, 1976), codified at 48 U.S.C. § 1801 note). Thus, prior to 2007, the CNMI had authority to set its own minimum wage. The CNMI’s minimum wage in 2006 was \$3.05. Under the current schedule, the CNMI’s minimum wage will reach the current federal minimum wage in September 2018. We plan to report to Congress on the CNMI minimum wage by April 2017.

⁴In this report, “cost of living” refers to the cost of living in American Samoa, unless stated otherwise.

prior legislation included a provision for GAO to report on the impact of past and future increases in minimum wages in American Samoa by April 2017. This report examines (1) the history of minimum wages in American Samoa; (2) the status of the territory's economy, including changes in employment, earnings, and key industries since scheduled minimum wage increases began in 2007; and (3) alternative approaches that could be used to ensure that minimum wages in American Samoa keep pace with the cost of living and eventually equal the federal minimum wage.

We took the following steps to address these objectives (see app. I for further details of our methodology).

- To examine the history of minimum wages in American Samoa, we analyzed U.S. Department of Labor (DOL) records. We undertook an analysis of the extent to which prior minimum wages in American Samoa kept pace with the cost of living and fell at or below the federal minimum wage.
- To examine the status of American Samoa's economy, including changes in employment, earnings, and key industries since scheduled minimum wage increases began in 2007, we reviewed relevant GAO reports⁶ and analyzed data obtained from the American Samoa government; from American Samoa tuna industry employers, in response to a questionnaire that we provided; and from the U.S. Department of Commerce.⁷ We used consumer price index (CPI) data from American Samoa to determine inflation-adjusted wages.⁸ We

⁵Pub. L. No. 114-61, § 1(b) (Oct. 7, 2015). This legislation added to a provision that was amended in 2009 for GAO to report on the impact of past and future increases in minimum wages in American Samoa and the CNMI (Pub. L. No. 110-28, § 8104 (May 25, 2007)), codified as amended at 29 U.S.C. § 206 note, Report on the impact of past and future minimum wage increases. We published reports on this topic in 2010, 2011, and 2014. See GAO, *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); *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries since Minimum Wage Increases Began*, [GAO-11-427](#) (Washington, D.C.: June 23, 2011); and *American Samoa and Commonwealth of the Northern Mariana Islands: Economic Indicators since Minimum Wage Increases Began*, [GAO-14-381](#) (Washington, D.C.: Mar. 31, 2014).

⁶[GAO-10-333](#), [GAO-11-427](#), and [GAO-14-381](#).

⁷We did not review information about workers in the underground economy or identify workers who may have been unlawfully paid less than the minimum wage.

⁸A CPI measures the average change over time in the prices paid by consumers for a market basket of goods and services.

estimated tuna canneries' costs in applying future scheduled minimum wage increases and interviewed cannery representatives regarding the impact of these increases and other competitive challenges facing their industry. Although our approach yielded information on trends in employment, wages, and earnings in American Samoa, we were not able to distinguish between the effects of minimum wage increases and the effects of other factors, such as changes in the global economy, fluctuations in energy prices, and global trade liberalization. Our analyses of employment and earnings included data through 2014, extended to 2015 where possible. After we had completed our analyses and provided a draft of this report to federal agencies and the American Samoa government, one of the two companies with canning operations in American Samoa announced that it would suspend these operations indefinitely in mid-December 2016. Our report acknowledges this development as well as earlier announcements of short-term suspensions of operations by the other company. However, in the absence of full information for 2016, we did not revise our overall analyses of changes in employment or earnings to reflect these developments.

- To examine alternative approaches for increasing minimum wages in American Samoa, we reviewed literature on the minimum wage-setting systems in the United States, in U.S. states with their own minimum wage, and in other countries. We also examined cost-of-living indices generated by the U.S. government and analyzed associated data. Using historical cost-of-living data, we estimated the length of time it would take for American Samoa's minimum wages to reach the current federal minimum wage under varying rates of increase in the cost of living. We produced similar estimates using various hypothetical schedules for increasing American Samoa minimum wages. We also developed scenarios illustrating how indexing and schedule-based approaches could be combined to meet both criteria. The scope of our work was limited to examining approaches for increasing American Samoa's minimum wages that would directly address the criteria specified for GAO's review. Our work did not cover other programs and policies that could supplement the incomes of low-wage workers, such as the Earned Income Tax Credit. Our work also did not cover possible adjustments in U.S. trade or tax policies that might help offset potential negative impacts of minimum wage increases on employers.

We conducted this performance audit from November 2015 through December 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable

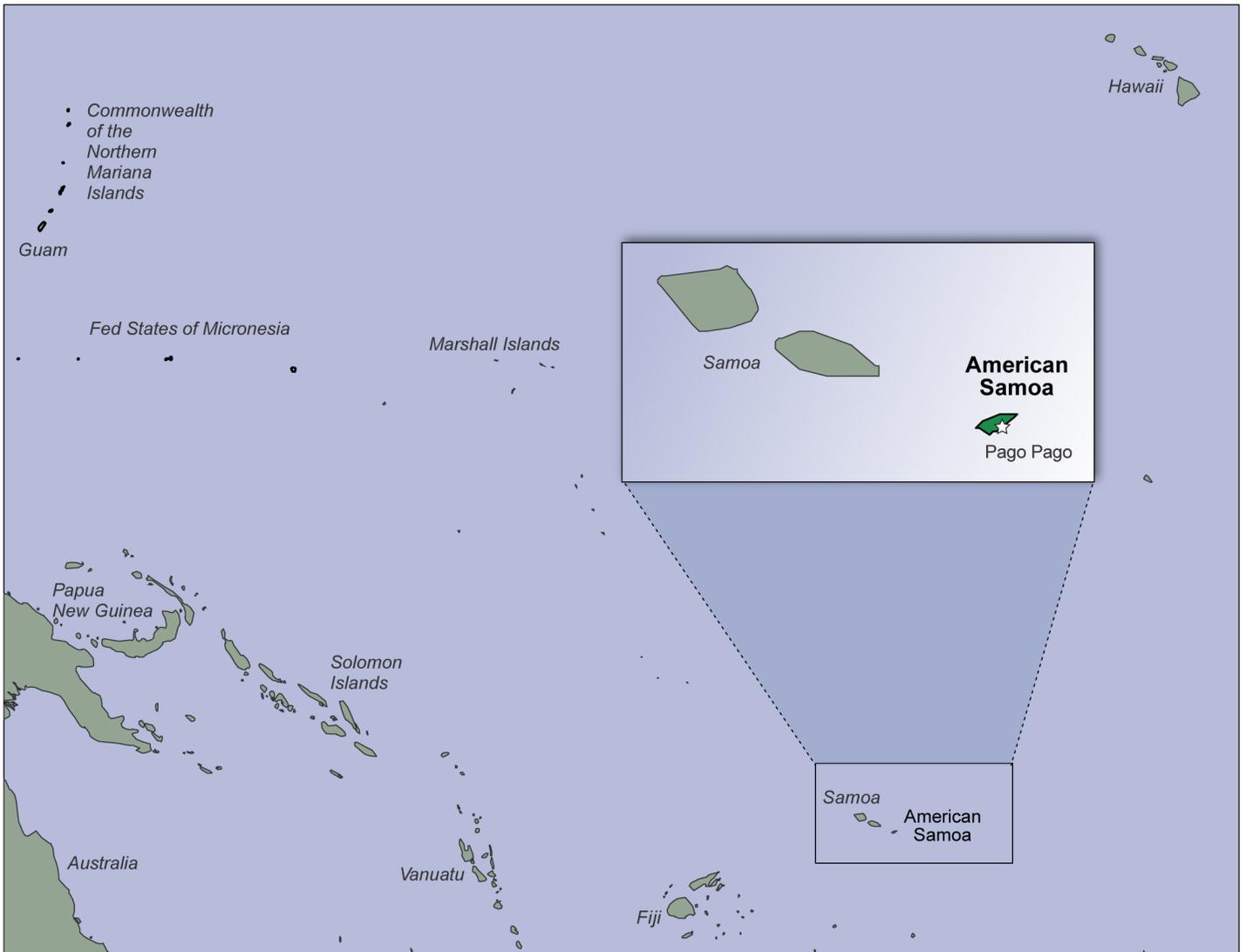
basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

American Samoa

American Samoa consists of five volcanic islands and two coral atolls in the South Pacific, located about 2,600 miles southwest of Hawaii (see fig. 1). The territory has a combined land area of 76 square miles, slightly larger than Washington, D.C.

Figure 1: Location of American Samoa

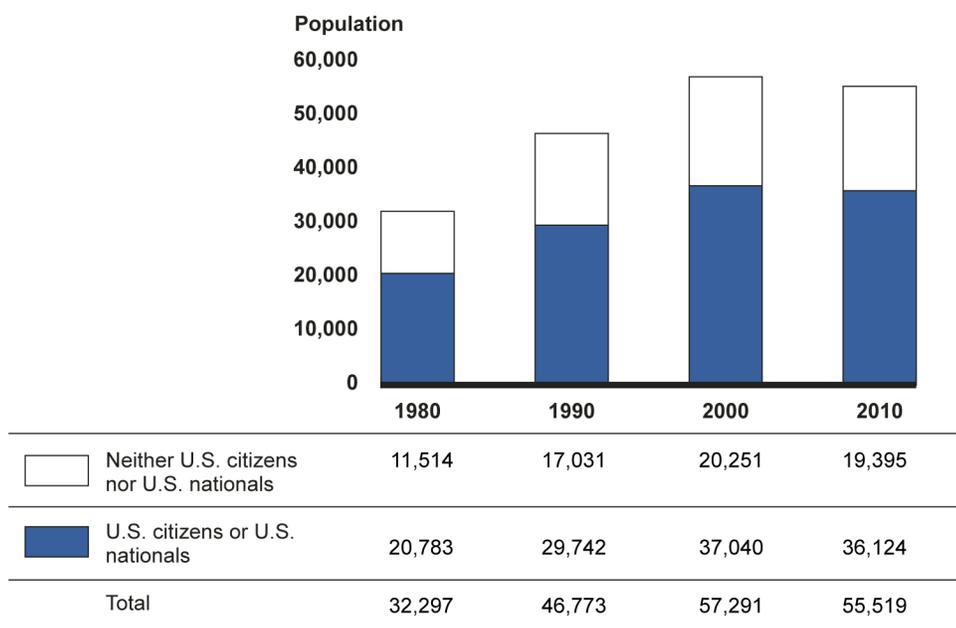


Source: GAO, Map Resources (map). | GAO-17-83

Note: The area labeled Samoa is also known as the Independent State of Samoa, a nation distinct from the U.S. territory of American Samoa.

The 2010 U.S. Census found American Samoa’s population to be 55,519, a decrease of 3 percent from its 2000 population (see fig. 2).⁹ Individuals who are neither U.S. citizens nor U.S. nationals, most of them from the Independent State of Samoa, composed approximately 35 percent of the territory’s population in that year.¹⁰

Figure 2: U.S. Citizenship Status of American Samoa Residents, 1980-2010



Source: GAO analysis of decennial U.S. Census data. | GAO-17-83

Notes: Persons born in American Samoa are U.S. nationals but are not U.S. citizens, unless at least one of their parents is a U.S. citizen.

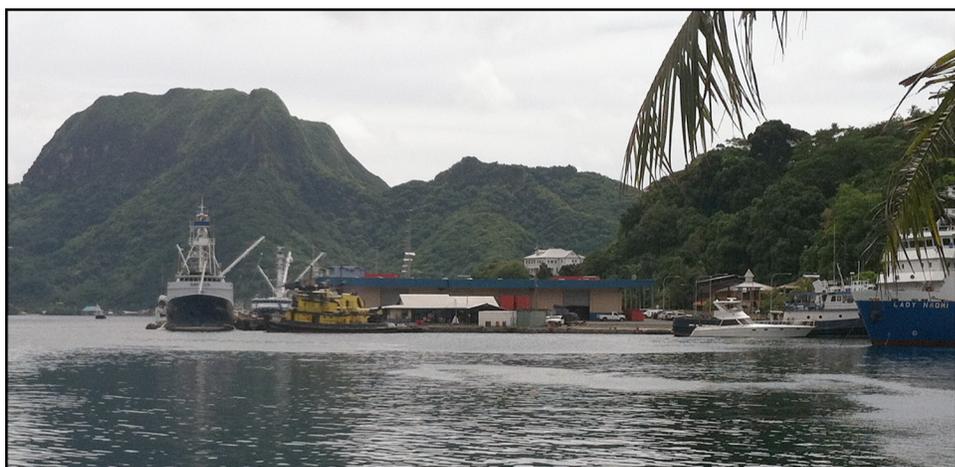
⁹U.S. Census Bureau, 2010 Census, <https://www.census.gov/2010census/data/>, accessed July 14, 2016. The American Samoa government has stated that it believes the 2010 census undercounted the territory’s population, owing to a mismatch between the census count and American Samoa data on births, deaths, and outmigration, among other factors, as well as the omission of undocumented immigrants who feared deportation. See app. VI of [GAO-14-381](#) for additional detail.

¹⁰Preliminary results from the American Samoa Department of Commerce’s 2015 Household Income and Expenditures Survey show that as of 2015, the territory’s population had grown to 57,436, including 36,952 who were American Samoan by birth. About 14,000 were reported to have been born in independent Samoa, about 900 in Tonga, and about 1,000 in the Philippines. American Samoa Department of Commerce, *2015 Household Income and Expenditure Survey Preliminary Findings* (Pago Pago: Apr. 8, 2016).

For 1980, data shown for “U.S. citizens or U.S. nationals” include people born in the United States, the Commonwealth of the Northern Mariana Islands, Guam, and American Samoa, as reported by the 1980 census. The census did not report on the citizenship status of the American Samoan population.

The 2010 census also reported that American Samoa’s median household income remained well below, and its poverty rate well above, those of the United States. In 2009, American Samoa’s median household income was \$23,892, 47 percent of the U.S. median household income; American Samoa’s poverty rate was 57.8 percent, in contrast to the U.S. rate of 15.1 percent. Approximately 98 percent of the population of American Samoa lives on the main island of Tutuila, and most economic activity (including tuna canning) and government operations take place in and around the harbor of the capital city, Pago Pago, on Tutuila. Most of Tutuila consists of rugged terrain, with little level land (see fig. 3).

Figure 3: Pago Pago Harbor



Source: GAO. | GAO-17-83

U.S. interest in the Samoan islands began in 1872 with efforts by the U.S. Navy to establish a naval station in Pago Pago harbor. A U.S.-British-German protectorate over all Samoan islands ended in 1899, when the islands that comprise American Samoa were placed under U.S. control. The U.S. Naval Station in the territory was established in 1900.¹¹ From

¹¹Joseph Kennedy, *The Tropical Frontier: America’s South Sea Colony* (Mangilao, Guam: University of Guam Micronesia Area Research Center, 2009); J. Robert Shaffer, *American Samoa: 100 Years under the United States Flag* (Honolulu, Hawaii: Island Heritage Publishing, 2000).

1900 through 1904, the U.S. government negotiated control over American Samoa,¹² 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.¹³ In 1960, American Samoa residents adopted their own constitution, but amendments to the constitution may be made only by an act of Congress.¹⁴

Persons born to non-U.S. citizen parents in American Samoa are U.S. nationals but may apply to become naturalized U.S. citizens.¹⁵ In addition, U.S. noncitizen nationals from American Samoa have the right to travel freely, live, and work throughout the United States. American Samoa exercises authority over its immigration system and customs through locally adopted laws.¹⁶ While American Samoans may serve in the U.S. military, they do not have the right to vote in U.S. national elections and do not have voting representation for legislation passed before the full U.S. Congress, including legislation setting the minimum wage in American Samoa.

¹²Two deeds of cession were initially completed between Samoan chiefs, or *matai*, and the United States in 1900 and 1904 and were 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.

¹³Transfer of Administration of American Samoa from the Secretary of the Navy to the Secretary of the Interior, Exec. Order No. 10,264, 16 Fed. Reg. 6417 (June 29, 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).

¹⁴48 U.S.C. § 1662a.

¹⁵American 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. U.S. noncitizen nationals do not have the same preferences as U.S. citizens for sponsoring immediate family members for family-based immigration visas. To qualify for the same rights as U.S. 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).

¹⁶American Samoa is the only U.S. insular area that administers its own immigration programs. See GAO, *American Samoa: Performing a Risk Assessment Would Better Inform U.S. Agencies of the Risks Related to Acceptance of Certificates of Identity*, [GAO-10-638](#) (Washington, D.C.: June 11, 2010). The U.S. government administers immigration functions in other insular areas, such as Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and the U.S. Virgin Islands; however, each of these insular areas administers its own customs laws.

U.S. Government Support for the American Samoa Economy

The U.S. government has supported American Samoa's economy through trade and tax policies.

- U.S. trade policies provide tariff-free access to the U.S. market for processed tuna from American Samoa, while foreign suppliers generally are subject to tariffs for these goods. For example, foreign suppliers' canned or pouched tuna packed in oil is subject to a 35-percent tariff, and their canned or pouched tuna not packed in oil is subject to a 12.5 percent tariff.¹⁷ However, U.S. trade agreements with certain countries may provide those countries tariff-free or reduced-tariff access to the United States.¹⁸
- U.S. tax policies have reduced federal taxes on income earned by qualifying U.S. corporations investing in American Samoa.¹⁹ Under the Internal Revenue Code, qualifying American Samoa tuna canneries have received a tax credit for U.S. corporate income taxes.²⁰ Canneries in American Samoa have also benefited from exemptions from local taxes.²¹

¹⁷A lower tariff rate—6 percent—is available for up to 4.8 percent of the prior year's consumption of canned or pouched tuna shipped not packed in oil. For calendar year 2015, U.S. Customs and Border Protection determined that 15,955 tons of tuna qualified for the lower rate.

¹⁸According to the U.S. Trade Representative, the United States has free trade agreements with 20 countries.

¹⁹In general, income that residents of American Samoa earn from American Samoa sources is exempt from individual federal income taxation but is subject to Social Security and Medicare taxes.

²⁰Certain 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 extended 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 and that 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 (Dec. 17, 2010). For tax years beginning on January 1, 2012, or later, there are new requirements, including the requirement that corporations must meet a "qualified production activities income." Section 173 of Pub. L. No. 114-113 (Dec. 18, 2015) extends the American Samoa economic development credit for an additional 2 years.

²¹On December 20, 2012, the American Samoa government agreed to a new local tax exemption for the period from January 1, 2013, to December 31, 2022, for one of the two tuna canning companies in the territory (StarKist). On October 5, 2010, the other company (Tri Marine) received exemption from any taxes from the American Samoa government for 10 years.

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- The United States provides assistance to the government of American Samoa. In fiscal year 2015, American Samoa's single audit reported that U.S. federal grants provided \$164 million of \$255 million in total government revenue to American Samoa.²² Ranked by grant expenditures, the largest federal grantors were the Departments of Health and Human Services (\$40.1 million), the Interior (\$34.8 million), Agriculture (\$32.7 million), Education (\$23.7 million), and Homeland Security (\$10.2 million).

Systems for Setting Minimum Wages

Systems for setting minimum wages vary across the United States and internationally in many respects. Appendix II provides information about systems for setting minimum wages around the world, drawn largely from the International Labor Organization (ILO).²³ Key attributes of these systems include the following:

- **Decision-making authority:** the entity responsible for decisions on how to set minimum wages. For example, decisions may be made by the government itself or delegated to a board or committee created for this purpose.
- **Objectives:** the primary outcomes that a minimum wage is designed to achieve. Such outcomes may relate to the needs of workers, conditions facing employers or the overall economy, or both. Systems employ varying degrees of specificity in this regard; some list factors to be considered, while others define specific criteria.
- **Adjustment mechanisms:** procedures for making adjustments to a minimum wage. For example, a minimum wage may be indexed to an economic indicator (e.g., changes in the CPI) and adjusted at specified intervals to reflect changes in that indicator.
- **Coverage:** the population of workers to which a minimum wage applies. Some minimum wage systems exclude workers of a certain age, industry, or occupation from minimum wage coverage.
- **Level:** the rate of a minimum wage. This rate may be viewed in nominal terms; systems may set a single—usually hourly—minimum wage or may set multiple minimum wages that vary by industry, occupation, or region. The minimum wage rate may also be viewed in comparative terms: Minimum wages may be set at low levels relative

²²Single Audit Reports for Territory of American Samoa (Sept. 30, 2015).

²³The ILO is a specialized agency of the United Nations.

to other indicators (e.g., average wages) and thus apply to a comparatively small share of the workforce. Alternatively, they may be set at relatively high levels and thus apply to a comparatively large share of the workforce.

Minimum Wages in the United States

The federal minimum wage was first enacted as part of the Fair Labor Standards Act of 1938 (FLSA).²⁴ The FLSA specified that for industries engaged in commerce or in the production of goods for commerce, its policy was to correct and, as rapidly as practicable, to eliminate labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers without substantially curtailing employment or earning power.²⁵ Since 1938, there have been nine amendments to the FLSA establishing new minimum wages and usually raising the rate through a series of steps over 2 to 4 years (see table 1; also see table 6 in app. III for a summary of selected federal laws related to minimum wages in American Samoa).

²⁴Pub. L. No. 75-718 (June 25, 1938). For additional information, see David H. Bradley, *The Federal Minimum Wage: In Brief*, R43089 (Washington, D.C.: Congressional Research Service, Jan. 13, 2015); David H. Bradley, Benjamin Collins, and Sarah A. Donovan, *The Fair Labor Standards Act (FLSA): An Overview*, R42713 (Washington, D.C.: Congressional Research Service, Jan. 2, 2014).

²⁵Job losses have been cited as a potential negative result of introducing or raising minimum wages. For example, in February 2014, the Congressional Budget Office issued a study of two options for raising the federal minimum wage in a series of steps to \$9.00 or to \$10.10. The study included a range of estimated outcomes, with midpoint estimations that these increases would reduce total U.S. employment by about 100,000 or 500,000 workers, respectively. However, at the same time, the study found that the increases would raise earnings for 7.6 million or 16.5 million workers and would, on a net basis, lift 300,000 or 900,000 people, respectively, above the poverty threshold. See Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income*, (Washington, D.C.: February 2014). In commenting on a draft of this report, DOL stated that studies examining the employment impact of increases in the minimum wage have found a range of effects, with varying degrees of reliability, and that the majority of these studies have concluded that minimum-wage increases have had little to no significant effect on employment of low-wage workers. See app. XII for a copy of DOL's comments.

Table 1: Federal Minimum Wages Established through Legislation since 1938

Legislation (date enacted)	Wage rate^a	Effective date of wage rate
Pub. L. No. 75-718 (June 1938)	0.25	Oct. 1938
	0.30	Oct. 1939
	0.40	July 1944
Pub. L. No. 81-393 (Oct. 1949)	0.75	Jan. 1950
Pub. L. No. 84-381 (Aug. 1955)	1.00	Mar. 1956
Pub. L. No. 87-30 (May 1961)	1.15	Sept. 1961
	1.25	Sept. 1963
Pub. L. No. 89-601 (Sept. 1966)	1.40	Feb. 1967
	1.60	Feb. 1968
Pub. L. No. 93-259 (Apr. 1974)	2.00	May 1974
	2.10	Jan. 1975
	2.30	Jan. 1976
Pub. L. No. 95-151 (Nov. 1977)	2.65	Jan. 1978
	2.90	Jan. 1979
	3.10	Jan. 1980
	3.35	Jan. 1981
Pub. L. No. 101-157 (Nov. 1989)	3.80	Apr. 1990
	4.25	Apr. 1991
Pub. L. No. 104-188 (Aug. 1996)	4.75	Oct. 1996
	5.15	Sept. 1997
Pub. L. No. 110-28 (May 2007)	5.85	July 2007
	6.55	July 2008
	7.25	July 2009

Legend: Pub. L. No. = Public Law Number.

Source: GAO analysis of U.S. public laws establishing and amending the Fair Labor Standards Act of 1938.

^aWage rates shown are not adjusted for inflation.

The U.S. federal minimum wage applies generally to any employee engaged in commerce or the production of goods for commerce, with certain exemptions.²⁶ For example, federal minimum wage and overtime requirements do not apply to individuals engaged in agriculture if their employer is an immediate family member. These exemptions are also

²⁶29 U.S.C. § 206(a).

extended to individuals processing seafood while at sea.²⁷ As of July 2009, the federal minimum wage was set at \$7.25 per hour. According to DOL, 3.3 percent of workers in the United States who were paid on an hourly basis in 2015 earned wages at or below the federal minimum wage.²⁸

In general, individual U.S. states, the District of Columbia, and local governments may also set their own minimum wages.²⁹ As of January 2016, all but five U.S. states, as well as many cities and counties, had adopted their own minimum wage laws. According to the DOL, as of January 2016, 29 states and the District of Columbia had established minimum wages that are higher than the federal minimum wage.³⁰ In addition, according to data assembled by the University of California Center for Labor Research and Education, 40 U.S. cities and counties have adopted minimum wages that are higher than the federal minimum wage.³¹ Some states and localities have scheduled increases to their minimum wages in a series of steps over several years. Others adjust their minimum wage by indexing it to an economic indicator—in most of these cases to a CPI as calculated by the Bureau of Labor Statistics (BLS).³² (See app. IV for a summary of state minimum wage laws.)

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

²⁸Department of Labor Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers, 2015” (Washington, D.C.: April 2016).

²⁹See 29 U.S.C. § 218(a).

³⁰According to DOL, the remaining states either specify that the federal minimum wage shall apply, provide for lower minimums that may only apply to workers not covered by the FLSA, or have no minimum wage law whatsoever.

³¹University of California, Berkeley, “Inventory of U.S. City and County Minimum Wage Ordinances” (Berkeley, Calif: Center for Labor Research and Education, 2016), accessed October 4, 2016, <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/>.

³²For a review of consideration of indexing at the federal level, see William G. Whittaker, *Possible Indexation of the Federal Minimum Wage: Evolution of Legislative Activity* RL33791 (Washington, D.C.: Congressional Research Service, Feb. 29, 2008).

History of Minimum Wages in American Samoa

For 5 decades beginning in 1956, federal policy called for the minimum wage rates for industries in American Samoa to reach the federal minimum wage as rapidly as was economically feasible without substantially curtailing employment. Special industry committees (SIC) were directed to recommend the highest minimum wages for industries in American Samoa that would not substantially curtail employment in the industry or give any industry in American Samoa a competitive advantage over any industry in the rest of the United States.³³ In 2007, Congress passed the Fair Minimum Wage Act of 2007, which eliminated the SICs and created a schedule of increases to American Samoa minimum wages that has since been revised and applied over a number of years.³⁴ Since 1957, American Samoa minimum wages have generally remained below the federal minimum wage. American Samoa minimum wages did not keep pace with changes in the cost of living in American Samoa in the decade before 2007 but have generally kept pace since then.

Special Industry Committees Set American Samoa Minimum Wages from 1957 to 2006

From 1957 to 2006, SICs periodically recommended minimum wages for American Samoa. While the FLSA was enacted in 1938, according to testimony before congressional committees in 1956, wages in American Samoa were generally below the federal minimum wage in effect at that time for a variety of reasons.³⁵ The act was amended in 1956 to provide for American Samoa minimum wages to be established through an SIC process similar to that used in Puerto Rico and the U.S. Virgin Islands.³⁶ (See text box.)

³³SICs were composed of representatives from industry, employees in each industry, and the general public in American Samoa.

³⁴App. III summarizes selected federal legislative actions affecting minimum wages in American Samoa since 1938.

³⁵See House Committee on Education and Labor, *Minimum Wages in Certain Territories, Possessions, and Oversea Areas of the United States*, 84th Cong., 2nd Sess., February 15, 1956, and forward, pp. 5-7.

³⁶Pub. L. No. 84-1023 § 2 (Aug. 8, 1956).

SICs and Scheduled Minimum Wage Increases in Puerto Rico and the U.S. Virgin Islands

In its progression from special industry committees (SIC) to scheduled increases, the history of minimum wage-setting in American Samoa is similar to that of two other U.S. territories, Puerto Rico and the U.S. Virgin Islands. Although the United States does not currently use special purpose boards or committees to set federal minimum wages, the Fair Labor Standards Act of 1938 (FLSA), as originally written, provided that “industry committees” could be employed to recommend minimum wages, with a view toward increasing the wages in lower-wage industries to reach the newly established statutory minimum wage.^a This provision was briefly applied in the United States and, in 1940, Congress enacted legislation to apply it in Puerto Rico as well as the U.S. Virgin Islands.

Beginning in the 1970s, Congress passed legislation that set minimum wages for certain industries in these two territories to equal the federal minimum wage and created a schedule of increases for minimum wages in the remaining industries to eventually equal the federal minimum wage.^b These minimum wage increases were subject to potentially higher increases as recommended by the SICs. Minimum wages in the U.S. Virgin Islands reached parity with the federal minimum wage by 1989, when Congress passed legislation amending the FLSA to eliminate the SIC provisions for setting minimum wages in that territory. The same act provided for a final series of increases to bring all minimum wages in Puerto Rico to parity with the federal minimum wage by April 1, 1996.^c

Source: GAO analysis of legislative history. | GAO-17-83

Notes: For additional discussion, see William G. Whittaker, Minimum Wage in the Territories and Possessions of the United States: Application of the Fair Labor Standards Act, RL30235 (Washington, D.C.: Congressional Research Service, Mar. 12, 2008).

^aPub. L. No. 75-718 (June 25, 1938)

^bSee Pub L. No. 93-259, § 5 (Apr. 8, 1974); and Pub. L. No. 95-151, § 2(d) (Nov. 1, 1977).

^cSee Pub. L. No. 101-157, § 4(b)(1) (Nov. 17, 1989).

The SICs were directed to investigate conditions in all industries and enterprises in American Samoa covered by the FLSA and to file a report containing their findings of fact and recommendations for minimum wages with the Secretary of Labor. The FLSA charged the SICs with recommending the highest minimum wages possible without substantially curtailing employment in the industry and without giving any industry in American Samoa a competitive advantage over any industry in the rest of the United States. After the SICs filed their report with the Secretary of Labor, the Secretary was required to issue a wage order establishing minimum wages in American Samoa based on SIC recommendations after the expiration of 15 days, following the publication of the recommendations in the Federal Register.

The Secretary of Labor was directed to appoint each SIC’s chairman and an equal number of members to represent the American Samoa public, employees in the industry, and employers in the industry. In addition, the Secretary was to provide each SIC with an economic report containing

data on the matters before the SIC, as well as a lawyer and an economist to assist the committee. The DOL appointed the first SIC in 1957 and appointed subsequent SICs periodically thereafter.

The SICs recommended minimum wages for a growing number of industry categories. The first SIC recommended minimum wages below the federal minimum wage for each of four industry categories—fish canning and processing, shipping and transportation, petroleum marketing, and miscellaneous industries. These categories changed over the course of the SIC period. The final SIC, which recommended minimum wages to be applied in 2005 and 2006, recommended minimum wages for 18 industry categories. These 18 industry categories remain in existence for present-day minimum wages in American Samoa.

American Samoa Minimum Wage Increases Have Been Set by Law since 2007

Since 2007, federal legislation has determined minimum wages in American Samoa. The Fair Minimum Wage Act of 2007 amended the FLSA, raising the federal minimum wage from \$5.15 to \$7.25 per hour in a series of three steps. Initially, when the bill for the Fair Minimum Wage Act of 2007 was introduced in the U.S. House of Representatives, it did not mention American Samoa; however, according to floor statements attached to the bill, it was subsequently amended to include the territory after some congressmen expressed concern that the act's application of the minimum wage increases to the CNMI, but not American Samoa, represented a "loophole" to benefit the tuna industry. The amended provision eliminated the SICs and introduced a schedule for raising the minimum wages, by equal amounts, until all 18 minimum wage categories in American Samoa reached the federal minimum wage.³⁷ According to the DOL, when the law was enacted, nearly 80 percent of eligible

³⁷The Fair Minimum Wage Act of 2007 repealed the FLSA sections related to the SICs as well as the wage orders issued pursuant to the SICs' recommendations. A bill in Congress in 1992 proposed increasing minimum wages in American Samoa more rapidly by setting floors for the SICs' recommendations over a period of 3 years. At that time, representatives of the American Samoa government and tuna canneries operating in American Samoa expressed opposition to more rapid increases and concern that increasing the minimum wage for the tuna industry would harm an industry that was essential to the local economy. However, the American Samoa delegate to Congress supported minimum wage increases, citing rising costs of living. House Committee on Education and Labor, Subcommittee on Labor Standards, *Minimum Wage Rates in American Samoa, Hearing on H.R. 4011*, 102nd Cong., 2nd Sess., June 3, 1992.

American Samoa workers earned less than \$7.25 per hour.³⁸ Since 2007, the schedule has been amended four times to delay or reduce scheduled increases.

After the initial Fair Minimum Wage Act of 2007 schedule, each subsequent law revising the schedule of minimum wage increases for American Samoa extended the projected dates for American Samoa minimum wages to reach the federal minimum wage. The initial (2007) schedule, which called for \$0.50 annual increases, would have increased all American Samoa minimum wages to the current federal level by May 2016. Measures adopted in 2009³⁹ and 2010⁴⁰ retained the \$0.50 increases but delayed their application, so that convergence between American Samoa minimum wages and the federal minimum wage would have occurred in 2018 rather than 2016. Subsequent measures—applying increases every third year⁴¹ and reducing each increase from \$0.50 to \$0.40⁴²—delayed convergence of American Samoa minimum wages with the federal minimum wage by more substantial intervals. (App. V shows the projected dates for American Samoa minimum wages to converge with the federal minimum wage under the past and current legislated schedules.)

If American Samoa minimum wages continue to increase by \$0.40 every 3 years as scheduled, and if the current federal minimum wage does not increase, the highest minimum wage in American Samoa, for the stevedoring (dockworker) industry, will reach the federal minimum wage in 2027, while the lowest minimum wage, for the garment manufacturing industry, will reach the federal minimum wage in 2036. Minimum wages for the largest employer overall, government, and the largest private-sector employer, the fish canning and processing industry, will reach the federal minimum by 2036 and 2033, respectively. Table 2 shows past and projected American Samoa minimum wages for these industries. (See

³⁸Department 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,” prepared in response to the requirements of Pub. L. No. 110-28, § 8104 (May 25, 2007) (Washington, D.C.: January 2008). The Department of Labor based this finding on the results of a DOL survey prepared for SIC no. 27.

³⁹Pub. L. No. 111-117.

⁴⁰Pub. L. No. 111-224.

⁴¹Pub. L. No. 112-149.

⁴²Pub. L. No. 114-61.

app. VI for the DOL Wage and Hour Division publication of the current federal minimum wage in American Samoa by industry.) However, any change in the current federal minimum wage will alter the projected dates when American Samoa minimum wages will reach the federal minimum wage. If the federal minimum wage rises above \$7.25 before all American Samoa minimum wages reach that level, then American Samoa minimum wages will reach the federal minimum wage sometime after the current projected timeframe of 2027-2036. Federal legislation to increase the federal minimum wage was last passed in 2007, with annual increases phased in over 3 years. Before 2007, there had been no increase in the federal minimum wage for 10 years.

Table 2: Past and Projected Minimum Wages for Selected Industries in American Samoa, 2006-2036

U.S. dollars per hour

	Date of increase	Garment manufacturing ^a	Government sector ^b	Fish canning and processing ^c	Stevedoring ^d
Past	Oct. 1, 2006	\$2.68	\$2.91	\$3.26	\$4.09
	July 25, 2007	3.18	3.41	3.76	4.59
	May 25, 2008	3.68	3.91	4.26	5.09
	May 25, 2009	4.18	4.41	4.76	5.59
	Sept. 30, 2015	4.58	4.81	5.16	5.99
Projected	Sept. 30, 2018	4.98	5.21	5.56	6.39
	Sept. 30, 2021	5.38	5.61	5.96	6.79
	Sept. 30, 2024	5.78	6.01	6.36	7.19
	Sept. 30, 2027	6.18	6.41	6.76	7.25
	Sept. 30, 2030	6.58	6.81	7.16	7.25
	Sept. 30, 2033	6.98	7.21	7.25	7.25
	Sept. 30, 2036	7.25	7.25	7.25	7.25

Source: GAO analysis of minimum wage increases scheduled in Public Law (P.L.) 110-28, P.L. 111-17, P.L. 111-224, P.L. 112-149, and P.L. 114-61. | GAO-17-83

Notes: Minimum wages shown reflect actual rates, in nominal dollar amounts, through September 30, 2015, and projected rates under the current schedule of increases for later years. Shaded areas denote the point at which the indicated American Samoa minimum wages converge with the current federal minimum wage of \$7.25.

The wages shown in italics for October 1, 2006, were recommended by Special Industry Committee No. 26. The wages shown for July 25, 2007, through September 30, 2036, reflect increases scheduled by federal law.

^aGarment manufacturing has the lowest minimum wage of any industry in American Samoa.

^bThe government sector is the largest employer in American Samoa.

^cFish canning and processing is the largest private-sector employer in American Samoa.

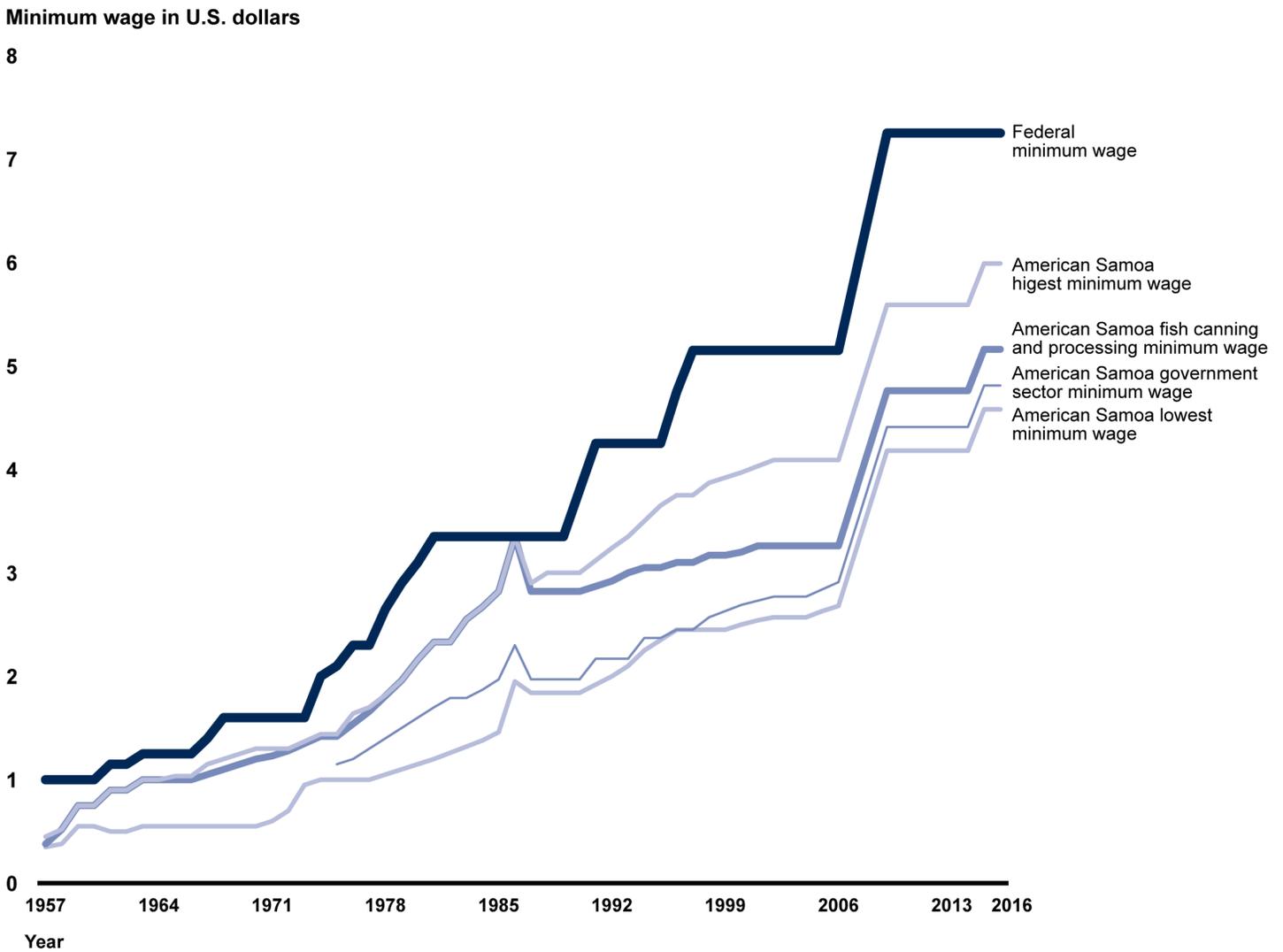
^dStevedoring (stevedoring, lighterage, and maritime shipping agency activities)—one of three classifications (“Classification A”) in the shipping and transportation industry—has the highest minimum wage of any industry in American Samoa.

Minimum Wages in American Samoa Remain Lower Than the Federal Minimum Wage

Since 1957, American Samoa minimum wages have risen, first as recommended by SICs and then in accordance with schedules set by legislation. However, with the exception of 1986, when the highest American Samoa minimum wages—for fish canning and processing, petroleum marketing, and stevedoring—converged with the federal minimum wage of \$3.35, American Samoa minimum wages have remained below the federal minimum wage. (See fig. 4.) The DOL had advised the SIC that once the minimum wage rates in American Samoa converged with the federal minimum wage, they would remain at that level, unchanged by later SICs. Among American Samoa residents who testified in 1986 before the 17th SIC, employees favored the minimum wage increase, tuna cannery representatives opposed the increase, and government representatives expressed mixed opinions. Congress passed legislation declaring that the final rule establishing new minimum wage rates based on the findings of the 17th SIC would have no effect and directing that another SIC establish new rates based on the FLSA.⁴³ In 1987, according to an American Samoa government report, the minimum wage for the fish canning and processing industry decreased to \$2.82 per hour, and the minimum wages for petroleum marketing and stevedoring both decreased to \$2.80 per hour. No minimum wage in American Samoa has since converged with the federal minimum.

⁴³Pub. L. No. 99-396, § 11 (Aug. 27, 1986).

Figure 4: Federal Minimum Wage and American Samoa Minimum Wages, 1957-2016



Source: GAO analysis of Department of Labor data. | GAO-17-83

Notes: The minimum wages presented for American Samoa are the federally determined (either via SIC recommendation or legislation) minimum wages for the territory.

The highest and lowest minimum wages shown represent the industry categories with the highest and lowest minimum wages in American Samoa in each year. Minimum wages exist for multiple industry categories in American Samoa; however, the number and types of categories have shifted over time. From 1957 to 2006, the industry categories with the highest and lowest minimum wages changed over time. Since 2006, stevedoring has had the highest minimum wage, and garment manufacturing has had the lowest minimum wage in American Samoa.

Minimum wages for the government sector and for fish canning and processing represent minimum wages for the largest employer and the largest private-sector employer, respectively.

The average annual growth rate of American Samoa minimum wages was higher from 1957 to 2006, under the SIC system, than since 2006, when scheduled increases began, possibly reflecting differences in inflation rates during the two periods. Under the SICs, the highest and lowest minimum wages in American Samoa increased at an annual average rate of 4.2 percent and 4.4 percent, respectively. In contrast, from 2006 through 2016, the highest and lowest minimum wages increased at an annual average rate of 3 percent and 4.2 percent, respectively. The average annual growth rate of the federal minimum wage was also higher in the earlier period—3.9 percent—than in the later period—1.6 percent. The difference between the American Samoa and federal minimum wage growth rates before and after 2006, when the Fair Minimum Wage Act of 2007 amended the FLSA, may reflect, in part, pronounced differences in inflation during those two periods: Prices in the United States grew annually by an average of 4.1 percent from 1957 to 2006 and by an average of 1.8 percent from 2006 to 2015.

Minimum wages in American Samoa are currently higher relative to the federal minimum wage than they were during the SIC period. At present, American Samoa minimum wages are 63 to 83 percent of the federal minimum wage. In contrast, American Samoa minimum wages were 35 to 45 percent of the federal minimum in 1957 and were 52 to 79 percent of the federal minimum wage in 2006.⁴⁴

Since 2007, Minimum Wages in American Samoa Have Generally Kept Pace with Changes in the Cost of Living

From 1997 through 2006, the later years of the SIC period, minimum wages in American Samoa declined when adjusted for change in the cost of living in either American Samoa or the United States overall. Since scheduled increases in American Samoa minimum wages began in 2007, however, minimum wages have generally kept pace with these changes.⁴⁵ The scheduled minimum wage increases in 2007, 2008, and 2009 raised minimum wages when adjusted for inflation in either

⁴⁴According to DOL, in 1957 the highest American Samoa minimum wage was \$0.45, and the lowest was \$0.35—respectively, \$0.55 and \$0.65 less than the federal minimum wage of \$1.00. Currently the highest minimum wage in American Samoa is \$5.99, and the lowest is \$4.58—respectively, \$1.26 and \$2.67 less than the federal minimum wage of \$7.25.

⁴⁵The cost of living in American Samoa is measured by the American Samoa CPI, produced by the American Samoa government; data are available from 1997. The cost of living in the United States is measured by the U.S. city average CPI, produced by the BLS.

American Samoa or the United States overall. Inflation-adjusted minimum wages then declined, as scheduled increases were postponed through 2014, but they rebounded as the most recent scheduled increase went into effect in 2015. Overall, minimum wages in American Samoa, if adjusted for inflation in either the territory or the United States, are slightly higher today than in the year before scheduled increases began. For example, if adjusted for inflation in American Samoa, the highest minimum wage in the territory was about 4 percent higher in 2016 than in 2006. If adjusted for inflation in the United States, the highest minimum wage was about 24 percent higher in 2016 than in 2006. However, when adjusted for inflation in American Samoa, the highest minimum wage rate in the territory was lower in 2016 than in 1997, despite the scheduled increases that began in 2007. (App. VII illustrates changes in the highest minimum wage from 1997 through 2016.)

Status of the American Samoa Economy

Government and tuna canning remain the territory's largest employers, although tuna exports and tuna cannery employment have declined. Total employment declined from 2007 through 2010 but rebounded through 2014, while tuna cannery employment fell by 50 percent. Adjusted for inflation in American Samoa, earnings for all employees also declined from 2007 levels, although the minimum wage for cannery workers increased. According to the tuna canneries, the canning industry faces a number of challenges, including rising labor costs, decreased access to fisheries, and erosion of preferential trade status. One of the two companies with canning operations in American Samoa recently announced that it would indefinitely suspend these operations, while the other temporarily suspended operations for the second time in a year. The American Samoa government has indicated that it sees minimum wage increases to be in conflict with sustainable economic development.

American Samoa's Gross Domestic Product

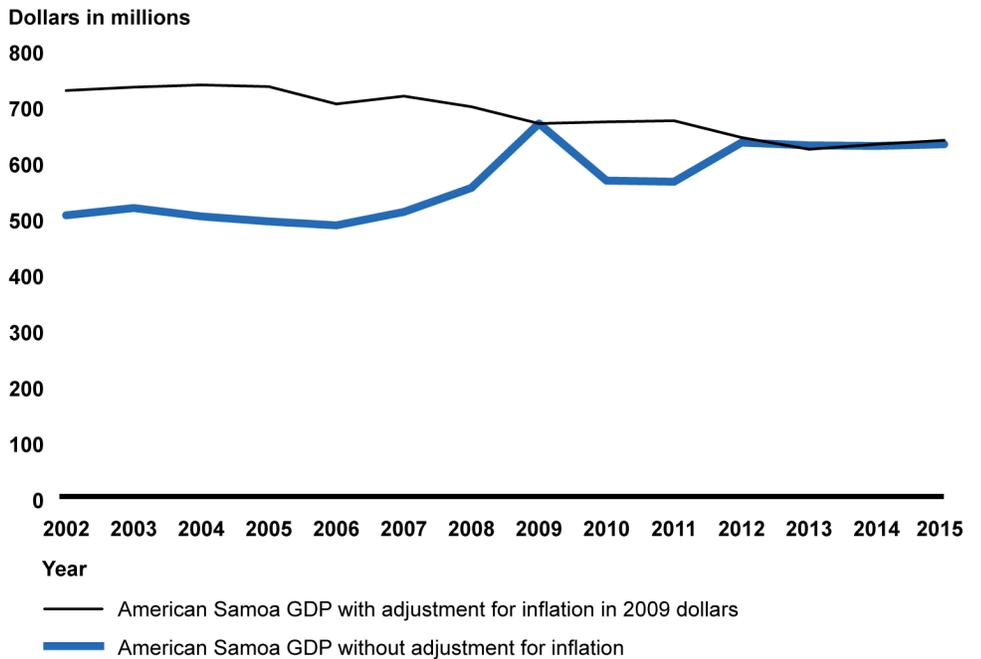
American Samoa's GDP and GDP per capita are lower than those of the United States.

- The U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimated American Samoa's GDP in 2015 at \$641 million.

- American Samoa's GDP per capita in 2015 was \$11,167—approximately 80 percent less than the overall U.S. GDP per capita of \$56,066.⁴⁶

From 2005 to 2015, American Samoa's real GDP—that is, adjusted for inflation in the territory in 2009 dollars—fell by 13 percent, and its GDP per capita fell by 0.6 percent from 2005 to 2015, even as its population declined. (Fig. 5 shows American Samoa's GDP in 2002 through 2015 with and without inflation adjustment, as measured by the U.S. BEA.) When adjusted for inflation, the U.S.' GDP rose by 15 percent, and its GDP per capita rose by 6 percent during the same period.

Figure 5: American Samoa's Gross Domestic Product with and without Adjustment for Inflation, 2002-2015



Legend
 GDP = Gross Domestic Product

Source: U.S. Bureau of Economic Analysis. | GAO-17-83

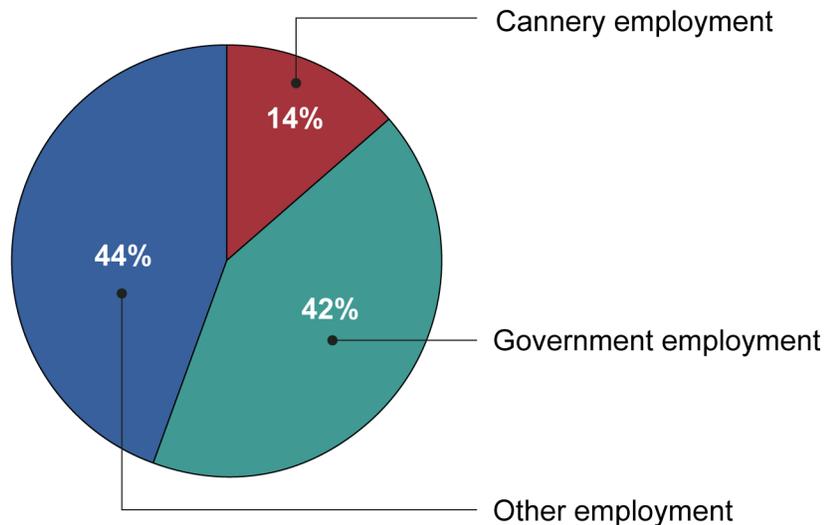
⁴⁶According to the World Bank, American Samoa's GDP per capita places it in the category of an upper-middle-income country.

According to the BEA, changes in American Samoa's tuna industry have been important determinants of changes in its GDP. For example, the BEA attributes the decline in the territory's GDP to declines in activity in the tuna canning industry, such as when canned tuna exports fell in 2010. However, according to the BEA, increased activity in the tuna industry in 2014, including the construction of a multimillion-dollar tuna processing plant, contributed to growth in private investment and goods exports due to an increase in exports of canned tuna.

Government and Tuna Canning Remain Key Sectors of the Economy

The government sector and the tuna canning industry have historically employed the largest numbers of workers in American Samoa. In 2014, the government sector employed about 42 percent of the workforce in American Samoa, and the canneries employed about 14 percent (see fig. 6).

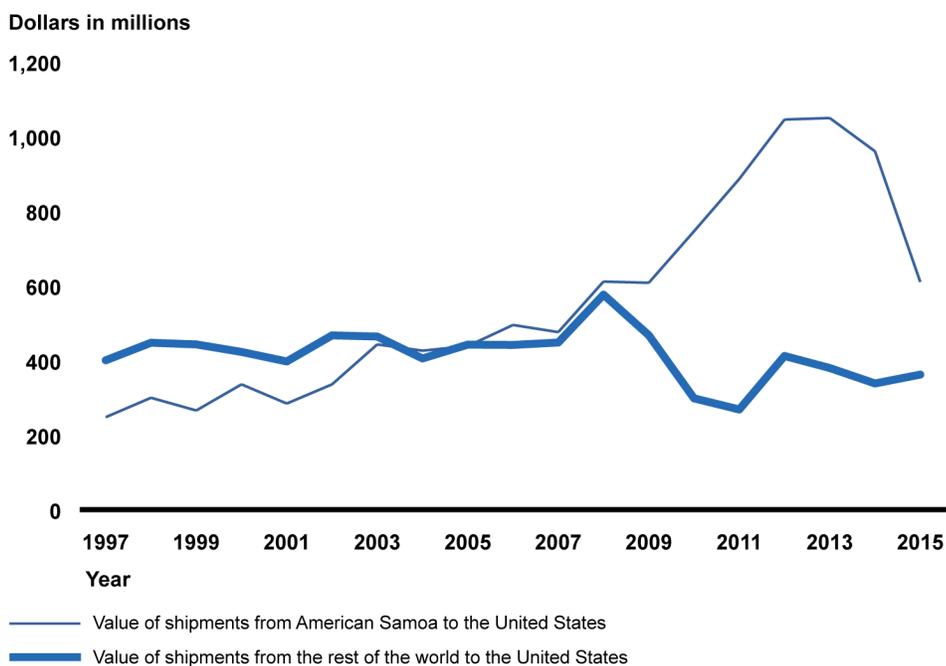
Figure 6: Composition of American Samoa Employment, 2014



Sources: GAO analysis of data from the American Samoa Office of Taxation and responses to a GAO questionnaire. | GAO-17-83

Tuna exports to the United States from all sources, and from American Samoa in particular, have dropped over the last few years (see fig. 7).⁴⁷ From 2008 to 2015, the nominal dollar value of canned tuna exported to the United States from American Samoa fell by 37 percent.⁴⁸

Figure 7: Value of American Samoa and Foreign Tuna Shipments to the United States, 1997-2015



Source: GAO analysis of data from the U.S. Bureau of the Census and the U.S. National Oceanic and Atmospheric Administration. | GAO-17-83

Note: The values shown reflect the “free alongside ship” value; that is, the value of exports at the country seaport, airport, or border port of export, based on the transaction price, including inland freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the country port of exportation.

⁴⁷ According to one tuna expert we interviewed, the general decline in tuna exports to the United States reflects a shift in consumer preferences. Data published by the National Oceanic and Atmospheric Administration (NOAA) show that U.S. per capita consumption of canned tuna fell by 25 percent from 2004 to 2014. National Marine Fisheries Service, *Fisheries of the United States, 2014*, eds. Alan Lowther and Michael Liddel (Silver Spring, MD: NOAA, Current Fishery Statistics No. 2014, September 2015), <https://www.st.nmfs.noaa.gov/commercial-fisheries/fus/fus14/index>, accessed Aug. 7, 2016.

⁴⁸ In 2015, tuna shipments represented more than 99 percent of American Samoa’s \$367 million in commodity exports to the United States.

Three tuna canneries have operated in American Samoa in the last decade.

- StarKist Co. has had a cannery in American Samoa for more than 50 years. In 2008, the StarKist brand was purchased from Del Monte Foods (USA) by Dongwon Industries (South Korea), a multinational firm that has diversified into multiple sectors of the seafood industry as well as many other industries. Dongwon Industries also has, or is developing, production facilities in Ecuador, Senegal, Thailand, and Papua New Guinea.⁴⁹ StarKist's headquarters remains in Pittsburgh, Pennsylvania. As of January 2016, StarKist employed 2,094 hourly wage workers in American Samoa.
- Chicken of the Sea International's parent company, Thai Union (Thailand), closed its American Samoa cannery in September 2009. The company relocated its canning operations to the U.S. state of Georgia while outsourcing the more labor-intensive processes, including cleaning and cooking tuna loins (a low-tariff U.S. import), to countries with lower labor costs. Chicken of the Sea's headquarters is located in San Diego, California.
- Tri Marine International, a trading company with investments in fishing, processing, trading, and marketing, acquired the former Chicken of the Sea facility in American Samoa, located adjacent to the StarKist cannery, on October 5, 2010. Tri Marine's headquarters is located in Bellevue, Washington. As of January 2016, Tri Marine employed 616 hourly wage workers in American Samoa. Tri Marine announced in October 2016 that it would indefinitely suspend canning operations at this facility in December.

The canneries have provided a number of 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 has brought 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.

⁴⁹In 2014, we reported that, according to StarKist, approximately 85 percent of its labor force was not American Samoan. Many citizens of the independent state of Samoa reside in American Samoa on a long-term basis, including spouses and relatives of American Samoans. See [GAO-14-381](#).

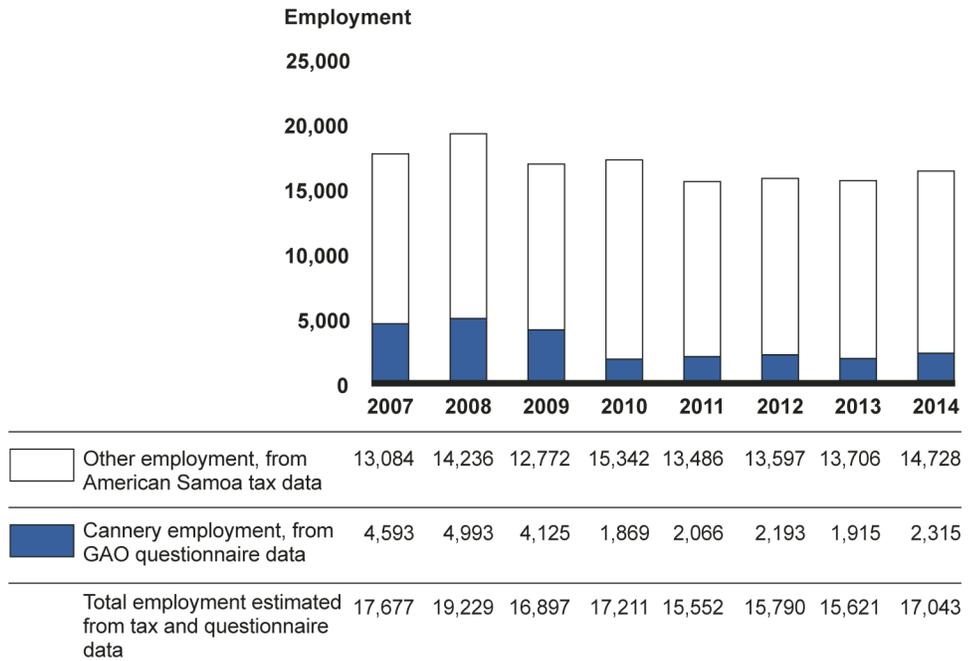
American Samoa Employment and Inflation- Adjusted Earnings Have Declined since 2007

Total Employment Fell and
Rebounded from 2007-2014,
while Cannery Employment
Declined

From 2007 to 2014, total employment in American Samoa declined and then increased, while tuna cannery employment increased before dropping sharply (see fig. 8). In 2014, total American Samoa employment was about 4 percent lower than in 2007, while cannery employment was about 50 percent of its 2007 level. Because American Samoa tax data were not yet available for 2015, we were unable to determine the overall level of employment for that year. However, our survey of cannery employers indicated that from June 2014 to June 2015, the number of hourly workers at the canneries increased by about 17 percent (from 2,315 to 2,704).⁵⁰

⁵⁰The data presented for American Samoa employment are based on our analysis of employee data from the American Samoa Department of Treasury, Office of Taxation, as well as responses from tuna canning industry employers to our questionnaire. The American Samoa tax data are a count of persons employed at any point during the tax year by the employer. The number of cannery employees, estimated on the basis of responses to our questionnaire, is a count of hourly employees at the canneries as of a specific pay period in the given year. See app. I for a full discussion of our methodology.

Figure 8: American Samoa Employment, 2007-2014



Sources: GAO analysis of data from the American Samoa Office of Taxation and responses to a GAO questionnaire. | GAO-17-83

Note: In 2009, an earthquake, followed by a tsunami, caused severe damage in American Samoa. The federal government issued a disaster declaration and assisted with tsunami recovery efforts, including temporary employment in support of recovery efforts. In 2011, we reported that 2,000 to 3,000 temporary jobs in American Samoa, for which funding began in 2009, would end when federal funding was no longer available and that, as a result, counts of the total number employed during this period would exceed the number of long-term positions. The great majority of the temporary jobs 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. See [GAO-11-427](#).

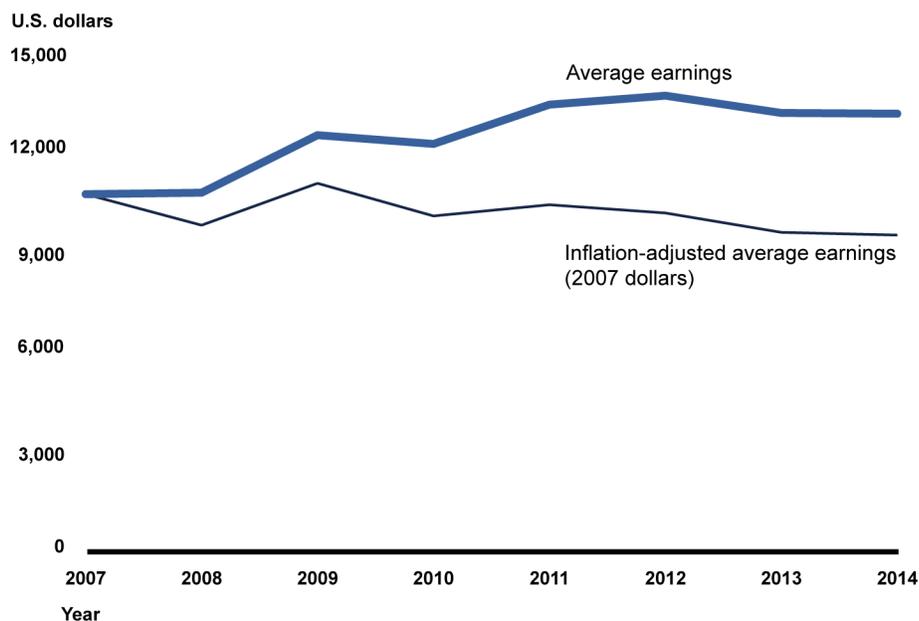
Average Inflation-Adjusted Earnings of All Employees Declined in 2007-2014, while Cannery Workers' Minimum Wage Increased

From 2007 to 2014, average annual inflation-adjusted earnings of American Samoa workers fell by about 11 percent.⁵¹ This decline reflects an approximately 22-percent increase in average annual earnings and a 38-percent increase in prices as measured by the American Samoa CPI. During the last year of this period (2013-2014), average inflation-adjusted earnings fell by 1 percent, reflecting static average earnings accompanied by a 1-percent increase in prices. From 2014 to 2015, prices in American Samoa fell by 0.9 percent (during the same period, the U.S. CPI increased by 0.1 percent). Figure 9 shows the average annual earnings

⁵¹We are unable to report American Samoa earnings data for 2015 because American Samoa tax data for 2015 were not available.

and average annual inflation-adjusted earnings in American Samoa in 2007 to 2014.

Figure 9: American Samoa Average Annual Earnings and Inflation-Adjusted Average Annual Earnings, 2007-2014



Source: GAO analysis of data from the American Samoa Office of Taxation, American Samoa consumer price index, and responses to a GAO questionnaire. | GAO-17-83

From 2007 to 2015, the hourly wage of minimum wage cannery workers who retained their jobs rose by a greater percentage than prices in American Samoa, as measured using the American Samoa CPI.⁵² By 2015, the minimum wage had risen by 58 percent (from \$3.26 to \$5.16) since the first half of 2007—before the minimum wage was increased in that year—while prices rose by 36 percent. From 2014 to 2015, the minimum wage rose by 8 percent (from \$4.76 to \$5.16), while prices fell by 1 percent.

⁵²Because earnings data do not allow for a direct comparison of average and minimum wage annual earnings and do not allow for tracking the earnings of workers who lost their jobs, this analysis does not capture the effect of minimum wage workers who may have become unemployed.

American Samoa Tuna Canning Industry Faces Challenges, and Canneries Plan to Reduce Operations

Scheduled Minimum Wage Increases Will Eventually Affect Wages of Almost All Tuna Cannery Workers

As American Samoa minimum wage increases continue, they will affect a growing percentage of workers in the territory's tuna canning industry.⁵³ American Samoa employers' responses to our questionnaire regarding workers' wages as of January 2016 indicated that the scheduled increase of the industry's minimum wage to \$5.56 in September 2018 would affect 91 percent of canning industry hourly workers, who currently earn that amount or less.⁵⁴ Future minimum wage increases would affect the wages of 93 percent of current cannery hourly workers when the industry's minimum wage reaches \$5.96 in September 2021 and would affect 98 percent of current canning industry hourly workers when it reaches \$7.25 in 2033. By 2033, the extra annual cost added by minimum wage increases after January 2016 would be approximately \$4,027 per worker (see table 3).⁵⁵

⁵³From June 2014 to January 2016, both the minimum wage and the median wage of hourly workers in the tuna canning industry increased by 8 percent, from \$4.76 to \$5.16. From 2007 to 2016, as a result of previous minimum wage increases, the median wage among workers in the tuna canning industry employed by questionnaire respondents rose by 56 percent, from \$3.30 to \$5.16 per hour.

⁵⁴A scheduled increase in the minimum wage would not directly affect the wages of any workers already earning the amount of the new minimum. However, because their wages would be subject to subsequent scheduled increases, we include such workers in the percentages that would be affected. Available data do not show any workers currently earning the precise amounts of the scheduled minimum wages.

⁵⁵We identified the additional cost by calculating the difference between the cost per worker in January 2016 and the cost per hourly worker through 2033, based on the scheduled minimum wage increases and averaged across all workers. See app. I for further details of our methodology.

Table 3: Projected Cost Increases per Hourly Worker in the American Samoa Tuna Canning Industry Due to Scheduled Minimum Wage Increases after January 2016

Date of scheduled minimum wage increase	Minimum wage of cannery workers	Percentage of workers covered by the new minimum wage	Increase in average hourly costs per worker since Jan. 2016	Increase in average annual costs per worker since Jan. 2016
Sept. 30, 2018	\$5.56	90.5	\$0.32	\$672
Sept. 30, 2021	\$5.96	93.1	\$0.69	\$1,438
Sept. 30, 2033	\$7.25	97.8	\$1.93	\$4,027

Source: GAO analysis of wage data provided by American Samoa tuna canning employers in response to a January 2016 GAO questionnaire. | GAO-17-83

Note: To estimate the annual cost of future minimum wage increases, we first calculated the difference between the hourly wage for each worker in January 2016 (reflecting the tuna canning industry minimum wage of \$5.16) and all scheduled minimum wage increases through 2033. We multiplied that value by 2,080 (annual hours worked per full-time worker) to obtain the estimated annual cost for each worker. Finally, we computed the average of those costs for all workers, including those not affected by the minimum wage increases. For workers whose wages in January 2016 exceeded the scheduled minimum wage, we assumed that the cost of the minimum wage increase would be zero because the increase would not affect their pay. The average wage of canning industry workers in January 2016 was \$5.37. Our 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.

Canneries Cite Challenges Including Rising Labor Costs, Decreased Fisheries Access, and Erosion of Preferential Trade Status and Plan to Reduce Operations

In the spring of 2016, representatives from the two tuna canneries in American Samoa expressed concerns about challenges related to the scheduled minimum wage increases, decreased access to fishing grounds in the Pacific, and potential erosion of the territory’s preferential trade status. In the fall of 2016, each of the canneries announced plans to suspend canning operations, one for an indefinite period and the other temporarily, in response to these challenges.

- According to Tri Marine representatives, every \$0.10 increase in the minimum wage will result in about \$150,000 to \$200,000 in additional annual costs. In June 2011, we found that the three minimum wage increases since 2007 had increased labor costs for tuna canning in American Samoa relative to other locations,⁵⁶ such as Thailand, where the minimum wage is currently \$1.07 an hour.⁵⁷ StarKist

⁵⁶GAO-11-427.

⁵⁷According to the Notification of the Wage Committee on Minimum Wage Rate (No.7) issued by the government of Thailand, the current minimum wage rate in Thailand, excluding any limited exceptions, is 300 bhat per day. As of September 16, 2016, the exchange rate was 34.92 bhat to 1 U.S. dollar, according to the U.S. Federal Reserve. Therefore, the current hourly minimum wage for an 8-hour workday in Thailand is approximately \$1.07.

representatives told us that they had begun to explore using other manufacturing locations to lower labor costs, including shifting some production to an affiliate plant in Senegal. They also reported exploring options for moving fish-cleaning processes to a foreign country and establishing packaging facilities in the mainland United States, similar to the approach used by competitors. (App. VIII provides illustrative information on four alternative scenarios for cannery operations currently located in American Samoa.)

- StarKist and Tri Marine representatives cited access to fisheries as a benefit of operating in American Samoa, but both companies have raised concerns with the U.S. government regarding the impact of regulation of Pacific tuna fisheries on the companies' access to fishing grounds. In 2014, the National Oceanic and Atmospheric Administration (NOAA) issued a rule reducing the number of fishing days for the U.S. purse seine⁵⁸ tuna fleet in the U.S. exclusive economic zone and the high seas to comply with a Western and Central Pacific Fisheries Commission's Conservation and Management Measure.⁵⁹ Under the most recent South Pacific Tuna Treaty, the U.S. fleet retained access to fishing grounds in the Western and Central Pacific region,⁶⁰ although the Pacific island nation of Kiribati limited the U.S. fleet's fishing in its waters to 300 days, according to Tri Marine. Tri Marine indicated that these two factors—NOAA's rule reducing fishing days and the limited access to

⁵⁸A purse seine is a large wall of netting deployed around an entire area or school of fish.

⁵⁹The Western and Central Pacific Fisheries Commission was established by the Convention for the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean, which entered into force on June 19, 2004, according to the commission's website. The convention seeks to address problems in the management of high seas fisheries resulting from unregulated fishing, overcapitalization, excessive fleet capacity, vessel reflagging to escape controls, insufficiently selective gear, unreliable databases, and insufficient multilateral cooperation in respect to conservation and management of highly migratory fish stocks, according to the commission. The commission's Conservation and Management Measures describe binding decisions relating to conservation and management measures addressed to members of the commission and to cooperating nonmembers.

⁶⁰The South Pacific Tuna Treaty is a treaty on fisheries between the governments of certain Pacific island states and the U.S. government to set operational terms and conditions for the U.S. tuna purse seine fleet to fish in the Western and Central Pacific Ocean, including in waters under the jurisdiction of the Pacific island parties to the treaty, according to the U.S. Department of State. Parties to the treaty include Australia, the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, the United States, and Vanuatu, according to NOAA.

Kiribati fishing grounds—dramatically reduced access to fishing grounds for U.S. purse seine boats operating out of American Samoa. In April 2015, American Samoa’s Fisheries Task Force⁶¹ requested that NOAA recognize the Small Island Developing State⁶² status of American Samoa and grant the territory relief from the limit on U.S. purse seine tuna fishing. A month later, Tri Marine requested that NOAA issue an exemption to the high-seas fishing limit for any U.S.-flag purse seine vessel that delivers at least 50 percent of its catch to tuna processing facilities in American Samoa. In 2016, NOAA released an interim rule that again combined in-zone and high-seas fishing efforts, enabling the U.S. fleet to shift fishing efforts that had previously been allocated only to in-zone areas into the high seas. Previously, in-zone and high-seas fishing limits had been set separately.⁶³

- StarKist and Tri Marine representatives also cited tariff-free access to the U.S. market as an advantage of operating in American Samoa but expressed concern that changes in the trade status of other tuna-exporting countries may erode American Samoa’s preferential trade status. For example, they cited the possibility that the proposed Trans-Pacific Partnership, which includes one tuna-producing country, Vietnam, would result in additional competition to the American

⁶¹The American Samoa Fisheries Task Force was established by the Governor of American Samoa to ensure sustainability of the local canneries.

⁶²Small Island Developing States were recognized as a distinct group of developing countries facing specific social, economic, and environmental vulnerabilities at the United Nations Conference on Environment and Development, also known as the Earth Summit, held in Rio de Janeiro, Brazil, in June 1992. Since then, the United Nations has been assisting and extending cooperation to these countries in their sustainable development efforts.

⁶³*Federal Register*, “International Fisheries; Western and Central Pacific Fisheries for Highly Migratory Species; Fishing Effort Limits in Purse Seine Fisheries for 2016,” NOAA-NMFS-2016-0038-0001, Interim Rule, effective on May 25, 2016.

Samoa tuna industry if Vietnam is granted tariff-free access to the U.S. market.⁶⁴

Both canneries announced plans to suspend canning operations in American Samoa in response to such challenges. In September 2016, StarKist announced that it would close its American Samoa plant for one week (October 10-17, 2016)—its second short-term closure this year—owing to fish-supply shortages associated with fisheries regulations and limited freezer capacity. While this short-term closure was in effect, Tri Marine announced that it would indefinitely suspend canning operations at its American Samoa facility on December 11, 2016, stating that the challenging economics of canning tuna in American Samoa, combined with external factors, made operating its plant in the territory economically unsustainable. Tri Marine indicated that it plans to continue using this facility as a logistics hub but noted that the suspension of canning operations will mean a much reduced labor force.⁶⁵

American Samoa Government Sees Minimum Wage Increases Conflicting with Sustainable Economic Development

The American Samoa government, the territory's largest employer, continues to report concerns about the economic impact of the scheduled minimum wage increases. In commenting on our 2014 report on the American Samoa minimum wage, the government noted that the territory's economic base is narrow and fragile, supported primarily by the American Samoa government and the tuna industry, which is subject to global market forces outside the government's control. The government also stated that tethering American Samoa's minimum wage to the federal minimum wage is misguided because median income and per capita GDP are significantly lower in the territory than in the 50 U.S. states. In 2014, the governor's office urged against future minimum wage increases, calling the scheduled 2015 increase a "prescription for total

⁶⁴The Trans-Pacific Partnership is a proposed free trade agreement that aims to liberalize trade in goods and services and remove barriers to foreign investment among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States, according to the U.S. Trade Representative. The agreement, in its current form, would reduce U.S. tariffs on tuna in airtight containers from Vietnam to zero over a 4-year period. While the participating countries have signed the agreement, it has not yet been ratified. U.S. ratification requires congressional approval. According to the U.S. Trade Representative, free trade agreement negotiations with Thailand, the largest Asian tuna producer, were suspended in 2006, and negotiations aimed at arriving at a free trade agreement with Ecuador, the largest tuna producer in the Americas, have also been suspended.

⁶⁵In announcing these plans, Tri Marine added that it was evaluating alternatives for its American Samoa facilities, including outright sale.

economic ruin.” American Samoa government officials subsequently commented that the reduction in currently scheduled minimum wage increases from \$0.50 to \$0.40 was helpful but that a more meaningful solution based on local conditions is needed. The government’s economic plan for fiscal years 2014 to 2017 states that the application of the federal minimum wage in the territory is inappropriate and counterproductive to sustainable economic development.⁶⁶

In August 2015, the American Samoa Department of Commerce completed a living-wage study identifying \$5.67 as the minimum wage needed for a family of six to afford to live in the territory.⁶⁷ Workers in some industries in American Samoa currently earn minimum wages that exceed this level. However, the proposed living wage of \$5.67 exceeds the hourly minimum wage for cannery workers by \$0.51. In February 2016, the American Samoa government announced that the local minimum wage for government workers would rise to \$5.00, which is \$0.19 higher than the current federally determined minimum wage (\$4.81) for workers in this sector.

In light of the challenges affecting the tuna industry in American Samoa, the local government is seeking to diversify the economy. According to American Samoa government officials, construction of a multiline food processing plant to produce seafood-based and juice products is scheduled to begin by the end of the year. The government has also been involved in efforts to attract a call center to the territory. Current territorial plans propose the following ideas for economic diversification:

- American Samoa’s economic development plan for fiscal years 2014 to 2017 outlines economic development goals for sectors such as transportation and tourism as well as action items to achieve these goals.⁶⁸ For example, the plan outlines the tourism-related goal of

⁶⁶Territorial Economic Development Implementation Plan Task Force, *American Samoa Economic Development Implementation Plan, FY 2014-2017* (November 2014). The plan was prepared by a 16-member task force representing stakeholders in the public and private sectors with the support of a technical assistance grant awarded to the American Samoa government by the U.S. Department of the Interior, according to a report by the task force.

⁶⁷American Samoa Department of Commerce, “Proposed Minimum Living Wage for American Samoa” (Pago Pago: August 2015). The study identified \$5.01 as the living wage after taxes.

⁶⁸Territorial Economic Development Implementation Plan Task Force, *American Samoa Economic Development Implementation Plan, FY 2014-2017*.

increasing the number of passenger air carriers to American Samoa. According to the development plan, the government hopes to achieve this by addressing federal restrictions on competition in passenger air carrier service to American Samoa with the aim of attracting lower-cost carriers and more visitors. However, the government recognizes constraints to attracting new business, including the cost of labor.

- American Samoa's 2016 Workforce Innovation and Opportunity Act Unified Plan targets the development of five industries: fisheries and agriculture, telecommunication and information technology, manufacturing, visitors, and handicrafts.⁶⁹ The plan notes that American Samoa is experiencing emigration of workers to the United States, countered in part by immigration of tuna cannery and fishery workers from neighboring islands to American Samoa. The plan cites low wages as a reason that highly skilled members of the labor force leave the territory.

Alternatives for Increasing American Samoa Minimum Wages to Keep Pace with the Cost of Living and Eventually Equal the Federal Minimum Wage

There are two basic approaches for increasing American Samoa's minimum wages⁷⁰ to (1) keep pace with the cost of living in the territory; and (2) eventually equal the federal minimum wage—the criteria included in the statutory provision for GAO to report on this issue.⁷¹ The first approach relies on adjustments indexed to changes in the cost of living, and the second relies on a schedule of adjustments within a specified timeframe. In addition, aspects of each approach may be combined with respect to the amount and timing of future increases to minimum wages. Other factors would also warrant consideration, including design options to safeguard against any negative effects that increasing minimum wages might have on American Samoa's economy.

⁶⁹American Samoa Workforce Investment Board, *Territory of American Samoa Workforce Innovation and Opportunity Act Unified Plan, July 1, 2016 through June 20, 2020*. The plan was approved for public comment on March 18, 2016.

⁷⁰American Samoa currently applies different minimum wage rates across 18 industrial employment sectors.

⁷¹Pub. L. No. 114-61 § 1(b) (Oct. 7, 2015) (29 U.S.C. § 206 note).

Indexing American Samoa Minimum Wages to Changes in the Cost of Living

The first approach—adjusting American Samoa’s minimum wages on the basis of changes in a cost-of-living index—addresses the first criterion included in the provision for GAO to report on this issue. As of September 2016, 17 U.S. states and the District of Columbia indexed, or planned to index, their minimum wages using cost-of-living measures.⁷² For example, Colorado annually adjusts its minimum wage on the basis of changes in consumer prices in the state. In most years since 2008, Colorado’s minimum wage has increased, except in 2010 when it dropped by 4 cents in response to deflation.

If an indexing approach were used to increase American Samoa’s minimum wages, the primary consideration would be the selection of an economic index that best reflects changes in American Samoa’s cost of living. The following is a list of several indices, any of which could be considered for this purpose.

- **BLS CPI, U.S. city average.** The BLS generates this CPI each month on the basis of surveys of retail establishments for a sample of goods and services purchased for consumption. Categories include food and beverages, housing, and medical care, among others.⁷³ Currently, the BLS does not collect CPI statistics from any U.S. territory. Versions of the national CPI measure include the CPI for All Urban Consumers (CPI-U) and the CPI for Urban Wage Earners and Clerical Workers (CPI-W). According to BLS officials, the two CPI measures offer different advantages; the CPI-U is a broader measure, while the CPI-W focuses on the spending patterns of wage earners, which may be

⁷²See app. IV for additional information regarding state minimum wage laws.

⁷³According to the BLS, although the CPI is often referred to as a cost-of-living index, it does not reflect all “costs” of living, only consumer expenditures for goods and services. For example, the CPI does not include government expenditures for public health, safety, or education programs designed to promote consumers’ well-being. The BLS noted that it is difficult to incorporate expenditures for these types of programs into a cost-of-living measure. See <http://www.bls.gov/cpi/cpifaq.htm>.

more applicable to those earning the minimum wage.⁷⁴ Of those U.S. states with laws that include provisions to index their minimum wage to a cost-of-living indicator, six use the U.S. city average CPI-U, and six use the CPI-W.

- **BLS Hawaii (Honolulu) CPI.** In addition to publishing the U.S. city average CPI, the BLS also publishes CPIs for four regions and 26 metropolitan areas. Currently, two U.S. states and the District of Columbia index, or plan to index, their minimum wage to the CPI-U for either a region or metropolitan area.⁷⁵ According to BLS officials, none of the metropolitan or regional CPIs is ideally applicable to American Samoa, because the territory is an isolated market where transportation of commodities is relatively more expensive. The officials suggested that, of these types of CPI measures, the CPI for Honolulu, Hawaii, based on the cost of living for the Honolulu urban area, might be best suited as an index for American Samoa, because Hawaii is also geographically isolated in the Pacific.
- **BEA U.S. personal consumption expenditures (PCE) price index.** The U.S. Department of Commerce's BEA calculates the U.S. PCE price index using retail price data that it collects monthly through business surveys. However, the U.S. PCE includes different goods in its calculation than the CPI. For example, it includes expenditures made on behalf of consumers, in addition to consumers' own expenditures, such as additional costs for medical care beyond what consumers pay out of pocket. One U.S. state uses the U.S. PCE to index its minimum wage.
- **BEA American Samoa PCE price index.** BEA also generates an American Samoa PCE price index primarily using price data on

⁷⁴Both the CPI-U and the CPI-W reflect only the buying habits of urban consumers. The CPI-U—the more comprehensive of the two indices—is based on expenditures by all urban consumers, including professionals, the self-employed, the unemployed, and retired individuals; it represents about 89 percent of the total U.S. population. The CPI-W represents a subset of the CPI-U population and is based on expenditures by urban households that derive more than half of their income from clerical or hourly wage occupations; it represents about 28 percent of the total U.S. population. In addition to representing different populations, the two indices also differ by the expenditure weights assigned to item categories and geographical areas. Further, while each index is generated on the basis of all consumer goods and services, each is also generated on the basis of certain subgroups. For example, BLS produces CPI-U and CPI-W indices for food, transportation, and all commodities less food and energy (sometimes referred to as the core index), among others.

⁷⁵One other U.S. state uses the BLS CPI-U for a specific state, and another uses a State Commissioner to index its minimum wage.

household purchases of goods and services collected from the American Samoa government. When local price data are not available, BEA sometimes substitutes price data from the U.S. states. BEA publishes the most recent and historical price indexes as part of its periodic reports on American Samoa GDP. Its August 2016 report presented American Samoa PCE price indexes for years 2007 to 2015.⁷⁶

- **American Samoa CPI.** The American Samoa government has developed a CPI as a measure of changes in the territory's cost of living. According to the government, it generates its index on a quarterly basis using price data for commodities, such as food, housing, clothing, and medical care collected in the territory. The government notes that collecting data for its CPI can be challenging because of the inconsistent flow of consumer goods to the islands.⁷⁷

Increases in the cost of living recorded by these indices have varied over time and at different rates. Table 4 shows the average annual percentage increase and the range of annual increases for each index from 2006 to 2015.⁷⁸ The increases shown by the indices for Honolulu and American Samoa suggest greater annual growth in the cost of living in those locations, on average, than is shown by the U.S. national indices. In addition, the increases shown by the American Samoa index have varied more than those shown by the U.S. national indices, with a range of about 11 percentage points (-0.9 percent to 9.8 percent) for the American

⁷⁶See Bureau of Economic Analysis, "News Release: Gross Domestic Product for American Samoa Increases for the Second Year in a Row," Table 1.5, BEA16-43 (Aug. 8, 2016), accessed Nov. 22, 2016, <http://www.bea.gov/newsreleases/>.

⁷⁷According to the American Samoa government, its CPI is currently calculated with a modified Laspeyres formula and is based on prices for 210 items selected with a statistical technique known as Probability Proportional to Size. This ensures that the most important items, in terms of monthly average household expenditures, are included in the CPI. This is the same methodology that BLS used until making revisions to the methodology in 1978. According to BLS officials, in 1978, BLS moved to probabilistic sampling for both items and stores, with the universe of eligible consumer goods and services stratified into elementary groups. A representative sample of unique goods and services and stores is selected and priced within each of these elementary groups. The set of elementary groups was revised in 1987 and again in 1998. The next BLS revision will occur in 2018.

⁷⁸Part of the difference between the rate of inflation measured by the American Samoa CPI and the rates measured by the BLS CPI indices may reflect not only differences in the growth of prices of goods but also differences in the type or proportion of goods that are purchased by households. For example, food accounts for approximately 14 percent of the CPI-U in the United States but about 25 percent of the American Samoa CPI.

Samoa CPI compared with, for example, about 5 percentage points (-0.5 percent to 4.4 percent) for the U.S. national CPI-U.

Table 4: Average Annual Percentage Increase and Range of Annual Increases for Various Cost-of-Living Indices, 2006-2015

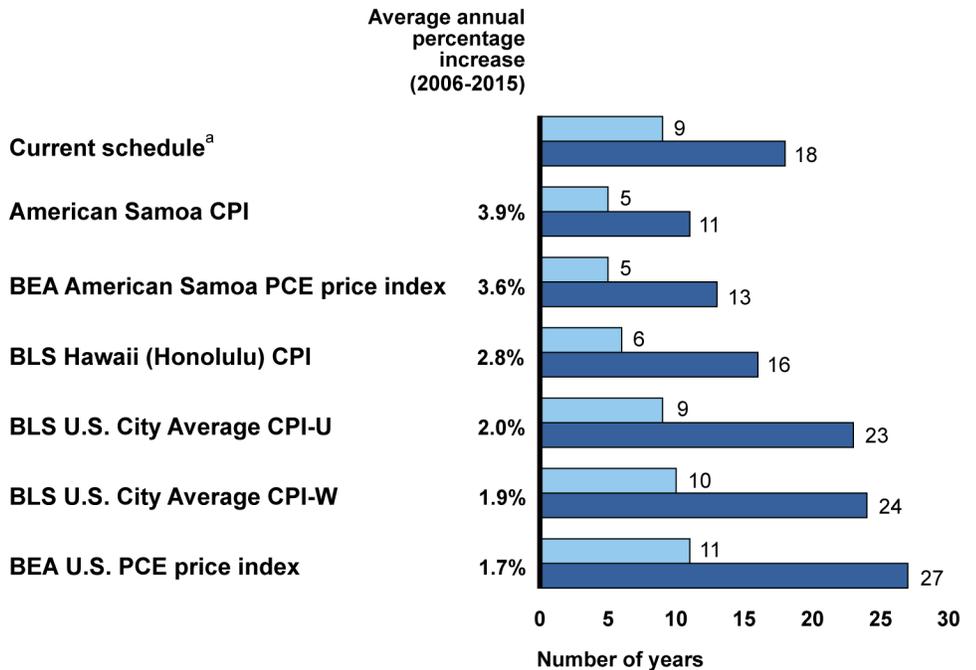
Cost-of-living index	Average annual percentage increase	Range of annual percentage increases
American Samoa CPI	3.9	-0.9 to 9.8
BEA American Samoa PCE price index	3.6	-1.8 to 8.9
BLS Hawaii (Honolulu) CPI	2.8	0.5 to 5.9
BLS U.S. City Average CPI-U	2.0	-0.4 to 3.8
BLS U.S. City Average CPI-W	1.9	1.3 to 2.4
BEA U.S. PCE price index	1.7	-0.1 to 3.1

Legend: BEA = Bureau of Economic Analysis, BLS = Bureau of Labor Statistics, CPI = consumer price index, CPI-U = CPI for All Urban Consumers, CPI-W = CPI for Urban Wage Earners and Clerical Workers, PCE = personal consumption expenditures.

Source: GAO analysis of data from the U.S. Department of Labor, the U.S. Department of Commerce, and the American Samoa government. | GAO-17-83

While adjusting American Samoa’s minimum wages on the basis of a cost-of-living index would ensure that they keep pace with measured changes in the cost of living, uncertainty would remain regarding when American Samoa minimum wages would reach the current federal minimum wage. The date of convergence with the federal minimum wage would depend on the rate of future changes in the cost of living. Figure 10 shows the number of years it would take for American Samoa’s minimum wages to converge with the current federal minimum wage based on the historical average annual increases for various cost-of-living indices (for additional projections, see app. IX, table 10). For comparison, figure 10 also shows the timeframe for convergence under the current schedule.

Figure 10: Projected Number of Years until American Samoa’s Highest and Lowest Minimum Wages Equal the Current Federal Minimum Wage under the Current Schedule and Given Historical Trends for Various Cost-of-Living Indices



Legend

BEA = Bureau of Economic Analysis
 BLS = Bureau of Labor Statistics
 CPI = Consumer price index
 CPI-U = Consumer price index for Urban Consumers
 CPI-W = Consumer price index for Urban Wage Earners and Clerical Workers
 PCE = Personal consumption expenditures

Light blue box: 2015 highest minimum wage
 Dark blue box: 2015 lowest minimum wage

Source: GAO analysis of data from the U.S. Department of Labor, the U.S. Department of Commerce, and the American Samoa government. | GAO-17-83

Note: The number of years until American Samoa minimum wages converge with the federal minimum wage reflects the number of years after the year of the first increase. As of September 30, 2015, the highest minimum wage was \$5.99, for the stevedoring (dockworker) sector. As of September 30, 2015, the lowest minimum wage was \$4.58, for the garment manufacturing sector. For comparison, as of the same date, the minimum wage for two important employment sectors, government and fish canning and processing, was \$4.81 and \$5.16, respectively.

^aWhen applied to the 2015 highest minimum wage, the current schedule of \$0.40 increases every 3 years equates to a 1.8 percent average annual increase until the wages converge. When applied to the 2015 lowest minimum wage, it equates to a 2.3 percent average annual increase until the wages converge.

To reduce uncertainty about the time required for indexed minimum wages to reach the federal minimum wage, an indexing approach could be combined with a target timeframe and schedule for achieving this convergence. This could help to offset the potential scenario of extended periods of relatively small increases or decreases in American Samoa's cost of living, which would slow or reverse progress in reaching the federal minimum wage. When an indexed increase was to take place, the new minimum wage based on indexing would be compared with the minimum wage that would result from following a schedule that ensures convergence within a specified timeframe. If the indexed minimum wage fell short of the schedule-based wage, it would be adjusted upward by all or some portion of the difference (for an example of the steps involved, see app. X, example 1).⁷⁹ This would result in minimum wages that keep pace with the cost of living and would also provide assurance of convergence with the federal minimum wage within a targeted timeframe, or sooner.⁸⁰

Scheduled Increases in American Samoa Minimum Wages

The second approach—applying scheduled increases to American Samoa minimum wages—would establish a timeframe for ensuring that American Samoa's minimum wages eventually equal the federal minimum wage, thus addressing the second criterion included in the provision for GAO to report on this issue. The current schedule establishes increases of \$0.40 every 3 years, with the next increase scheduled for September 2018.⁸¹ Under the current schedule, the 18 minimum wage sectors will reach the current federal minimum wage (\$7.25) in 2027 through 2036, depending on the sector.

If a new schedule-based approach were selected, the primary considerations would be the frequency and amount of future increases. Increases could occur at relatively short intervals (e.g., annually) or longer intervals (e.g., every 5 years). Also, the scheduled increases could be set as a nominal amount (e.g., \$0.20 each year), as a proportion of the

⁷⁹If the indexed minimum wage equals or exceeds the schedule-based minimum wage, the minimum wage would be adjusted based on indexing alone.

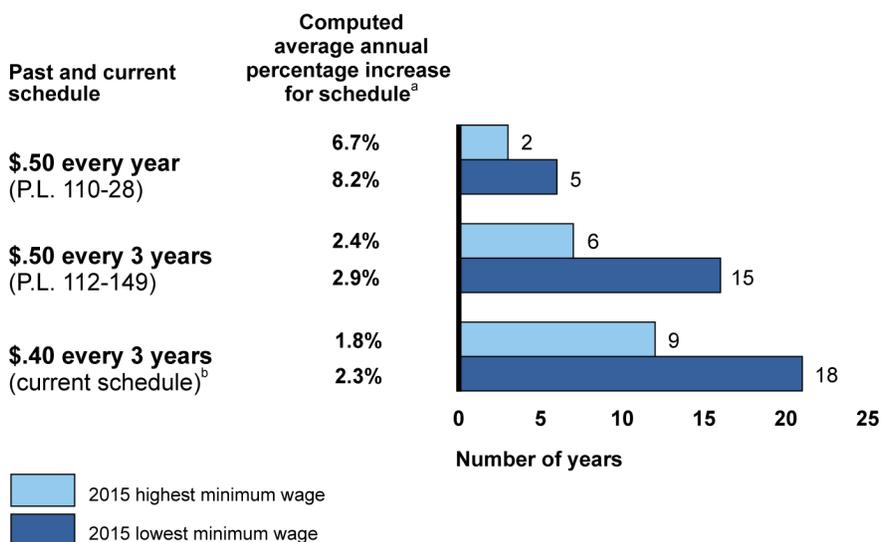
⁸⁰Another method to offset periods of relatively small increases in American Samoa's cost of living would be to apply a minimum percentage increase to minimum wages. Under this approach, minimum wages would rise in future years by the higher of either the percentage change in the cost-of-living index or the designated minimum percentage increase.

⁸¹Pub. L. No. 114-61.

prevailing federal minimum wage (e.g., 10 percent each year),⁸² or in any manner that results in convergence with the federal minimum wage in a specified timeframe.

Figure 11 illustrates how various rates of increase under a scheduled approach would affect the timing of American Samoa minimum wages' convergence with the current federal minimum wage. To enable comparison with an indexing approach, figure 11 shows the calculated average annual rates of increase associated with past and current schedules established by law. As shown, the frequency and amount of scheduled increases directly affect the timing of convergence (for additional computations of convergence based on other schedules, see app. IX, table 11).

Figure 11: Projected Number of Years until American Samoa's Highest and Lowest Minimum Wages Equal the Current Federal Minimum Wage, Given Past and Current Schedules of Increases



Source: GAO analysis of schedules. | GAO-17-83

Note: The number of years until convergence with the federal minimum wage reflects the number of years after the year of the first increase. As of September 30, 2015, the highest minimum wage was \$5.99, for the stevedoring (dockworker) sector. As of September 30, 2015, the lowest minimum wage was \$4.58, for the garment manufacturing sector. For comparison, as of the same date, the minimum

⁸²While a proportional increase would result in equal increases each year, the increases would automatically become greater if the federal minimum wage were to increase in the future.

wage for two important employment sectors, government and tuna canning, was \$4.81 and \$5.16, respectively.

^aThe percentages shown represent the computed average annual increase for each schedule based on whether the schedule is applied to the highest or lowest 2015 minimum wage. The average annual increases for all other industry sectors would fall within the two percentages displayed for each schedule. The computed percentage increases are for the period from the schedule's first year of increase to the projected year of convergence. The actual percentage rate of increase will decline as the minimum wage rises over time. Initially it will be greater than the computed average annual percentage increase and then become less in later years.

^bThe current schedule under law dictates that the next increase will occur in 2018. From that year, it will take 9 years, or until 2027, for the highest minimum wage to equal the federal minimum wage. It will take 18 years, or until 2036, for the lowest minimum wage to equal the federal minimum wage.

While a schedule-based approach would ensure that American Samoa minimum wages will reach the federal minimum wage within a given period of time, it would not guarantee that minimum wages will keep pace with the territory's cost of living. For example, under the current schedule, wages for the tuna cannery employment sector will rise, on average, by approximately 2 percent annually from 2017 to 2033, when they will converge with the federal minimum wage. By contrast, the index developed by the American Samoa government indicates that the territory's cost of living rose, on average, by just under 4 percent annually from 2006 to 2015.

If scheduled minimum wage increases were determined to be lagging behind increases in the cost of living, such as during a period of relatively high inflation, they could be adjusted upward. This would require (1) monitoring a cost-of-living index over time and (2) comparing scheduled-based and indexed minimum wages at the time of each scheduled increase. If the schedule-based minimum wage were less than the corresponding indexed minimum wage, it could be increased by all or a portion of the difference between them. Combining a schedule, as the primary driver of future minimum wage increases, with changes in the cost of living, as a secondary mechanism, would ensure that American Samoa minimum wages reach the federal minimum wage within a targeted timeframe and also keep pace with the cost of living (for an example of the steps involved, see app. X, example 2). However, such a step could also result in convergence with the federal minimum wage earlier than scheduled. After each adjustment to a scheduled increase, a decision would be made whether to maintain the schedule's frequency and amount of future increases from that point forward or to reduce or time them differently to accommodate the schedule's original timeframe for convergence.

Factors to Take into Account When Assessing Approaches for Increasing American Samoa's Minimum Wages

A number of factors could be taken into account in deciding which adjustment mechanism to use for increasing American Samoa's minimum wage.

- **Increases in the federal minimum wage.** Future increases in the federal minimum wage would lengthen the timeframe for American Samoa's minimum wages to reach the federal minimum wage. Under an indexed approach, if the federal minimum wage increased by \$1.00 (to \$8.25) before all of the American Samoa minimum wages converge with the federal minimum wage, and if the American Samoa cost of living subsequently rose by 2 percent annually after that point, the wages would converge 6 years later than if the federal minimum wage had not increased. The effect would be similar under a schedule-based approach, and the additional time before the wages converged would depend on the general rate of increase dictated by the schedule.
- **Increases after convergence occurs.** Under current law, once all of the minimum wage rates for each industry and classification in American Samoa converge with the federal minimum wage, the adjustment mechanism governing increases to them would end. However, during the period when some American Samoa minimum wages begin reaching the federal minimum wage and others have yet to do so, those that equal the federal minimum wage will remain at that level while the remaining wages will increase until the wages for all industries and classifications reach parity with the federal minimum wage.⁸³ If, during this period, the federal minimum wage increases, all American Samoa minimum wages would once again be adjusted by the established adjustment mechanism until they reach the federal minimum wage. Once all American Samoa minimum wages reach the federal minimum wage, the transition and adjustment period would end, and the minimum wage rate in American Samoa would be the federal minimum wage under the FLSA and subject to changes to the federal minimum wage if or when they occur.
- **Administration.** The need for administrative resources to apply and oversee changes in American Samoa's minimum wage could largely depend on the complexity of the adjustment mechanism selected. Because future minimum wage increases under either an indexed or a

⁸³Under current law, at no point will any of American Samoa's federally determined minimum wages increase to a rate higher than the federal minimum wage. 29 U.S.C. § 206 note, Applicability of minimum wage to American Samoa and the Commonwealth of the Northern Mariana Islands.

schedule-based approach would be automatic, either approach could potentially require minimal administrative activity. However, an indexed approach would likely require somewhat more ongoing administrative activity because of the need to monitor the cost-of-living index. Additional resources would also likely be needed if components of the two general approaches were combined, which could involve calculations to determine to what extent increases should be adjusted upward. Selection of the most appropriate administrator, whether in the federal government, the American Samoa government, or another entity, also warrants consideration.

- **Volatility.**⁸⁴ Indexing American Samoa minimum wages to a cost-of-living indicator could result in fluctuations in the amount of increases applied to minimum wages. For example, during the past decade, annual changes in the cost of living as measured by the American Samoa CPI ranged from approximately -1 percent to nearly 10 percent. In comparison, the BLS CPI-U ranged from approximately -.05 percent to around 4 percent during the same period. Scheduled increases could be designed to limit minimum wage volatility, although such volatility might result from adjusting scheduled increases upward to ensure they keep pace with the cost of living.
- **Predictability.** The difficulty of predicting increases in the American Samoa cost of living would make it difficult to anticipate the amount of future increases under an indexed approach. This lack of predictability could inhibit employers' ability to make sound business decisions, workers' ability to make employment and personal finance decisions, and the government's ability to anticipate accurate tax revenues and develop budget and economic plans. Alternatively, a scheduled-based approach would establish a series of future increases of known amount and frequency. However, because the increases would not be linked to economic conditions, such as the cost of living, they might not be appropriate at the scheduled time.

Safeguards Could Be Used to Mitigate Potential Negative Economic Effects

Given the concerns that American Samoa government officials and others have raised about the possible loss of jobs if the territory's minimum wages are increased, other design elements, or safeguards, could be added to any of the approaches described above to reduce such risks. For example, some U.S. states' and localities' minimum wage laws include provisions that are generally designed to mitigate negative

⁸⁴For the purposes of this report, "volatility" is defined as the extent to which changes to the minimum wage deviate from being uniform over time.

economic effects, often by reducing or temporarily suspending periodic increases. However, while reducing or suspending increases could counteract possible negative effects, it could slow American Samoa minimum wages' progress in meeting the objectives of keeping pace with the cost of living and equaling the federal minimum wage.

The following are examples of such safeguards.

- **Regulate adjustments.** Whether based on an index, a schedule, or some combination of the two, increases to minimum wages could be reduced or suspended on the basis of one or more economic indicators that reflect the general health of the American Samoa economy or critical sectors. These indicators could include wage rates, unemployment rates, the poverty level, productivity, or other economic measures. For example, the minimum wage laws for the state of Michigan and for the city of Chicago, Illinois, include a provision to suspend future minimum wage increases if the unemployment rate for the previous year has reached or exceeded a certain percentage. The state of California uses certain employment rates and retail sales levels as indicators for the same purpose.
- **Set adjustment maximums.** Minimum wage increases based on the cost of living could be capped. For example, minimum wage laws for the states of Minnesota, Nevada, and Vermont, among others, include provisions to index their minimum wages to changes in the cost of living, but the laws also limit increases to no greater than a specific percentage in any given year.
- **Limit coverage.** As allowed under the FLSA, certain occupations could be exempted from the federal minimum wage. For example, in the United States, certain farmworkers can be paid less than the minimum wage. Provisions could be added to the legislation governing American Samoa minimum wages to expand the number of exempted occupations.
- **Vary increases.** In the past, SIC procedures varied the amount of minimum wage increases for specific American Samoa industries in any given year. As with coverage, legislative provisions could mandate that the amounts of increases differ depending on the industry, region, or other attribute.

The safeguard that involves regulating minimum wage increases on the basis of one or more economic indicators could entail certain challenges that might inhibit its use in American Samoa. First, the data needed to monitor such indicators may not be readily available. For example, the federal government does not collect certain labor market information for

American Samoa, which impedes measurement of unemployment levels in the territory.⁸⁵ In addition, collecting and monitoring economic data would require considerable administrative activity, and an administrator might be needed to determine when the safeguard should be triggered. For example, in California the Governor is authorized to use his or her discretion to temporarily suspend that state's minimum wage increases if certain economic conditions are met. Finally, the time lag inherent to economic indicators may reduce their effectiveness as a basis for triggering a safeguard. For example, given American Samoa's island economy and dependence on the dominant private sector tuna canning industry, the sudden exit of a cannery owing in part to an increase in minimum wages would occur before the cannery's exit affected unemployment levels and before a safeguard could be triggered.

External Reviewers' Views on Increasing the Minimum Wage in American Samoa

Four external reviewers of our report, with expertise encompassing labor economics, Pacific island economies, and fisheries, provided their perspectives on increasing minimum wages in American Samoa.⁸⁶ The following summarizes their views.

- **Potential consequences of increasing minimum wages in American Samoa.** Three reviewers expressed concern that increasing minimum wages in American Samoa may result in negative economic effects, given American Samoa's current economic conditions. One reviewer suggested that further study of minimum wage increases' possible effects on American Samoa workers and industries—including a study to identify industries that might tolerate larger increases without adverse effects—is warranted.
- **Applicability of the federal minimum wage level to American Samoa.** Three reviewers noted that raising American Samoa

⁸⁵For additional discussion on the challenges associated with collecting current population, economy, and labor force data in U.S. territories, see House Committee on Oversight and Government Reform, Subcommittee on Information Policy, Census, and National Archives, and House Committee on Natural Resources, Subcommittee on Insular Affairs, *Census Data: Special Issues Related to U.S. Territories*, 110th Congress, 2nd session, May 21, 2008.

⁸⁶The following external reviewers submitted comments: Randall Akee, Ph.D., Assistant Professor of Public Policy at the University of California, Los Angeles; Gerard A. Finin, PhD, Director, Pacific Islands Development Program, East-West Center, Honolulu, Hawaii; Elizabeth Havice, PhD, Associate Professor at the University of North Carolina, Chapel Hill, Department of Geography; and Gerald Mayer, former federal labor policy analyst.

minimum wages to equal the federal minimum wage might not be appropriate for the territory given the differences between its economy and that of the 50 U.S. states. One reviewer remarked that raising minimum wages to the federal level could be viewed as somewhat artificial in light of the territory's economic conditions.

- **Suitability and feasibility of linking minimum wages to American Samoa's cost of living.** One reviewer suggested that in small economies, such as American Samoa's, increasing the minimum wage may in turn lead to increases in the cost of living. Another pointed out that indexing to the cost of living may not be feasible in American Samoa. Given that a cost-of-living index is typically based on household expenses, one reviewer pointed out that the standard definition of "household" used in the United States may not apply in American Samoa given the territory's cultural ethos of sharing with extended family and fellow villagers.
- **Setting minimum wages in American Samoa commensurate with, not equal to, the federal minimum wage.** One reviewer suggested setting a minimum wage in American Samoa that is proportionate rather than equal to the federal minimum wage. For example, if a full-time minimum wage worker in the United States earns, on average, 35 percent of the U.S. median household income, the American Samoa minimum wage would be set at 35 percent of the median household income in American Samoa. The reviewer observed that this approach would link minimum wage increases in American Samoa to improvements in the territory's median household income, relative to the U.S. median household income, thus reducing the potential for adverse economic effects.

Agency Comments and Our Evaluation

We provided a draft of this report to the U.S. Departments of Commerce, the Interior, Labor, and State as well as the American Samoa government. We received written comments from Interior, DOL, and the American Samoa government, which are reprinted in appendixes XI, XII, and XIII, respectively. We received technical comments from the Department of Commerce and DOL, which we incorporated as appropriate. The Department of State did not provide any comments.

Interior stated that our report correctly depicts the economic challenges facing American Samoa and that it is critical to consider the territory's particular circumstances, including local economic and labor market realities, when adopting a process for adjusting minimum wages. Interior suggested that an in-depth review of the approaches suggested in our report should be conducted by appropriate personnel from Interior, DOL,

and the Department of Commerce, along with territory and industry experts, to identify a method of adjusting minimum wages in American Samoa that would keep pace with the cost of living and eventually converge with the federal minimum wage.

DOL stated that studies examining the employment impact of increases in the minimum wage have found a range of effects, with varying degrees of reliability, and that the majority of these studies have concluded that minimum wage increases have little to no significant effect on employment of low wage workers. We incorporated DOL's comment in a footnote in our report that addresses these issues and reports relevant findings from a CBO study.

The American Samoa government expressed appreciation for our report's coverage of the status of the territory's economy and the challenges it faces. The government added its appreciation for Congress's commitment to ensuring that the territory's workers receive a salary that will allow them to address the cost of living. However, the government stated that setting minimum wages without consideration for the territory's prevailing economic conditions would likely result in a "countervailing" impact. The government noted that, in light of prevailing economic conditions, increasing the territory's minimum wages to the federal level may have negative consequences. The government recommended creation of a DOL-constituted committee, similar to the SICs formerly used to determine minimum wages in the territory, to set minimum wages that would be appropriate for American Samoa. The government added that it does not realistically foresee American Samoa minimum wages' reaching the federal level without additional federal support for the territory. The government further commented that if an indexing approach were used to adjust American Samoa minimum wages, a U.S.-based CPI would be preferable.

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, and State and to the Governor of American Samoa. In addition, the report will be available at no charge on the GAO website 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; Andrew Sherrill at (202) 512-7252, or sherrilla@gao.gov; or Oliver Richard at (202) 512-8424, or richardo@gao.gov. Contact points for our Offices of

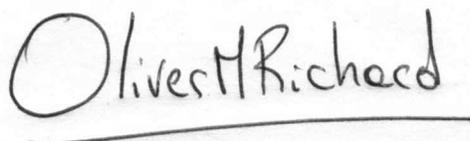
Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix XIV.



David Gootnick
Director, International Affairs and Trade



Andrew Sherrill
Director, Education, Workforce and Income Security



Oliver Richard
Director, Applied Research and Methods

List of Committees

The Honorable Lisa Murkowski
Chairwoman
The Honorable Maria Cantwell
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Lamar Alexander
Chairman
The Honorable Patty Murray
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Richard Shelby
Chairman
The Honorable Barbara Mikulski
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Lisa Murkowski
Chairwoman
The Honorable Tom Udall
Ranking Member
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Roy Blunt
Chairman
The Honorable Patty Murray
Ranking Member
Subcommittee on Labor, Health and Human Services, Education, and
Related Agencies Committee on Appropriations
United States Senate

The Honorable John Kline
Chairman
The Honorable Robert C. "Bobby" Scott
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable Rob Bishop
Chairman
The Honorable Raúl Grijalva
Ranking Member
Committee on Natural Resources
House of Representatives

The Honorable Don Young
Chairman
The Honorable Raul Ruiz
Ranking Member
Subcommittee on Indian, Insular, and Alaska Native Affairs
Committee on Natural Resources
House of Representatives

The Honorable John Culberson
Chairman
The Honorable Mike Honda
Acting Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Ken Calvert
Chairman
The Honorable Betty McCollum
Ranking Member
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
House of Representatives

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

Appendix I: Objectives, Scope, and Methodology

This report (1) relates the history of minimum wages in American Samoa, (2) examines the status of the territory's economy, and (3) identifies alternative approaches that could be used to ensure that minimum wages in American Samoa keep pace with the cost of living in American Samoa and eventually equal the federal minimum wage. Our discussion of the American Samoa economy updates our previous reports on the impact of minimum wage increases in American Samoa, including changes in employment and earnings and changes in key industries since the most recent federal minimum wage increase and since the scheduled increases in American Samoa minimum wages began.

To relate the history of minimum wage implementation in American Samoa, we analyzed past and current laws governing federal minimum wages in the United States and its territories. We reviewed literature regarding the history of American Samoa and the federal minimum wage in the territory, including U.S. Department of Labor (DOL) and Congressional Research Service reports. We also reviewed DOL records from the special industry committees to identify all past minimum wages in American Samoa since the minimum wage was first enforced in the territory. We reviewed federal laws specifying revisions in the federal minimum wage to identify timeframes for the convergence of American Samoa minimum wages with the federal minimum wage. Finally, we compared past minimum wages in American Samoa with historical cost-of-living data—specifically, the U.S. consumer price index (CPI) and the American Samoa CPI measures for 1997-2016—to assess whether past minimum wage increases had kept pace with changes in the cost of living in American Samoa.

To describe the status of the American Samoa economy, we reviewed relevant GAO reports¹ and analyzed gross domestic product data from the U.S. Bureau of Economic Analysis; tuna export data from the U.S. Census Bureau; tax data from the American Samoa government; and employment, earnings, and wage data gathered through a questionnaire that we submitted to the two tuna canneries currently operating in

¹See GAO, *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); *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, [GAO-11-427](#) (Washington, D.C.: June 23, 2011); *American Samoa and Commonwealth of the Northern Mariana Islands: Economic Indicators since Minimum Wage Increases Began*, [GAO-14-381](#) (Washington, D.C.: Mar. 31, 2014).

American Samoa—StarKist and Tri Marine. In addition, we reviewed data and interviewed officials from the U.S. Departments of Commerce, the Interior, and Labor, and the American Samoa government. We also spoke with, and gathered information from, representatives of the four major tuna companies operating in the United States, two of which currently operate tuna canneries in American Samoa. In addition, we took the following steps:

To estimate American Samoa employment and earnings, we analyzed data from the American Samoa Department of Treasury's Office of Taxation as well as tuna canning industry employers' responses to our questionnaire. The Office of Taxation data—numbers and annual earnings of persons employed at any point during the tax year—came directly from the office's tax system, with the exception of data for American Samoa government employees in 2013 and 2014, which the office provided separately. The Office of Taxation was unable to provide 2014 data for the American Samoa Medical Center; therefore, we used the values reported for 2013. In accordance with other federal employment surveys and with the methodology we employed in preparing our 2010, 2011, and 2014 reports on the impact of minimum wage increases in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI), our employer questionnaire requested wage data for mid-June pay periods in 2014 and 2015, with the addition of information on a pay period in January 2016. The questionnaire asked separately for data regarding workers paid an hourly wage and workers paid an annual salary. For hourly wage workers, respondents were asked to provide the number of employees paid at each wage rate. For salaried workers, respondents were asked the number of full-time and part-time workers paid at each salary level.

Before sending our initial questionnaire on this topic in 2009, 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. While we eliminated some questions in our current questionnaire, revisions to remaining questions were minor and did not require additional pretesting.

We administered the questionnaire in February 2016. We sent the questionnaire to StarKist and Tri Marine, the two canneries currently operating in American Samoa, and received two completed questionnaires for a 100-percent response rate. Employers received the questionnaire by e-mail in an attached form that they could return electronically after marking checkboxes or entering responses in open-answer boxes. We contacted employers to clarify responses and request

any missing data. We did not independently verify that the wage and other information provided to us were correct. After recording the questionnaire data, we verified all keypunched records by comparing them with the corresponding questionnaires and corrected the errors we found.

Data based on employers' questionnaire responses include the reported numbers of hourly workers at the canneries as of June in the given year as well as the annual earnings of those workers. In compiling the questionnaire-based earnings data for a given year, we assumed that all hourly cannery workers earned the minimum wage for that year and worked all year. When the minimum wage changed midyear, we assumed that the original wage applied for the first half of the year and the revised wage for the second half of the year. To adjust earnings for inflation, we relied on the American Samoa CPI.

To provide information on changes in the territory's key private sector industry—tuna canning—we estimated the wage rates of cannery workers, using tuna canning industry employers' responses to our questionnaire regarding the number of workers earning each wage rate as of January 12, 2016. Using these data, we determined both the median wage rate and the number of workers that would be affected by future minimum wage rates because their wages were at or below future scheduled minimum wages. We estimated the cost of future scheduled minimum wages by, first, calculating the cost to the cannery of increasing each worker's wages to scheduled levels and, second, averaging the results of this calculation for all current workers. This estimate assumed that workers worked full time and all year (i.e., 2,080 hours) and that the minimum-wage increase would not affect the wages of workers currently earning more than the minimum wage.

We interviewed cannery representatives to obtain their views on competitive challenges facing the industry, including changes in minimum wage rates, access to fishing grounds, and preferential trade status. To illustrate other potential tuna production scenarios, we developed a tuna model where tuna production relocates from the current status quo in American Samoa to one of three possible scenarios of loining or canning tuna, or both, in other locations. Changes in labor and tariff costs are compared to the status quo scenario in American Samoa. The model uses the tuna employment count from the questionnaire responses, World Bank data on minimum wage rates in other countries, and information obtained during interviews with tuna cannery employers. (See app. VIII for results of our analysis and more details about the

assumptions we used.) This model is an update of the model we used for our June 2011 report.²

After we had completed our analyses and provided a draft of this report to federal agencies and the American Samoa government, Tri Marine announced that it would suspend its canning operations in American Samoa indefinitely in mid-December 2015. We revised our report to acknowledge this announcement, including the reduction in cannery employment that Tri Marine stated would result from its decision, as well as StarKist's earlier announcement that it would close its American Samoa plant for 1 week in October 2016—the second such short-term closure in a year. We did not attempt to collect revised employment or earnings data from the canneries to reflect the suspensions' impact. In addition, since fully updated information on employment and earnings for the canneries, and for the territory as a whole, was not available, we did not revise our overall analyses of employment or earnings. We also did not attempt to estimate the impact that these suspensions would have on American Samoa tuna shipments or update the model of alternate tuna production scenarios that appears in appendix VIII.

To identify alternative approaches for increasing minimum wages in American Samoa that would ensure they keep pace with the cost of living in the territory and eventually equal the federal minimum wage, we reviewed relevant literature on the federal system for setting the minimum wage, systems used by the U.S. states that set their own minimum wages, and systems used to set minimum wages in other countries. We identified common economic measures or indices of change in the cost of living that are generated by the U.S. government and one generated by the American Samoa government. To estimate how long it would take for American Samoa's minimum wages to converge with the federal minimum wage if they were indexed to the cost of living, we projected future increases based on historical trends in DOL's CPI for the U.S. City Average and Honolulu, Hawaii. We performed the same calculations based on historical trends in American Samoa's CPI and in the Department of Commerce's indices of personal consumption expenditures in the United States and in American Samoa. We also estimated the length of time it would take for American Samoa minimum wages to reach the federal minimum wage given schedules dictating future increases of differing amounts and frequency (see app. IX for these projections). In addition, we developed scenarios illustrating how indexing and schedule-based approaches could be combined to meet both criteria

²[GAO-11-427](#).

set by Pub. L. No. 114-61 for GAO's review (see app. X). The scope of our work was limited to examining approaches for increasing American Samoa's minimum wages that would directly address these criteria. Our work did not address other programs and policies that could supplement the incomes of low-wage workers—for example, the Earned Income Tax Credit. Our work also did not address possible adjustments in U.S. trade or tax policies that might help offset the potential negative impacts of minimum wage increases on employers.

We received comments on a draft of this report from four external reviewers with substantial background in relevant topics including labor economics, Pacific island economies, and fisheries. We also submitted to businesses that operate in American Samoa, for verification, technical material regarding cannery operations. We incorporated comments from the reviewers and businesses into the report as appropriate.

We conducted this performance audit from November 2015 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Minimum Wage-Setting Systems around the World

Governments around the world employ a wide variety of approaches to setting minimum wage rates. These systems vary widely, including with respect to the entities holding decision-making authority, the objectives they seek to address, any mechanisms for making regular adjustments, and the effective coverage and level of the minimum wages.¹

Decision-Making Authority

Decisions on minimum wage rates may be made by governments, by specialized bodies, or through collective bargaining.

- **Government.** Most national systems assign responsibility for setting minimum wage rates to the government, via legislative or executive action, usually with some requirement for consultation. Governments may be required to consult with social partners (i.e., workers and employers). For example, according to the International Labor Organization (ILO), the Bahamas assigns responsibility for setting minimum wages to the government, but before taking action, the government must consult with a representative confederation of employers and a representative association of registered trade unions. The text box describes the U.S. approach to setting the federal minimum wage.

¹Statements in this appendix are based primarily on information gathered and analyzed by the International Labor Organization (ILO), supplemented by material from the World Bank and other sources as noted. The ILO maintains a “Working Conditions Laws” database that catalogues information on national practices in a number of areas, including minimum wage setting (see <http://www.ilo.org/dyn/travail/travmain.home>). The ILO database includes information on (a) procedures (i.e., how minimum wages are set); (b) criteria (i.e., factors that must be taken into consideration when setting minimum wages); (c) coverage (i.e., categories of workers that are entitled to, or excluded from, the minimum wage as well as differentiation, if any, in minimums by occupation, sector, region, or category of worker); (d) level (i.e., the nominal value of the minimum wage); (e) frequency of adjustment (i.e., stipulations, if any, about the frequency of adjustments to the minimum wage); and (f) control mechanisms (measures for ensuring compliance). To fit the structure of this report, in some cases we employed different terminology than the sources we consulted—for example, focusing on systemic “objectives” rather than “criteria”—and arranged information differently—for instance, discussing differentiation among minimum wages for various groups of workers under “level” rather than “coverage.” For the ILO’s most recent report on minimum wage setting practices, see *Minimum Wage Systems: General Survey of the Reports on the Minimum Wage Fixing Convention, 1970 (No. 131), and the Minimum Wage Fixing Recommendation, 1970 (No. 135)*, Report of the Committee of Experts on the Application of Conventions and Recommendations (Articles 19, 22, and 35 of the Constitution), International Labor Conference, 103rd Session, 2014 (Geneva: International Labor Office, 2014).

How Does the United States Set Its Minimum Wage?

The federal minimum wage in the United States has been set through the passage of, and amendments to, the Fair Labor Standards Act of 1938 (FLSA). The FLSA states that its overall policy is to correct and, as rapidly as practicable, eliminate, in industries engaged in commerce or in the production of goods for commerce, labor conditions detrimental to the maintenance of the minimum standards of living necessary for the health, efficiency, and general well-being of workers without substantially curtailing employment or earning power. Since 1938, there have been nine amendments to the FLSA to establish new minimum wages, usually raising the rate through a series of steps over a period of 2 to 4 years.

The federal minimum wage—currently \$7.25—applies generally to any employee engaged in commerce and to workers employed in enterprises engaged in commerce or in the production of goods for commerce, with certain exemptions. However, U.S. states and territories, the District of Columbia, and local governments may generally also set their own minimum wages, and many have done so, often at rates higher than the federal minimum wage.^a According to the Department of Labor, 3.9 percent of hourly workers in the United States in 2014 earned wages at or below the federal minimum wage. According to the Organization for Economic Co-operation and Development, the federal minimum wage in 2015 was equivalent to 25 percent of the average U.S. wage.^b

Source: GAO analysis of the FLSA, state laws, and information from the Department of Labor and the Organization for Economic Cooperation and Development as indicated. | GAO-17-83

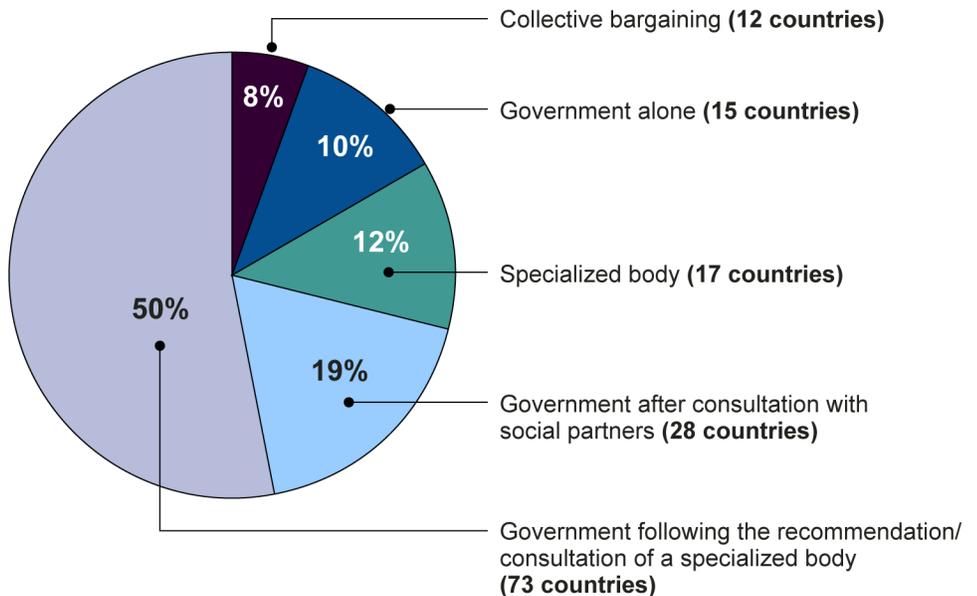
^aThe FLSA permits adoption of minimum wages at or above the federal level but prohibits payment of minimum wages below the federal level for workers covered by the FLSA.

^bSee Organization for Economic Co-operation and Development, “OECD Stat: Real Minimum Wages,” accessed October 27, 2016, <https://stats.oecd.org>.

- **Specialized bodies.** Some national systems assign responsibility for setting minimum wages to specialized bodies, sometimes referred to as wage boards or councils and usually comprising representatives of workers, employers, and the public interest. For example, according to the ILO, in Peru, minimum wage decisions are made by the National Council for Labor and Employment Promotion, which consists of government, worker, and employer representatives. Alternatively, governments may be required to consult with specialized bodies. For instance, according to the ILO, the French government has the power to set minimum wages by decree, but before doing so, it must consult with the National Collective Bargaining Commission, which includes representatives of the government, employers’ and workers’ organizations, and the Social Section of the Council of State.
- **Collective bargaining.** A small number of national systems, primarily in Western Europe, set minimum wages through collective bargaining. Germany and Finland are examples, according to the ILO.

Figure 12 shows the distribution of minimum wage–setting procedures among 145 countries, as reported by the ILO.

Figure 12: Decision-Making Authority in 145 National Systems for Setting Minimum Wages



Source: GAO analysis of data from Naj Ghosheh, *Working Conditions Laws Report 2012: A Global Review* (Geneva: International Labor Office, 2013). | GAO-17-83

Note: Specialized bodies, sometimes referred to as wage boards or councils, usually consist of representatives of workers, employers, and the public interest.

A World Bank-sponsored review of minimum wage-setting practices in Latin American countries provides an illustration of variation among national systems in one region.² The review identified 5 countries that set minimum wage rates by government decision, 6 that set rates by government decision with advice from wage boards or other nongovernmental groups, and 13 that rely on wage boards to set rates. Bolivia is an example of a country that relies on the government (in this case, the Ministry of Labor) to set rates; according to the ILO, Bolivian law does not require consultation with social partners. According to the ILO, El Salvador relies on a specialized body—the National Minimum Wage Council—to act in an advisory role, while Costa Rica relies on its National

²Wendy V. Cunningham, *Minimum Wages and Social Policy: Lessons from Developing Countries* (International Bank for Reconstruction and Development/The World Bank, 2007).

Wages Council to determine wage rates. Both of these bodies include government, worker, and employer representatives.

Objectives

National systems refer to a range of concerns and statistical markers to be taken into consideration when determining minimum wage rates. These concerns and markers generally fall into two categories: those pertaining to the needs of workers; and those pertaining to the needs of employers, the economy at large, or both.

While some national systems do not include any specific criteria for determining minimum wages, most require consideration of one or more indicators related to worker needs and economic factors. Table 5 shows the various types of criteria specified by 98 national systems examined in one ILO-sponsored study completed in 2005. As the table shows, the study found that about one-quarter of these systems—including two that employed collective bargaining to set minimum wage rates—did not specify any criteria. Among the systems that did, inflation or the cost of living was the most commonly specified consideration.

Table 5: Criteria for Setting Minimum Wages, Specified by 98 National Systems in 2005

	No. of systems specifying criterion
Criteria related to worker needs	
Inflation or cost of living	56
Level of wages, incomes	32
Needs of workers and their families	29
Social security benefits	13
Criteria related to employer needs or the economy	
Economic situation or development	47
Employment level	24
Productivity	24
Capacity of enterprises to pay	15
No criteria	24

Source: Francois Eyraud and Catherine Saget, *The Fundamentals of Minimum Wage Fixing* (Geneva: International Labor Office, 2005). | GAO-17-83

Note: Most of the 98 national systems use more than one criterion for determining minimum wages, according to the International Labor Organization.

According to the ILO, some national systems list factors to be considered, while others define specific indicators and describe how they should be applied. For example, according to the ILO, Portugal's system calls upon decision makers to take into account the level of development of the productive sector, the requirement for economic and financial stability, and the accumulation of capital for development, among other factors; in contrast, Ukrainian law specifies that the minimum wage cannot be fixed below a minimum subsistence level and includes a defined minimum consumption budget.

Adjustment Mechanisms

While most national systems provide for periodic revision of minimum wage rates, many do not require reviews at specific intervals. According to an ILO-sponsored report completed in 2005, only 23 percent of the national systems examined required that their minimum wages be reviewed on an annual or biennial basis.³ Some of these countries index their minimum wage rates—that is, require the adjustment of minimum wages, at specific intervals, on the basis of a given economic indicator. For example, according to the ILO, Israel requires that the minimum wage remain equivalent to a specific percentage of that country's national mean wage, while Malta's system requires annual revision of the national minimum wage to keep pace with the rate of inflation. Belgium indexes its minimum wage rate to changes in its consumer price index, while France links annual adjustments in the minimum wage to changes in both prices and wages, according to the ILO.

Some countries include "safeguard" features that can be applied to moderate increases in response to adverse economic conditions. According to the ILO, for example, Costa Rica's system calls for revising, when inflation exceeds a certain limit, the formula normally used to calculate minimum wage increases. Peru also normally employs a formula to calculate increases, but application of the formula can be revised to take into account factors such as a serious economic recession or a significant increase in unemployment, according to the ILO. In addition, some countries have responded to economic crises by postponing minimum wage increases that would otherwise have taken effect or by reducing minimum wage levels outright. According to the ILO, for example, Spain froze its minimum wage rates in 2012 to encourage

³Francois Eyraud and Catherine Saget, *The Fundamentals of Minimum Wage Fixing* (Geneva: International Labor Office, 2005).

job creation after a downturn in its economy. Greece first froze, and then reduced, minimum wage rates in response to worsening economic conditions beginning in 2010, also according to the ILO.

Coverage

Some national systems exclude specific groups of workers from application of the minimum wage. According to the ILO, the most commonly excluded groups are agricultural workers and those employed in domestic service. Workers in family businesses or small enterprises and younger workers or those serving apprenticeships are also excluded in some countries. According to the ILO, a few systems maintain more specific exclusions—for example, certain seafarers (five countries) and workers in export processing zones (two countries), according to the ILO.⁴ More generally, a 2014 ILO report observed that when wages are set by sector and there is no generally applicable minimum wage to serve as a backup, many workers may be excluded from coverage.⁵ In Cambodia, for example, minimum wage regulations apply only to specific industries (i.e., textiles, garments, and shoe assembly), according to the ILO.

Level

National systems produce widely varying minimum wage rates. As might be expected, international comparisons generally show that lower-income countries require lower minimum rates of pay. However, minimum wages also vary greatly relative to prevailing economic conditions within individual countries. For example, one Africa-focused study found minimum wages by country ranging from less than 10 percent to more than 100 percent of average wages.⁶

⁴Naj Ghosheh, *Working Conditions Laws Report 2012: A Global Review* (Geneva: International Labor Office, 2013). The five countries that excluded certain seafarers were the Democratic Republic of Congo, Nigeria, Indonesia, South Korea, and Saudi Arabia. The two countries that excluded workers in export processing zones were Ghana and Mauritius.

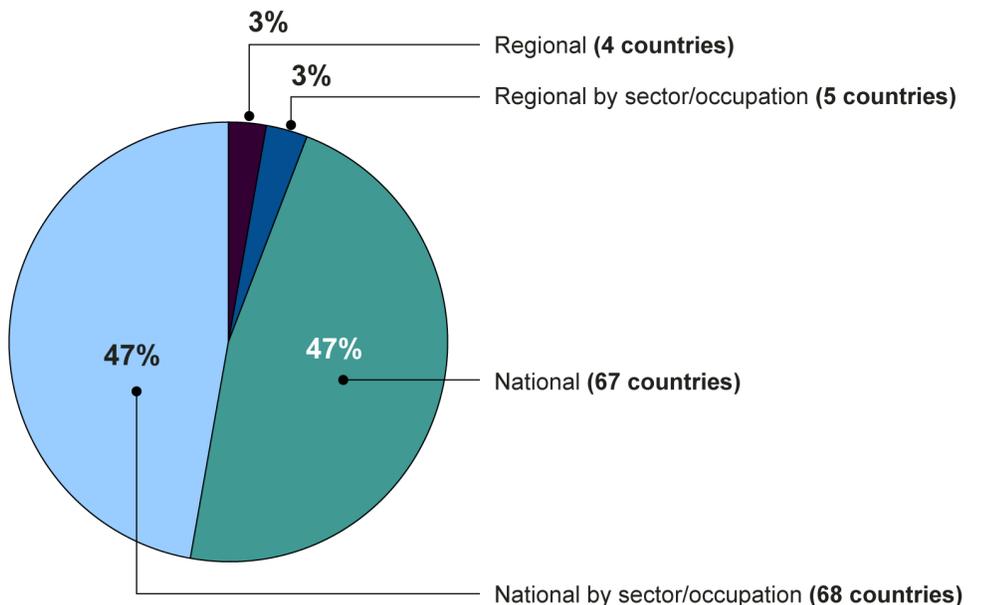
⁵*Minimum Wage Systems: General Survey of the Reports on the Minimum Wage Fixing Convention, 1970 (No. 131), and the Minimum Wage Fixing Recommendation, 1970 (No. 135)*, Report of the Committee of Experts on the Application of Conventions and Recommendations (Articles 19, 22, and 35 of the Constitution), International Labor Conference, 103rd Session, 2014 (Geneva: International Labor Office, 2014).

⁶Haroon Bhorat, Ravi Kanbur, and Benjamin Stanwix, *Minimum Wages in Sub-Saharan Africa: A Primer* (Bonn: Institute for the Study of Labor, July 2015).

While minimum wage rates set at very low levels relative to local average pay rates will affect relatively few workers, rates set at very high levels relative to local pay will apply to such a large portion of the covered workforce that they become, in effect, the average wage for those workers. However, comparatively high rates may heighten enforcement challenges. Employer noncompliance and movement of substantial numbers of workers into the informal economy may result in a substantial portion of eligible workers earning less than the legal minimum wage. For example, according to the World Bank, Paraguay established a comparatively high minimum wage (equal to 72 percent of the national mean wage) but reported that more than 40 percent of the eligible workers earned less than the legal minimum wage.

Some national systems set a single minimum wage rate—applicable to all or nearly all workers—while others establish multiple rates, varying by occupation, sector, or region. Figure 13 shows the results of one ILO review of minimum wage rate structures in 144 countries.

Figure 13: Distribution of Minimum Wage Rate Structures in 144 National Systems



Source: GAO analysis of data from Naj Ghosheh, *Working Conditions Laws Report 2012: A Global Review* (Geneva: International Labor Office, 2013). | GAO-17-83

In addition, some systems specify lower minimum wage rates for certain groups of workers. For example, many countries maintain lower minimum wage rates for younger workers. While some countries exclude agricultural and domestic workers from the minimum wage entirely, others specify lower rates for these workers. Some countries with federal systems of government have in place a single national rate, or both national and state-level rates. Others assign minimum wage-setting responsibility to states or provinces. For example, according to the ILO, Canada's provinces each set their own minimum wages. In India, according to the ILO, minimum wage-setting authority lies with the federal government for some sectors and with the states for others. The Philippine system relies on regional wage boards to set minimum wage rates not only by region but also by sector, resulting in a very large number of minimum wages being in force at any given time, according to the ILO.⁷

Some nations with overseas territories establish minimum wages for them. Others allow the territories to set their own minimum wages. For example, according to the United Kingdom government, British overseas territories have the authority to set their own minimum wages (see the text box for an example). According to information obtained from the government of France, that country's overseas territories and collectivities, such as French Polynesia, have the authority to set their own minimum wages. However, according to the French government, France applies its national minimum wage (as well as all other French laws and regulations) to its overseas "départements"—entities such as Martinique and French Guiana that are geographically separate from mainland France but considered to be part of France for political and legal purposes.

⁷For additional discussion of minimum wage policy in the Philippines and other countries in Southeast Asia, see Ximena Del Carpio and Laura Pabon, *Minimum Wage Policy: Lessons with a Focus on the ASEAN Region* (World Bank: January 2014).

Minimum Wage in the Falkland Islands

The Falkland Islands applied its first territorial minimum wage in 2013, according to Falkland Islands government documents. After reviewing multiple minimum wage-setting methodologies and consulting with the public, the territory began by adopting a minimum wage that would provide an income equivalent to 60 percent of the territorial median wage—a percentage that, according to Falkland Islands government officials, is commonly regarded in the United Kingdom and other European Union countries as equivalent to a poverty threshold income. In adopting this measure, Falklands officials observed that a preferable alternative would be to base the minimum wage on actual data on poverty levels and household expenditures in the territory, but such information was not immediately available.

After initially setting the minimum wage at £5.05 per hour, the Falklands government conducted a study of the cost of living in the islands. Government officials adapted methodologies for determining a “living wage” used in the United Kingdom itself and in other British overseas dependencies, gathered data on local costs, and came up with a new target hourly minimum wage. According to an official from the Falkland Islands government, effective January 1, 2016, the government increased the previous minimum wage to £5.38, or 75 percent of the target “living wage” of £7.26 per hour. Falklands officials reported that the government has also approved a second increase, to 80 percent of the target level, to take effect in January 2017.

Source: GAO analysis of information provided by the government of the Falkland Islands. | GAO-17-83

Appendix III: Selected Federal Laws Related to Minimum Wages in American Samoa, 1938-2015

Table 6 summarizes key federal laws regarding minimum wages in American Samoa.

Table 6: Selected Federal Laws Related to Minimum Wages in American Samoa, 1938-2015

U.S. law	Year enacted	Description
Pub. L. No. 75-718 (FLSA)	1938	Established a federal minimum wage for the United States.
Pub. L. No. 84-1023	1956	Authorized the Secretary of Labor to establish minimum wages in American Samoa based on the recommendation of SICs, following the procedures and standards used in Puerto Rico and the U.S. Virgin Islands.
P.L. 85-750	1958	Stipulated that SIC reviews of wage orders not equal to the federal minimum shall take place biennially (i.e., every other year) unless the Secretary of Labor ordered an additional review.
Pub. L. No. 93-259	1974	Amended the SIC recommendation requirements to provide that a SIC shall recommend the federal minimum wage, unless there is substantial documentary evidence, including pertinent unabridged profit-and-loss statements and balance sheets for a representative period of years or, in the case of employees of public agencies, other appropriate information, in the record that establishes that the industry, or a predominant portion thereof, is unable to pay that wage.
Pub. L. No. 101-583	1990	Amended the documentary evidence requirement to remove “including pertinent unabridged profit-and-loss statements and balance sheets for a representative period of years or, in the case of employees of public agencies, other appropriate information.”
Pub. L. No. 110-28	2007	Increased the minimum wage for each industry in American Samoa by \$0.50 on July 24, 2007, and set a schedule for a \$0.50 increase on May 25 of each subsequent year, until the wage rates in American Samoa equaled the federal minimum wage.
Pub. L. No. 111-117	2009	Changed the effective date of the annual minimum wage increases from May 25 to September 30, to begin with the increase scheduled for 2010.
Pub. L. No. 111-244	2010	Postponed the scheduled minimum wage increases for 2010 and 2011. Set the increases to resume on September 30, 2012.
Pub. L. No. 112-149	2012	Postponed the scheduled minimum wage increases until September 30, 2015. Increased the interval between increases from every year to every 3 years.
Pub. L. No. 114-61	2015	Decreased the amount of the 2015 triennial increase (and future increases) from \$0.50 to \$0.40, with the next increase scheduled to occur on September 30, 2018.

Legend: FLSA = Fair Labor Standards Act, Pub. L. No. = Public Law Number, SIC = special industry committee.

Source: GAO analysis of U.S. minimum wage law. | GAO-17-83

Appendix IV: State Minimum Wage Law Requirements Related to Adjustment Mechanisms

Table 7 summarizes certain aspects of state minimum wage laws in effect as of September 17, 2016. Specifically, we reviewed state laws and constitutions in each of the 50 U.S. states and the District of Columbia to identify and summarize the method by which enacted state law as of September 17, 2016, automatically adjusts the state minimum wage at future dates. The methodology for compiling this table was to search each state's statutory and constitutional texts for the phrase "minimum wage" and to identify and describe any requirements related to minimum wage adjustment mechanisms. As an additional check, we scanned relevant portions of the table of contents for each state statutory code and applied professional judgment to consider any additional sections that appeared to be relevant to the process for adjusting the state minimum wage.

Table 7 is not intended to be a comprehensive description of the adjustment mechanisms of all state minimum wage laws. For example, some states may have exceptions or exclusions from each state's general minimum wage laws such as industry-specific minimum wage laws; minimum wage laws for tipped workers; and minimum wage laws for alternative pay schedules, such as piece rate or commissioned workers. Further, many municipalities have enacted minimum wage ordinances, while some states have passed supremacy measures barring local governments from minimum wage regulation. We did not attempt to identify these minimum wage requirements or any related provisions concerning the mechanism by which these minimum wage requirements are to be adjusted. Rather, we focused only on states' general minimum wage laws and related adjustment mechanisms.

Federal minimum wage laws—to the extent they are applicable—provide the absolute floor on workers' wages, regardless of state law. This table only reflects state statutory law and relevant constitutional provisions. Though state executive orders, executive branch regulations, and state court jurisprudence may supplement or modify the implementation of these statutory provisions, we did not review these sources in compiling this table. Importantly, some states empower their Labor Commissioner, wage board, or similar entity to make adjustments to the state minimum wage for specific occupations, industries, age brackets, vocational students, or regions. This regulatory mechanism may have sweeping effects but was outside of the scope of this table. The information in this table has not been verified by cognizant state officials.

Table 8 summarizes the statutory adjustment mechanisms for states' general minimum wage laws discussed in table 7. This summary includes the number of states without a state minimum wage law and the number

Appendix IV: State Minimum Wage Law Requirements Related to Adjustment Mechanisms

of states with fixed, indexed or scheduled adjustment mechanisms in their state minimum wage laws or a combination thereof.

Table 7: Statutory Adjustment Mechanisms for States' General Minimum Wage Laws, by U.S. State

U.S. state	Adjustment mechanism ^a	Description of adjustment mechanism
Alabama ^b	N/A	N/A
Alaska	Indexed or tied to federal minimum wage	Indexed annually to the BLS CPI-U Anchorage Metropolitan Area average for the prior calendar year. If indexed rate falls below the federal minimum wage plus \$1, then the minimum wage is raised to this amount.
Arizona	Indexed	Indexed annually to the BLS CPI-U U.S. city average for all items for the prior calendar year.
Arkansas	Scheduled	Yearly scheduled increases, with the last scheduled increase to take effect on January 1, 2017.
California	Scheduled then indexed	New legislation signed into law on April 4, 2016, outlines yearly scheduled increases through January 1, 2023. Beginning on January 1, 2024, the minimum wage will be indexed to the lower of (1) the BLS CPI-W or (2) a 3.5% increase annually.
Colorado	Indexed	Indexed annually to the BLS CPI-U for Colorado.
Connecticut	Scheduled or tied to federal minimum wage	Yearly scheduled increases, with the last scheduled increase to take effect on January 1, 2017. If the rate set by the schedule falls below 100.5% of the federal minimum wage, then the minimum wage is raised to this amount.
Delaware	Fixed	N/A
District of Columbia	Scheduled or tied to federal minimum wage and then Indexed	Yearly scheduled increases through July 1, 2020, but If the scheduled rate is below the federal minimum wage, then the minimum hourly wage paid is the federal minimum wage plus \$1. Beginning on July 1, 2021, the minimum wage will be indexed annually to the BLS CPI-U Washington Metropolitan Area for the prior calendar year.
Florida	Indexed	Indexed annually to the BLS CPI-W South Region for the prior 12 months.
Georgia	Fixed	N/A
Hawaii	Scheduled	Yearly scheduled increases, with the last scheduled increase to take effect on January 1, 2018.
Idaho	Fixed	N/A
Illinois	Fixed	N/A
Indiana	Fixed	N/A
Iowa	Fixed	N/A
Kansas	Fixed	N/A
Kentucky	Fixed	N/A
Louisiana ^b	N/A	N/A
Maine	Fixed	N/A
Maryland	Scheduled	Yearly scheduled increases, with the last scheduled increase to take effect on July 1, 2018.

**Appendix IV: State Minimum Wage Law
Requirements Related to Adjustment
Mechanisms**

U.S. state	Adjustment mechanism^a	Description of adjustment mechanism
Massachusetts	Scheduled or tied to federal minimum wage	Minimum wage statute is effective until January 1, 2017, at which point a new statute will take effect raising the minimum wage \$1. At no point, however, can the minimum wage rate be less than \$0.50 higher than the effective federal minimum rate.
Michigan	Scheduled then indexed	Yearly scheduled increases, with the last scheduled increase to take effect on January 1, 2018. Beginning January 1, 2019, the minimum wage will be indexed to the lower of (1) the 5-year average of the BLS CPI-U for the Midwest Region or (2) 3.5%. There will be no increase in the indexed minimum wage rate if the Michigan unemployment rate determined by the BLS was 8.5% or more in the prior year.
Minnesota	Indexed	Beginning in 2017, the minimum wage is indexed to the lower of (1) the rate of personal consumption expenditures as determined by the U.S. Department of Commerce, Bureau of Economic Analysis, for the prior 12-month period; or (2) a 2.5% increase.
Mississippi ^b	N/A	N/A
Missouri	Indexed	Indexed annually to the BLS CPI-W for the preceding year.
Montana	Indexed	Indexed annually to the BLS CPI-U U.S. city average for the preceding year.
Nebraska	Fixed	N/A
Nevada	Indexed	Indexed annually to the greater of the amount of increase in the federal minimum wage over \$5.15 per hour or the BLS CPI-U U.S. city average. The CPI adjustment for any 1 year may not exceed 3%.
New Hampshire	Fixed	N/A
New Jersey	Indexed	Base minimum wage is the highest of the rate set by (1) statute, (2) the amount of \$8.25 specified in the New Jersey constitution, or (3) the federal minimum wage. This base rate is indexed annually to the BLS CPI-W for the prior year.
New Mexico	Fixed	N/A
New York	Scheduled then indexed by commissioner for certain areas	Variable schedule depending on employer size, location, and sector. For other than the New York City area and the remainder of the downstate areas, beginning on December 31, 2021, the Commissioner will adjust the minimum wage for the remainder of the state, factoring in various inflation measures.
North Carolina	Fixed	N/A
North Dakota	Fixed	N/A
Ohio	Indexed	Indexed annually to the BLS CPI-W for 12 months prior.
Oklahoma	Fixed	N/A
Oregon	Scheduled then indexed	Yearly scheduled increases, with the last scheduled increase to take effect on July 1, 2022, at variable rates depending on location. Beginning July 1, 2023, the minimum wage will be indexed to the BLS CPI-U U.S. city average for the prior year, with some variations for location.
Pennsylvania	Fixed	N/A
Rhode Island	Fixed	N/A
South Carolina ^b	N/A	N/A

**Appendix IV: State Minimum Wage Law
Requirements Related to Adjustment
Mechanisms**

U.S. state	Adjustment mechanism^a	Description of adjustment mechanism
South Dakota	Indexed	Indexed annually to the BLS CPI-U U.S. city average.
Tennessee ^b	N/A	N/A
Texas	Fixed	N/A
Utah	Fixed	N/A
Vermont	Scheduled then indexed	Yearly scheduled increases, with the last scheduled increase to take effect on January 1, 2018. Beginning January 1, 2019, the minimum wage will be annually indexed to the lower of (1) the BLS CPI-U U.S. city average for the prior 12 months or (2) a 5% increase.
Virginia	Fixed	N/A
Washington	Indexed	Indexed annually to the BLS CPI-W for the prior 12 months.
West Virginia	Fixed	N/A
Wisconsin	Fixed	N/A
Wyoming	Fixed	N/A

Legend: BLS = Bureau of Labor Statistics, CPI-U = Statistics Consumer Price Index for All Urban Consumers, CPI-W = Consumer Price Index for Urban Wage Earners and Clerical Workers, N/A = not applicable.

Source: GAO analysis of state statutory and constitutional provisions related to general minimum wage laws and related adjustment mechanisms. | GAO-17-83

^a“Indexed” refers to statutorily mandated intervals requiring the minimum wage to change with an inflation measure. “Scheduled” refers to one or more in a series of predetermined increases in the minimum wage at a predetermined date or time interval, with at least one increase scheduled for a future date. “Scheduled then indexed” means that after the final scheduled increase takes effect, the minimum wage will adjust with an inflation measure. “Tied to federal minimum wage” means that the minimum wage must be a set amount above the federal minimum wage. “Fixed” means that the minimum wage rate will not change without further legislation. “Commissioner” refers to an executive branch official who has the authority to adjust the minimum wage laws.

^bAlabama, Louisiana, Mississippi, South Carolina, and Tennessee do not have their own state minimum wage laws; therefore, they default to the federal minimum wage.

**Table 8: Summary of Statutory Adjustment Mechanisms for States' General
Minimum Wage Laws**

Summary of findings

Twenty-three states have a fixed minimum wage, not including the 5 states with no state minimum wage.

Seventeen states and the District of Columbia use, or plan to use, indexing to set their minimum wage, applying various measures.

- Fifteen states and the District of Columbia use a BLS CPI measure to index their minimum wage. Of these,
 - six states use the BLS CPI-U U.S. city average,
 - six states use the BLS CPI-W,
 - one state uses a BLS CPI-U for a regional area,
 - one state and the District of Columbia use a BLS CPI-U for a metropolitan area, and
 - one state uses a BLS CPI-U for a specific state,
 - One state uses the state commissioner to index its minimum wage.
 - One state uses a BEA measure, the personal consumption expenditure.
-

Eleven states schedule minimum wage increases.

Six use both indexing and a schedule.

Legend: BLS = Bureau of Labor Statistics, CPI-U = Consumer Price Index for All Urban Consumers, CPI-W = Consumer Price Index for Urban Wage Earners and Clerical Workers.

Source: GAO analysis of state statutory and constitutional provisions related to general minimum wage laws and related adjustment mechanisms. | GAO-17-83

Note: "Fixed" means that the minimum wage rate will not change without further legislation. "Indexing" refers to statutorily mandated intervals requiring the minimum wage to change with an inflation measure. "Commissioner" refers to an executive branch official who has the authority to adjust the minimum wage laws. "Schedule" refers to one or more in a series of predetermined increases in the minimum wage at a predetermined date or time interval, with at least one increase scheduled for a future date.

Appendix V: Projected Convergence of American Samoa Minimum Wages with Federal Minimum Wage

Table 9 provides information on the time line for American Samoa minimum wages to equal the federal minimum wage under the current law and several former schedules.

Table 9: Projected Dates for American Samoa Minimum Wages to Converge with Federal Minimum Wage under Past and Current Schedules

U.S. law scheduling minimum wage increases	Projected convergence of highest minimum wage with federal minimum wage	Projected convergence of lowest minimum wage with federal minimum wage
Pub.L. No. 110-28 (Enacted 2007)	May 2013	May 2016
Pub.L. No. 111-117 (Enacted 2009)	Sept. 2013	Sept. 2016
Pub.L. No. 111-224 (Enacted 2010)	Sept. 2015	Sept. 2018
Pub.L. No. 112-149 (Enacted 2012)	Sept. 2024	Sept. 2033
Pub.L. No. 114-61 (Enacted 2015)	Sept. 2027	Sept. 2036

Legend: Pub. L. No. = Public Law Number.

Source: GAO analysis of U.S. minimum wage law. | GAO-17-83

Notes: "Federal minimum wage" refers to the minimum wage required by the Fair Labor Standards Act in the 50 U.S. states, the District of Columbia, and any territory or possession of the United States, subject to certain exceptions. Our analysis assumes convergence with a federal minimum wage of \$7.25 and does not account for potential changes in the federal minimum wage.

Since 2006, the stevedoring industry has had the highest minimum wage in American Samoa, and garment manufacturing has had the lowest. Minimum wages for the other 16 industry categories in American Samoa would converge with the federal minimum wage sometime between the projected dates for the highest and lowest minimum wages.

Appendix VI: American Samoa Minimum Wage Poster

Figure 14 shows the U.S. Department of Labor (DOL) poster outlining federal minimum wage requirements for American Samoa employers subject to the Fair Labor Standards Act (FLSA). According to the DOL, all such employers are required to post this information in conspicuous places in every establishment where employees subject to the FLSA's minimum wage provisions are employed, so as to permit them to readily observe it.

Figure 14: U.S. Department of Labor Poster Outlining Federal Minimum Wage Requirements for American Samoa

EMPLOYEE RIGHTS UNDER THE FAIR LABOR STANDARDS ACT

FEDERAL MINIMUM WAGE IN AMERICAN SAMOA ^{R1}

BY INDUSTRY ^{R2 - A/N - We count the 3 Classifications under Shipping & Transportation as separate industries because they each have different minimum wage rates. - DJP 9/7/16}

<p>FISH CANNING AND PROCESSING AND CAN MANUFACTURING \$4.76 beginning May 25, 2009 \$5.16 beginning September 30, 2015</p> <p>SHIPPING AND TRANSPORTATION <i>CLASSIFICATION A:</i> STEVEDORING, LIGHTERAGE, AND MARITIME SHIPPING AGENCY ACTIVITIES \$5.59 beginning May 25, 2009 \$5.99 beginning September 30, 2015 <i>CLASSIFICATION B:</i> UNLOADING OF FISH \$5.42 beginning May 25, 2009 \$5.82 beginning September 30, 2015 <i>CLASSIFICATION C:</i> ALL OTHER ACTIVITIES \$5.38 beginning May 25, 2009 \$5.78 beginning September 30, 2015</p> <p>TOUR AND TRAVEL SERVICES \$4.98 beginning May 25, 2009 \$5.38 beginning September 30, 2015</p> <p>PETROLEUM MARKETING \$5.35 beginning May 25, 2009 \$5.75 beginning September 30, 2015</p> <p>CONSTRUCTION \$5.10 beginning May 25, 2009 \$5.50 beginning September 30, 2015</p> <p>HOTEL \$4.50 beginning May 25, 2009 \$4.90 beginning September 30, 2015</p> <p>RETAILING, WHOLESALING, AND WAREHOUSING \$4.60 beginning May 25, 2009 \$5.00 beginning September 30, 2015</p>	<p>SHIP MAINTENANCE \$5.01 beginning May 25, 2009 \$5.41 beginning September 30, 2015</p> <p>BOTTLING, BREWING, AND DAIRY PRODUCTS \$4.69 beginning May 25, 2009 \$5.09 beginning September 30, 2015</p> <p>PRINTING \$5.00 beginning July 24, 2007 \$5.40 beginning September 30, 2015</p> <p>FINANCE AND INSURANCE \$5.49 beginning May 25, 2009 \$5.89 beginning September 30, 2015</p> <p>PRIVATE HOSPITALS AND EDUCATIONAL INSTITUTIONS \$4.83 beginning May 25, 2009 \$5.23 beginning September 30, 2015</p> <p>GOVERNMENT EMPLOYEES INDUSTRY \$4.41 beginning May 25, 2009 \$4.81 beginning September 30, 2015</p> <p>MISCELLANEOUS ACTIVITIES (INCLUDES DOMESTIC WORK) \$4.20 beginning May 25, 2009 \$4.60 beginning September 30, 2015</p> <p>GARMENT MANUFACTURING \$4.18 beginning May 25, 2009 \$4.58 beginning September 30, 2015</p> <p>PUBLISHING \$5.13 beginning May 25, 2009 \$5.53 beginning September 30, 2015</p>
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The Fair Minimum Wage Act of 2007 (Public Law 110-28), as amended, applies the minimum wage rates shown above to industries in American Samoa. This law also provides for additional increases in the minimum wage of \$0.40 per hour to occur every three (3) years (e.g. 2018, 2021, 2024, etc.) on September 30, until reaching the minimum wage generally applicable in the U.S.

The law requires employers to display this poster where employees can readily see it.



WHD
WAGE AND HOUR DIVISION
UNITED STATES DEPARTMENT OF LABOR

1-808-541-1361
TTY: 1-877-889-5627
www.dol.gov/whd



WH1088 AMS REV 07/16 **R3**

Source: U.S. Department of Labor, Wage and Hour Division. | GAO-17-83

Appendix VI: American Samoa Minimum Wage Poster

OVERTIME PAY	At least 1½ times the regular rate of pay for all hours worked over 40 in a workweek.
CHILD LABOR	An employee must be at least 16 years old to work in most non-farm jobs and at least 18 to work in non-farm jobs declared hazardous by the Secretary of Labor. Youths 14 and 15 years old may work outside school hours in various non-manufacturing, non-mining, non-hazardous jobs with certain work hours restrictions. Different rules apply in agricultural employment.
TIP CREDIT	Employers of "tipped employees" who meet certain conditions may claim a partial wage credit based on tips received by their employees. Employers must pay tipped employees a cash wage of at least \$2.13 per hour if they claim a tip credit against their minimum wage obligation. If an employee's tips combined with the employer's cash wage of at least \$2.13 per hour do not equal the minimum hourly wage, the employer must make up the difference.
NURSING MOTHERS	The FLSA requires employers to provide reasonable break time for a nursing mother employee who is subject to the FLSA's overtime requirements in order for the employee to express breast milk for her nursing child for one year after the child's birth each time such employee has a need to express breast milk. Employers are also required to provide a place, other than a bathroom, that is shielded from view and free from intrusion from coworkers and the public, which may be used by the employee to express breast milk.
ENFORCEMENT	The Department has authority to recover back wages and an equal amount in liquidated damages in instances of minimum wage, overtime, and other violations. The Department may litigate and/or recommend criminal prosecution. Employers may be assessed civil money penalties for each willful or repeated violation of the minimum wage or overtime pay provisions of the law. Civil money penalties may also be assessed for violations of the FLSA's child labor provisions. Heightened civil money penalties may be assessed for each child labor violation that results in the death or serious injury of any minor employee, and such assessments may be doubled when the violations are determined to be willful or repeated. The law also prohibits retaliating against or discharging workers who file a complaint or participate in any proceeding under the FLSA.
ADDITIONAL INFORMATION	<ul style="list-style-type: none">• Certain occupations and establishments are exempt from the minimum wage, and/or overtime pay provisions.• Special provisions apply to workers in American Samoa, the Commonwealth of the Northern Mariana Islands, and the Commonwealth of Puerto Rico.• Some state laws provide greater employee protections; employers must comply with both.• Some employers incorrectly classify workers as "independent contractors" when they are actually employees under the FLSA. It is important to know the difference between the two because employees (unless exempt) are entitled to the FLSA's minimum wage and overtime pay protections and correctly classified independent contractors are not.• Certain full-time students, student learners, apprentices, and workers with disabilities may be paid less than the minimum wage under special certificates issued by the Department of Labor.

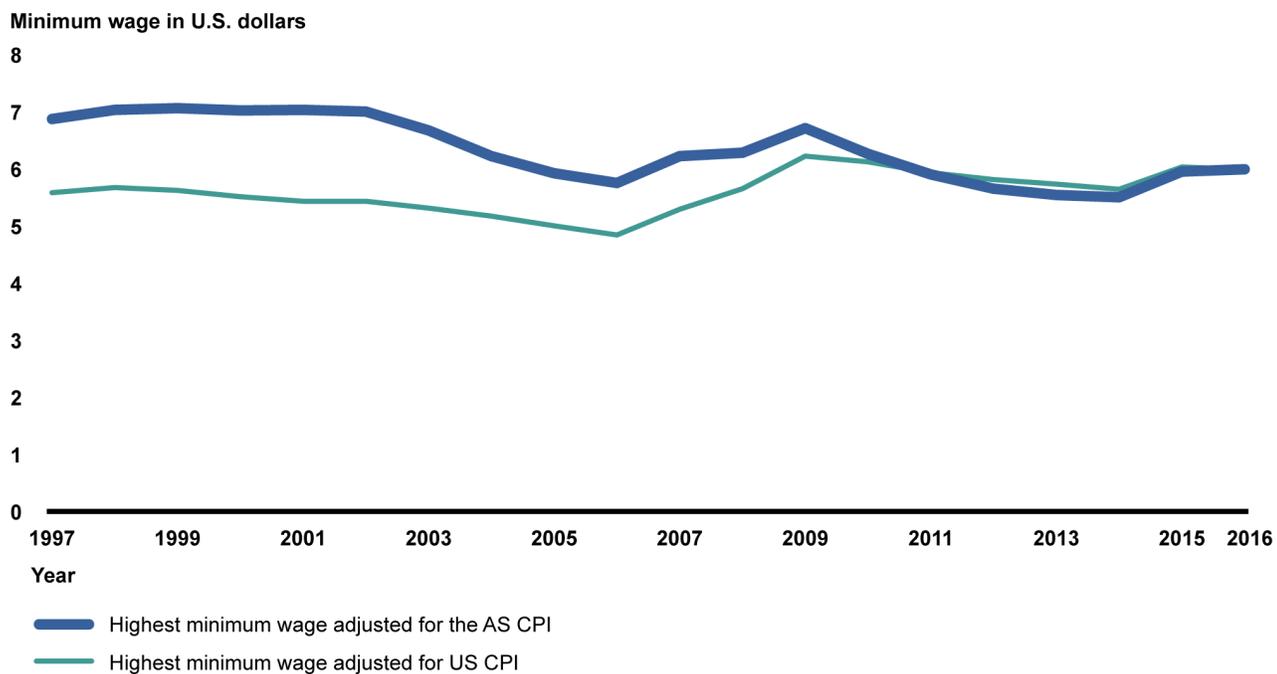
WH1088 AMS 07/16

Source: U.S. Department of Labor, Wage and Hour Division. | GAO-17-83

Appendix VII: Highest American Samoa Minimum Wage, Adjusted for Inflation

Figure 15 shows the minimum wage for the American Samoa stevedoring sector (the highest minimum wage in 2015) from 1997 to 2016, adjusted for inflation using the American Samoa Consumer Price Index and the U.S. Consumer Price Index for All Urban Consumers.

Figure 15: Highest American Samoa Minimum Wage, Adjusted for Inflation in American Samoa and the United States, 1997-2016



Source: GAO analysis of data from the U.S. Department of Labor and the Government of American Samoa. | GAO-17-83

Note: Amounts shown are adjusted according to the American Samoa (AS) government's consumer price index (CPI) for 2016 (upper) and the Bureau of Labor Statistics' U.S. CPI for All Urban Consumers for 2014.

Appendix VIII: Comparison of Labor and Tariff Costs for Four Potential Tuna Canning Business Models

Although American Samoa is located near rich fishing grounds, its labor costs are significantly higher than those in competing countries. According to cannery officials, the canneries' current operations in American Samoa are not competitive with other business models. To illustrate tuna canning costs for other business models, we compared the labor and tariff costs associated with four potential business scenarios for the cannery operations currently located in American Samoa. The following analysis provides cost estimates for the four possible models, assuming constant total production under each model and including four models that we presented in a 2011 report.¹ Our analysis considers only labor costs and tariffs, to show the effect of variation in different countries. Our analysis excludes other associated costs, including transportation, refrigeration, opening of a new plant (if needed), as well as costs associated with establishing multiple production locations. Our analysis also excludes nonwage labor costs, such as the costs of employer payroll tax contributions.²

- **Model A (tuna loining and canning located in American Samoa).** Tuna processing currently performed in American Samoa would remain entirely in American Samoa. Canneries located in American Samoa would hire local and foreign workers to loin (clean, cook, and cut) and can the fish. In addition, the plant would process some loins imported from countries with lower wages. The canned tuna from American Samoa would be exported directly to the United States and would benefit from tariff-free access to the U.S. market. With an estimated workforce of 2,700 employees in American Samoa, the associated labor cost would be \$29 million in 2016, with zero tariff costs.

¹See GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, [GAO-11-427](#) (Washington D.C.: June 23, 2011). This analysis was first introduced in GAO, *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). In [GAO-10-333](#), we found that a model relying on fish loins sourced outside the United States and canned in the 50 U.S. states, as compared with a model of loining and canning in American Samoa, would have annual labor savings of \$12.1 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 imported loins model.

²For example, for 2011, employers in the United States were required to 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.

- **Model B (relocating tuna loining to Thailand or another country with lower labor costs and canning processed loins in the U.S. states).** The loining operation—the most labor-intensive part of the operation—would move to low labor-cost countries, such as Thailand, Trinidad, Fiji, Mauritius, or Papua New Guinea, where the fish loin would be cut, cleaned, and cooked and then placed in pouches. The fish would then be exported to the United States, where it would be canned. The imported fish would carry a tariff of \$11 per metric ton, and workers would be employed in a low labor-cost country at \$1.20 per hour;³ the combined tariff and labor cost in 2016 would be \$21.4 million.⁴ No workers would remain in American Samoa cleaning fish, and 540 workers would be employed in the 50 U.S. states at \$14.00 per hour.⁵ However, according to an industry expert, relocating operations from American Samoa could affect the canneries' eligibility for certain U.S. government contracts that require U.S.-sourced and -processed fish.
- **Model C (relocating all loining and canning to a tariff-free country).** Loining would take place in a country with zero tariffs on canned tuna exported to the United States.⁶ Workers would be employed at \$1.20 per hour as in Model B. Under this model, the American Samoa canneries would close, and all 2,700 positions would be relocated to a tariff-free country. The cost would be \$6.6 million for 2016, assuming no wage increases in the tariff-free country. However, as in Model B, relocating operations from American Samoa could affect the canneries' eligibility for certain U.S. government contracts.

³According to World Bank data, this rate consists of the average of the minimum wages in Samoa, Thailand, and Vietnam, countries where a significant portion of tuna processing currently takes place.

⁴Model B estimates differ somewhat from those in our earlier report ([GAO-11-427](#)) because the current analysis is based on the increased number of workers employed in the American Samoa tuna canning facilities with the addition of the Tri Marine facility. The tariff rate indicated is according to Chicken of the Sea data and refers to the Harmonized Tariff Schedule code 1604.14.4000.

⁵Our analysis assumed that U.S. workers are paid \$14.00 per hour, based on past statements from industry officials. The processed fish is exported to the United States, where it is canned by the remaining 20 percent of the 2,700 workforce.

⁶For example, 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.

- **Model D (half of production, including for certain U.S. government contracts, located in American Samoa and the other half relocated to a tariff-free country).** In this hybrid model, the American Samoa cannery would continue to supply canned tuna for U.S. government contracts (20 percent of production from Model A), while another 30 percent of production would remain in American Samoa.⁷ The remaining 50 percent of production would move to a country that exports canned tuna tariff free to the United States. For this model, we assumed that 50 percent of the current workforce would remain in American Samoa and the other 50 percent would be located in a tariff-free country. The associated cost would be \$17.8 million in 2016, with zero tariff costs.

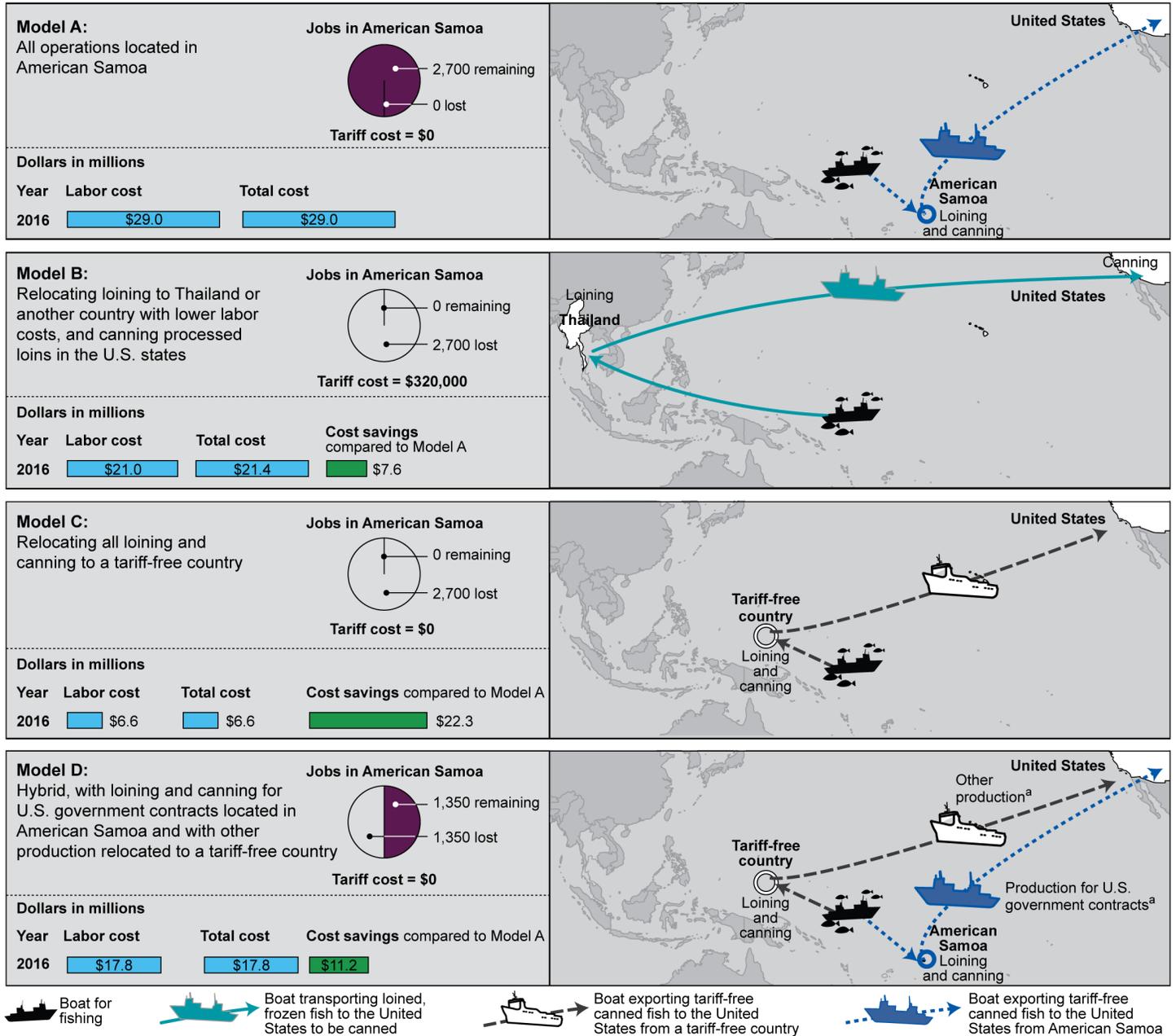
Figure 16 shows that, considering only labor and tariff costs, Model A—processing all loins in American Samoa—has higher costs than the alternatives. Model C—moving operations to a tariff-free country and closing operations in American Samoa—presents the highest combined labor and tariff cost savings but would result in approximately 2,700 fewer jobs in American Samoa. Model D—moving 50 percent of production to a tariff-free country and keeping 50 percent in American Samoa—would present the next-highest labor and tariff cost savings while retaining eligibility for certain U.S. government contracts and would result in about 1,350 fewer jobs in American Samoa.⁸ Model B—moving the loining operations to a country with lower wages—also presents significant cost savings; however, importing processed loins to the United States would incur tariffs, and wages for canning in any of the 50 U.S. states would be higher than in competing tuna processing countries.

⁷We reported in 2011 that tuna industry officials stated that 20 percent of production is not sufficient to cover overhead costs and operate a cannery in American Samoa. To illustrate a hybrid production model, we assumed that another 30 percent of production would remain in American Samoa. See [GAO-11-427](#).

⁸Our estimates of job loss include only workers directly employed in tuna canning. If we included workers who manufacture cans for the company and would lose their jobs if the cannery relocated, the estimates of job loss would be higher. Additionally, our estimate does not take into account the likely effects that actions taken by American Samoa's tuna canning industry would have on other businesses.

Appendix VIII: Comparison of Labor and Tariff Costs for Four Potential Tuna Canning Business Models

Figure 16: Comparison of Wage and Tariff Costs for Tuna Canneries Using Alternate Business Models



Sources: GAO analysis of information from tuna industry data and U.S. tariff law; Map Resources (map). | GAO-17-83

Notes: Wages used are \$1.20 per hour for the tariff-free country and \$14.00 per hour for the United States. American Samoa hourly wages are based on the currently scheduled minimum wage. For Model D, we assumed that 50 percent of production (20 percent for U.S. government contracts and 30 percent for other production) would remain in American Samoa and the remaining 50 percent of

**Appendix VIII: Comparison of Labor and Tariff
Costs for Four Potential Tuna Canning
Business Models**

production would move to a country that exports canned tuna tariff free to the United States. For related analysis, see GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, [GAO-11-427](#) (Washington D.C.: June 23, 2011). This analysis was first introduced in GAO, *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).

Appendix IX: Projected Timeframes for American Samoa Minimum Wages to Equal Federal Minimum Wage

Table 10 shows projected timeframes for American Samoa minimum wages, if indexed to the American Samoa cost of living on an annual basis, to converge with the current federal minimum wage of \$7.25 given hypothetical annual increases in the cost of living.

Table 10: Projected Timeframes for American Samoa Minimum Wage to Equal the Current Federal Minimum Wage under an Indexed Approach, Given Hypothetical Annual Increases in the Cost of Living

Annual percentage increase in cost of living	Timeframe for convergence ^a
0.5	2056-2110
1.0	2036-2062
1.5	2029-2047
2.0	2026-2040
2.5	2024-2035
3.0	2023-2032
3.5	2022-2030
4.0	2021-2028
4.5	2021-2027
5.0	2020-2026
5.5	2020-2025
6.0	2020-2024
6.5	2020-2024
7.0	2019-2023
7.5	2019-2023
8.0	2019-2022
8.5	2019-2022
9.0	2019-2022
9.5	2019-2022
10.0	2018-2021

Source: GAO analysis. | GAO-17-83

^aThe lower and upper bounds of the timeframes shown are the years when, respectively, the 2015 highest American Samoa minimum wage—\$5.99, for the stevedoring (dockworker) sector— and lowest American Samoa minimum wage—\$4.58, for the garment manufacturing sector—are projected to equal the current federal minimum wage of \$7.25. In calculating the timeframes, we assumed that minimum wage adjustments would begin in 2017, and minimum wages were rounded to the nearest \$0.01 after applying the annual percentage increase in the cost of living.

**Appendix IX: Projected Timeframes for
American Samoa Minimum Wages to Equal
Federal Minimum Wage**

Table 11 shows the projected timeframes for the American Samoa minimum wage to equal the current federal minimum wage of \$7.25 under a schedule-based approach, given varying hypothetical amounts and frequency of scheduled increases.

Table 11: Projected Timeframes for American Samoa Minimum Wages to Equal the Federal Minimum Wage under a Schedule-Based Approach, Given Varying Hypothetical Amounts and Frequency of Scheduled Increases

Amount of increase	Frequency of increases ^a				
	1 year	2 years	3 years	4 years	5 years
\$0.60	2019-2021	2021-2025	2023-2029	2025-2033	2027-2037
\$0.55	2019-2021	2021-2025	2023-2029	2025-2033	2027-2037
\$0.50	2019-2022	2021-2027	2023-2032	2025-2037	2027-2042
\$0.45	2019-2022	2021-2027	2023-2032	2025-2037	2027-2042
\$0.40	2020-2023	2023-2029	2026-2035 ^b	2029-2041	2032-2047
\$0.35	2020-2024	2023-2031	2026-2038	2029-2045	2032-2052
\$0.30	2021-2025	2025-2033	2029-2041	2033-2049	2037-2057
\$0.25	2022-2027	2027-2037	2032-2047	2037-2057	2042-2067
\$0.20	2023-2030	2029-2043	2035-2056	2041-2069	2047-2082
\$0.15	2025-2034	2033-2051	2041-2068	2049-2085	2057-2102
\$0.10	2029-2043	2041-2069	2053-2095	2065-2121	2077-2147

Source: GAO analysis. | GAO-17-83

^aThe lower and upper bounds of the timeframes shown are the years when, respectively, the 2015 highest American Samoa minimum wage—\$5.99, for the stevedoring (dockworker) sector—and lowest American Samoa minimum wage—\$4.58, for the garment manufacturing sector—are projected to equal the current federal minimum wage of \$7.25. In calculating the timeframes, we assumed that minimum wage adjustments would begin in 2017.

^bUnder the current schedule, American Samoa's minimum wages will increase by \$0.40 every 3 years, with the next increase scheduled for 2018. Because our calculations assume that minimum wage adjustments begin in 2017, the projected timeframe for equaling the current federal minimum wage under a hypothetical schedule of increases of the same amount and frequency differs slightly from the actual projected timeframe of 2027-2036.

Appendix X: Examples of Combining an Indexed Approach with a Schedule-Based Approach

Example 1

If an indexing approach were selected as the primary adjustment mechanism to increase American Samoa's minimum wages, it could be combined with a target timeframe and schedule for equaling the federal minimum wage. Table 12 presents a hypothetical example of supplementing indexed increases to American Samoa minimum wages during periods of relatively low inflation. This example is based on the following assumptions, chosen for illustrative purposes only:

- an American Samoa industry sector minimum wage of \$4.58 for calendar year 2016;
- a primary adjustment mechanism of indexing future increases to annual changes in American Samoa's cost of living; and
- a secondary adjustment mechanism that calculates a comparative minimum wage for 2017, based on a schedule for equaling the current federal minimum wage of \$7.25 by 2027 through annual increases of \$0.25 beginning in 2017.

Table 12: Hypothetical Example of Supplementing Indexed Increases to American Samoa Minimum Wages during Periods of Relatively Low Inflation

U.S. federal minimum wage	\$7.25
American Samoa industry sector minimum wage in 2016	\$4.58 ^a
Hypothetical percentage increase in American Samoa's cost of living for prior year	2.0 ^b
<i>Primary mechanism:</i>	\$4.67 ^c
New 2017 American Samoa minimum wage based on indexing to the cost of living	
<i>Secondary mechanism:</i>	\$4.83 ^d
Comparative 2017 American Samoa minimum wage based on schedule	
Supplemental increase to keep minimum wages on schedule toward reaching the federal minimum wage	Up to \$0.16 ^e

Source: GAO analysis. | GAO-17-83

^aThis hypothetical example uses the lowest 2015 American Samoa industry sector minimum wage (for garment manufacturing), but any minimum wage amount could be used. It is assumed that the minimum wage would remain constant in 2016.

^bThe hypothetical percentage increase in the American Samoa cost of living is relatively low compared with the actual average annual percentage increase in the cost of living for American Samoa in 2006 through 2015 (4.4 percent), as measured by the American Samoa consumer price index.

^cThe new 2017 minimum wage reflects an increase of \$0.09 ($\4.58×0.02, rounded to the nearest cent).

Appendix X: Examples of Combining an Indexed Approach with a Schedule-Based Approach

^dThe comparative 2017 minimum wage reflects an increase of \$0.25, based on a hypothetical schedule of \$0.25 annual increases that would result in the industry sector minimum wage of \$4.58 equaling the federal minimum wage of \$7.25 in 2027.

^eThe supplemental increase could be any amount up to the difference between the new 2017 minimum wage (based on indexing to the cost of living) and the comparative 2017 minimum wage (based on the schedule for equaling the federal minimum wage by 2027), or \$0.16 (\$4.83 minus \$4.67).

Example 2

If a scheduled-based approach were selected as the primary adjustment mechanism, it could be combined with an indexing component to ensure that the scheduled increases keep pace with American Samoa’s cost of living. Table 13 presents a hypothetical example of supplementing the amount of scheduled increases to American Samoa’s minimum wages during periods of relatively high inflation. This example is based on the following assumptions, chosen for illustrative purposes only:

- an American Samoa industry sector minimum wage of \$4.58 for calendar year 2016;
- a primary adjustment mechanism of scheduled annual increases of \$0.20, beginning in 2017 and continuing until the American Samoa minimum wage equals the current federal minimum wage of \$7.25 in 2030; and
- a secondary adjustment mechanism that monitors an index of the American Samoa cost of living and calculates a comparative minimum wage for 2017 based on changes in the cost of living.

Table 13: Hypothetical Example of Supplementing the Amount of Scheduled Increases to American Samoa Minimum Wages during Periods of Relatively High Inflation

U.S. federal minimum wage	\$7.25
American Samoa Industry sector minimum wage in 2016	\$4.58 ^a
Hypothetical percentage increase in American Samoa’s cost of living for prior year	7.0 ^b
<i>Primary mechanism:</i> New 2017 American Samoa minimum wage based on schedule	\$4.78 ^c
<i>Secondary mechanism:</i> Comparative 2017 American Samoa minimum wage based on indexing to the cost of living	\$4.90 ^d
Supplemental increase to keep minimum wages on pace with the cost of living	Up to \$0.12 ^e

Source: GAO analysis. | GAO-17-83

Appendix X: Examples of Combining an Indexed Approach with a Schedule-Based Approach

^aThis hypothetical example uses the lowest 2015 American Samoa industry sector minimum wage (for garment manufacturing), but any minimum wage amount could be used. It is assumed that the minimum wage would remain constant in 2016.

^bThe hypothetical percentage increase for the American Samoa cost of living for the prior year is relatively high compared with the actual average annual percentage increase in the cost of living for American Samoa in 2006 through 2015 (4.4 percent), as measured by the American Samoa consumer price index.

^cThe new 2017 American Samoa minimum wage reflects an increase of \$0.20 based on a hypothetical schedule of \$0.20 annual increases that would result in the industry sector minimum wage of \$4.58 equaling the federal minimum wage of \$7.25 in 2030.

^dThe comparative 2017 American Samoa minimum wage reflects an increase of \$0.32 ($\4.58×0.07, rounded to the nearest cent).

^eThe supplemental increase could be any amount up to the difference between the new 2017 minimum wage (based on the schedule) and the comparative 2017 minimum wage (based on indexing to the cost of living), or \$0.12 ($\4.90 minus $\$4.78$).

Appendix XI: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

November 3, 2016

Mr. David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Gootnick:

Thank you for providing the Department of the Interior (Department) the opportunity to review and comment on the draft Government Accountability Office (GAO) report entitled, *American Samoa: Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level (GAO 17-83)*. The Department appreciates GAO's review of the history of minimum wage implementation in American Samoa.

The Department's Office of Insular Affairs (OIA) reviewed the draft report and offers the following general comments.

The report correctly depicts the economic challenges of the Territory of American Samoa (Territory) in that the Territory is a remote, small group of islands (76 square miles) located in the South Pacific Ocean, with limited resources to sustain a population of approximately 57,400. The American Samoa Government (ASG) is the largest employer in the Territory and relies heavily on Federal financial assistance which provides over 50 percent of the ASG's total revenues. The only other major employers in the Territory are the two tuna canneries, one of which recently announced indefinite production suspension effective December 11, 2016.

The report points out that compared to the U.S. States, the Territory has a significantly lower median household income and higher levels of poverty. Based upon the most recent Census Report (2010), the Territory's median household income was \$23,892, which is 47 percent of the U.S. median household income; the Territory's poverty rate was 57.8 percent, while the U.S. rate for that year was 15.1 percent. The report also noted that although the Territory's minimum wages have generally remained below the Federal minimum wage rate, they have generally kept pace with the cost of living in the Territory.

The report identified two broader approaches for adjusting minimum wages in the Territory, each with its own advantages and challenges. One method would involve adjusting minimum wages in American Samoa based on a cost of living index. The other would establish a schedule of increases toward the goal of reaching the Federal minimum wage rate. Much more research and study are required to ascertain the full range of benefits and costs of these methods and, ultimately, the Congress may have to act on either method or an alternate approach.

**Appendix XI: Comments from the Department
of the Interior**

The report also provides information about countries which allow remote areas under their jurisdiction to set their own minimum wage rates for the local labor market. OIA believes it is critical to consider the particular circumstances of the Territory when adopting a process for adjusting minimum wage rates. Setting a minimum wage rate without considering the overall economic and labor market realities of the Territory may result in unintended consequences such as increasing the ASG's reliance on Federal financial assistance. An in-depth review of the suggested approaches by appropriate personnel within the Departments of the Interior, Labor and Commerce, along with Territory and industry experts, would result in a method of adjusting minimum wages in the Territory which would keep pace with the Territory's cost of living and converge with the Federal minimum wage rate.

If you have any questions, please feel free to communicate with me directly at (202) 208-4736 or nikolao_pula@ios.doi.gov, or Mr. Basil Ottley, Director of Policy for OIA, at (202) 208-5655 or basil_ottley@ios.doi.gov.

Sincerely,



Nikolao I. Pula
Director
Office of Insular Affairs

Appendix XII: Comments from the Department of Labor

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

U.S. Department of Labor

Wage and Hour Division
Washington, DC 20010



Mr. David Gootnik
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Mr. Gootnik:

On behalf of the U.S. Department of Labor, I want to thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft report entitled: "American Samoa: Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level" (GAO-17-83). The Department appreciates GAO's thorough research and analysis and submits the following clarifying comment regarding evidence of job loss as a result of increased minimum wages.

The GAO report included the following as footnote 25:

Job losses have been cited as a potential negative result of introducing, or raising, minimum wages. For example, in February 2014, the Congressional Budget Office issued a study of two options for raising the federal minimum wage, in a series of steps, to \$9.00 or to \$10.10. The study included a range of estimated outcomes, with midpoint estimations that these increases would reduce total U.S. employment by about 100,000 or 500,000 workers, respectively. At the same time, the study found that the increases raised earnings for 7.6 million or 16.5 million workers. See Congressional Budget Office, The Effects of a Minimum Wage Increase on Employment and Family Income (Washington, D.C.: Feb 2014)

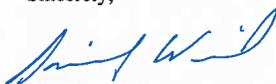
See comment 1.

With varying degrees of reliability, studies examining the employment impact of increases in the minimum wage have found a range of effects. The majority of academic studies have concluded that minimum wage increases have little to no significant effect on employment of low wage workers. As noted, the Congressional Budget Office's (CBO) February 2014 study did estimate reductions in employment resulting from minimum wage increases. However, CBO acknowledged significant uncertainty in those estimates, including a 66.7% confidence interval with zero employment effect. The study also found that the minimum wage increases raised earnings for 7.6 million or 16.5 million workers. These estimates do not include the CBO estimate of 4.1 million or 8.0 million workers earning slightly above the proposed minimum wage whose wages would increase due to "spillover" effects. Furthermore, CBO finds that raising the minimum wage would increase income for millions of middle-class families, on net, accounting for

estimates of job losses. The extra purchasing power for those workers would expand aggregate demand and strengthen the economy. Lastly, CBO finds that raising the minimum wage would lift 300,000 or 900,000 workers out of poverty. The Department believes this additional context is critical to consider when assessing the research cited in the report.

Again, thank you for the opportunity to review the draft report. Please feel free to contact me if you have any questions.

Sincerely,



Dr. David Weil
Administrator

cc: Mr. Andrew Sherrill
Director
Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G. Street, N.W.
Washington, D.C. 20548

Mr. Oliver Richard
Director
Applied Research and Methods
U.S. Government Accountability Office
441 G. Street, N.W.
Washington, D.C. 20548

GAO Comments

1. The Department of Labor suggested that our draft did not sufficiently acknowledge uncertainty in the employment impact findings of a 2014 CBO study of potential minimum wage increases and also did not adequately describe the study's findings regarding such increases' beneficial impacts. We concluded that additional information on uncertainty in the study's employment impacts was not needed but that additional information on its findings regarding beneficial impacts would help to more fully convey the report's content. We therefore added information on the number of people that the CBO study estimated would be raised out of poverty by the minimum wage increases it examined.

Appendix XIII: Comments from the American Samoa Government

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



LOLO M. MOLIGA
GOVERNOR

OFFICE OF THE GOVERNOR
AMERICAN SAMOA GOVERNMENT
Telephone: (684)633-4116 Fax: (684)633-2269

LEMANU P. MAUGA
LIEUTENANT GOVERNOR

November 4, 2016

Serial: 659

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

Dear Mr. Gootnick:

Please accept the gratitude of the American Samoa Government for the advanced opportunity to review the first draft of your report responding to the two specific engagements mandated by Pub. Law 114-61: (1) Review local and federal earnings information, collect data from American Samoa employers through key industry questionnaire and (2) Review methods used to set minimum wages in the States and around the world. This GAO report addresses the second criteria set by Congress relative to alternative methods to determine increases in minimum wages.

The people of the Territory of American Samoa are very appreciative of the commitment by the Congress of the United States to ensure that workers receive a salary that would allow them to address the minimum costs of living. While this paternal sentiment is amply lauded, setting the minimum wage for the Territory's workers without fixing it to the prevailing economic conditions and future economic outlook predicts countervailing impact on Congress's vision for the people of the Territory of American Samoa.

The report makes reference to the high level of poverty in American Samoa in comparison to the United States. Notwithstanding, the method used to determine poverty in the United States might not capture the cultural idiosyncrasies that significantly differentiate factors causing poverty in the United States. For example, we do not have homelessness in American Samoa nor do we have anyone starving. Every resident in American Samoa has direct ties to extended families which assume the responsibility for his or her care. The family might not have cash but they can live off the land or go fishing.

For years, unsuccessful attempts have been made to dispel the misnomer associated with comparing American Samoa to states of the Union. Had we been successful in doing that the SICs would not have been eliminated because all cultural issues and their impact on the minimum wage determination for American Samoa would have been thoroughly considered. The fact that we have not been able to attract other large American companies to locate facilities to build other industries bears testament to significant differences between the economy of the states and the Territory of American Samoa.

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See comment 1.

As stated earlier in our original comments on GAO's initial draft of the report on "Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level", we are appreciative of the genuine attempt by the authors to be comprehensive and objective in its coverage especially factors impacting American Samoa's minimum wage. Moreover, we commend the efforts to highlight federal incentives which improved the competitive advantage of tuna canning plants located in American Samoa along with the documentation of the erosion of the effectiveness of these federal incentives because of International Bilateral Trade Agreements such as the Pacific Trade Treaty being considered.

There is disappointment however, that while GAO examined the history of minimum wage in American Samoa, examined the status of the territory's economy including changes in employment, earnings, and key industries since scheduled minimum wage increases began in 2007, as well as examining alternative approaches that could be used to ensure that Minimum Wages in American Samoa could keep pace with the cost of living and eventually equal the federal minimum wage, it did not extend its examination to cover other programs and policies that could supplement the incomes of low-wage workers or possible adjustments in U.S. Trade and Tax policies that might help offset negative impacts of minimum wage increases on employers.

GAO has established a positive correlation between increased wages and the decline in competitive advantage of our only major industry (tuna canning) and the subsequent drop in employment. Chicken of the Sea's Samoa Packing terminated its tuna canning operation on September 30, 2009. The report cites the drop in cannery employment by 50% since the 2007 level. The mandated Congressional wage hikes boosted earnings for the cannery workers while jobs fell and wages of all other employees fell. The report rightly acknowledges the severe adverse effect of continuing minimum wage hikes given the other peripheral challenges being faced by the industry such as decreased access to fishing grounds, erosion in the preferential trade status, increasing cost of fish due to the escalating cost of EEZ fishing days, and termination of federal incentives.

Further, federal incentives provided by the federal government to sustain the competitive advantages of companies operating out of American Samoa have methodically withdrawn and phased out. Instead, the federal government has entered into bilateral treaties which undermine the competitive advantage of our canneries. The Pacific Trade Treaty that is being discussed will again erode American Samoa's economic advantages. The IRC Section 936 Tax Incentive Initiative has been phased out. Section 30(A) of the above scheme will lapse at the end of this year.

Realistically, we don't foresee the American Samoa Minimum Wage will ever meet the federal minimum because as long as existing federal policies preempts the ability of the Territory of American Samoa to build its economy, the result will be instant termination of employment consequential to the high level in the local minimum wage.

We offer the following as the summary of our overall review of the GAO Report, "American Samoa: Alternatives for Raising Minimum Wages to Keep Pace with the Cost Of Living and Reach the Federal Level (GAO-17-83)

First, we had hoped that GAO would examine other programs and policies which continue to cripple our efforts to diversify our economy. For example, tourism development is the most natural and the most feasible industry with significant diversification potentials. Regrettably the federal 'cabotage' policy has effectively decimated any attempts to develop this economic development potential. Tri Marine's Samoa Tuna Processing has announced closure of its tuna canning plant facility by December 11, 2016 instantly curtailing 700 jobs. It makes no sense to us for the federal government to prohibit us from capitalizing on the development of our tourism industry and then proceeds to kill the only industry which has sustained our economy and the lives of our people all these years. The GAO's examination should focus on highlighting the adverse impact of these opposing federal policies and programs.

We recommend therefore that we would rather see that a pre and post data collection method and analysis provide an actual impact or effect of minimum wage increase on workers and industries in American Samoa rather than an assumption-based study.

The GOA team mentioned in the draft that they had conducted this performance audit from November 2015 through December 2016 in accordance with generally accepted government auditing standards. Further GAO team has reported that the evidence obtained provides a reasonable basis for their findings and conclusions based on their audit objectives. Further, that the GAO team collected data pertaining to history of minimum wage implementation in American Samoa, analyzed and interpreted the results effectively. The GAO team has also done an alternate approach study for increasing minimum wages to keep pace with the cost of living and to reach federal level. This proposed report suggests the following approaches to increase minimum wages to reach federal level.

- First approach is by indexing minimum wages to the cost of living;
- Second approach is by using a schedule;
- Also suggesting that aspects of each approach could also be combined, as needed, with respect to the amount and timing of future increases to the territory's minimum wages;
- Moreover, by considering the concerns about potential negative effects of increasing American Samoa minimum wage on the territory's economy, other design options could be incorporated as efforts to safeguard against such effects.

Second, our comments on adjusting American Samoa's minimum wages on the basis of changes in a cost-of-living index are:

- a. since American Samoa's minimum wage is fixed based on federal minimum wage (based on U.S. median income and other U.S. economic indicators), it is inappropriate to use cost of living adjustment based on American Samoa CPI. American Samoa GDP, population structure, other economic indicators, economic activities, spending pattern, median family income, family structure, expenditure pattern etc. are not only dissimilar

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See comment 2.

but are completely incomparable from continental mainland states.

- b. GAO needs to use U.S. CPI-U or CPI-W to adjust the cost of living adjustments, because federal minimum wage derivation data and American Samoa CPI derivation data are two beyond comparison data sets.
- c. If GAO can suggest cost of living adjustment based on US CPI-U or CPI-W, as we can see from the Figure 10, this procedure may allow more time span for government and businesses on-island to reach the federal minimum wage. This could be done by using alternate approach and/or continue to increase by \$.40 every 3 years as scheduled or using both procedures and the impact of minimum wage increase may be reduced compared to a short span.

Our concern and objection to increasing the American Samoa minimum wage to federal minimum wage are also echoed by the four external reviewers on the following identified issues by GAO:

Potential consequences of increasing minimum wages in American Samoa:

- GAO reported three of the four external reviewers expressed their concern that increasing minimum wages in American Samoa may result in negative economic effects, given American Samoa's current economic conditions.
- One reviewer suggested that further study of minimum wage increases' possible effects on American Samoa workers and industries—including a study to identify industries that might tolerate larger increases without adverse effects—is warranted.

Applicability of the federal minimum wage level to American Samoa:

- Three external reviewers noted that raising American Samoa minimum wages to equal the federal minimum wage might not be appropriate for the territory given the differences between its economy and that of the 50 U.S. states.
- One reviewer remarked that raising minimum wages to that level could be viewed as somewhat artificial in light of the territory's economic conditions.

Suitability and feasibility of linking minimum wages to American Samoa's cost of living:

- One reviewer suggested that in small economies, such as American Samoa's, increasing the minimum wage might in turn lead to increases in the cost of living.
- Another pointed out that indexing to the cost of living might not be feasible in American Samoa. Given that a cost-of-living index is typically based on household expenses, one reviewer pointed out that the standard definition of "household" used in the United States might not apply in American Samoa given of the territory's cultural ethos of sharing with extended family and fellow villagers.

Setting minimum wages in American Samoa commensurate with, not equal to, the federal minimum wage:

- One reviewer suggested setting a minimum wage in American Samoa that is proportionate, rather than equal, to the federal minimum wage. For example, if a full-time minimum wage worker in the United States earns, on average, 35 percent of the U.S. median household income, the American Samoa minimum wage would be set at 35 percent of the median household income in American Samoa. He observed that this approach would link minimum wage increases in American Samoa to improvements in the territory's median household income, relative to the U.S. median household income, thus reducing the potential for adverse economic effects.

In closing, a recommendation that may address the concerns of the external reviewers as well as public input from the industries-at-large is to pursue a U.S. DOL-constituted committee, similar to past SICs that include equal membership from both employer and employee pools.

Thank you for your consideration and opportunity to make comments to this proposed report.

Sincerely,



Lolo M. Moliga
Governor of American Samoa

Cc: Honorable Lemanu Peleti Mauga, Lieutenant Governor
Emil Friberg, Assistant Director, U.S. Government Accountability Office

GAO Comments

1. The American Samoa government expressed disappointment that we did not extend our examination to include (a) possible adjustments in U.S. trade and tax policies that could supplement the incomes of low wage workers or help offset the negative impacts of minimum wage increases on employers in the territory or (b) other federal programs and policies that may present obstacles to the territory's efforts to encourage economic diversification, such as restrictions on competition in passenger air carrier service. We recognize that adjustments in other federal policies or programs could mitigate possible negative effects of minimum wage increases, and acknowledge the government's concern about air service regulations. However, in-depth examination of these topics was outside the scope of our work.
2. With regard to indices that could be used to adjust minimum wages to keep pace with the territory's cost of living, the American Samoa government commented that the American Samoa Consumer Price Index (CPI) would be an inappropriate choice and suggested that we support the application of the U.S. CPI for All Urban Workers or the U.S. CPI for Urban Wage Earners and Clerical Workers instead. The scope of our work was limited to identifying alternative approaches to setting minimum wages. Therefore, we presented a number of indices that could be applied but did not recommend an index.

Appendix XIV: GAO Contact and Staff Acknowledgments

GAO Contacts

David Gootnick (202) 512-3149, or gootnickd@gao.gov

Andrew Sherrill (202) 512-7252, or sherrilla@gao.gov

Oliver Richard (202) 512-8424, or richardo@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Pedro Almoguera, Benjamin Bolitzer, Jillian Feirson, Emil Friberg, Michael McAtee, Clarita Mrena, David Perkins, and Seyda Wentworth made key contributions to this report. Benjamin Sinoff, Jill Lacey, Reid Lowe, Mary Moutsos, Mimi Nguyen, and Alexander Welsh provided technical assistance.

Related GAO Products

American Samoa and the Commonwealth of the Northern Mariana Islands: Economic Indicators Since Minimum Wage Increases Began. [GAO-14-381](#). Washington, D.C.: March 31, 2014.

American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began. [GAO-11-956T](#). Washington, D.C.: September 23, 2011.

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

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.

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