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AMERICAN SAMOA
AND COMMONWEALTH
OF THE NORTHERN
MARIANA ISLANDS

Wages, Employment,
Employer Actions,
Earnings, and Worker
Views Since Minimum
Wage Increases Began



GAO

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Highlights of [GAO-10-333](#), a report to congressional committees

Why GAO Did This Study

In 2007, the United States enacted a law incrementally raising the minimum wages in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI). The law applied the first \$.50 per hour increase in July 2007 and mandated additional increases in each subsequent year until the minimum wages reach the level of the U.S. minimum wage—currently \$7.25 per hour. American Samoa's lowest paid will reach that wage in 2016, and the CNMI in 2015. In American Samoa, one of two tuna canneries employing almost a third of workers closed in September 2009. In the CNMI, where the garment industry was one of two major employers, the last garment factory closed in early 2009.

The American Recovery and Reinvestment Act requires GAO to report annually on the impact of the minimum wage increases in American Samoa and the CNMI. In this report GAO describes, since the increases began, wages, employment, employer actions, inflation-adjusted earnings, and worker views. GAO reviewed existing information from federal and local sources. GAO also collected data from large employers (at least 50 employees) through a questionnaire and from small employers and workers through discussion groups, in addition to conducting interviews during visits to each area.

GAO shared the report with relevant federal agencies and the governments of American Samoa and the CNMI and incorporated their comments as appropriate.

View [GAO-10-333](#) or [key components](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

AMERICAN SAMOA AND COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Wages, Employment, Employer Actions, Earnings, and Worker Views Since Minimum Wage Increases Began

What GAO Found

In American Samoa, the first minimum wage increase raised the wages of about three-quarters of workers at private sector employers that responded to GAO's questionnaire. June 2009 wage data from GAO's questionnaire indicate that by 2016, the minimum wage increases would affect the wages of close to 95 percent of those employers' private sector workers. Earnings data show that employment grew from 2006 to 2008, while questionnaire responses show that employment dropped from 2008 to 2009; since the September 2009 closure of one tuna cannery, employment has very likely continued to drop. Cannery officials said that minimum wage increases were a significant contributing factor in the closure of one cannery, in addition to other factors. Public and private sector officials expressed concern about the significant impact on employment if future minimum wage increases lead the remaining cannery to close or make attracting new industries more difficult. Many employers reported having taken cost-cutting actions, such as freezing hiring and cutting worker benefits, since the increases began. Employers also reported planning actions such as leaving American Samoa or closing by the end of 2010. More employers attributed their actions to the minimum wage increases than to other factors. Federal data show that median annual inflation-adjusted earnings in American Samoa declined by about 6 percent from 2006 to 2008. GAO estimated that inflation-adjusted earnings for full-time minimum wage workers who retained their jobs and hours rose by about 14 percent. In discussion groups, workers generally said that their support for the wage increases had dwindled because of concerns about issues such as the cannery closure, job insecurity, and loss of benefits.

In the CNMI, the first minimum wage increase raised wages for about a third of workers at private sector employers that responded to GAO's questionnaire. June 2009 wage data from GAO's questionnaire indicate that the future increases will affect the wages of more than 80 percent of those employers' workers by 2015. CNMI government data show that following the 2007 wage increase, employment continued an existing downward trend largely reflecting the garment factory closures. Small employers and other private sector officials expressed mixed views about the future increases, and many expressed greater concern about immigration changes. In questionnaire responses, employers reported having taken cost-cutting actions, such as freezing hiring, since the increases began and also reported planning such actions by the end of 2010. Employers attributed their actions both to the minimum wage increases and to other factors. Based on an analysis of responses from CNMI employers in the hotel industry, GAO found that raising room rates to cover higher wage costs may cause a 2.6 to 13.7 percent decline in visits to the CNMI. CNMI government tax data show that average annual inflation-adjusted earnings declined by about 6 percent from 2006 to 2008. GAO estimated that annual inflation-adjusted earnings for minimum wage full-time workers who retained their jobs and hours rose by about 12 percent. In discussion groups, CNMI workers generally expressed support for the minimum wage increases and cited other factors affecting living standards.

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Abbreviations

CNMI	Commonwealth of the Northern Mariana Islands
CPI	Consumer Price Index
DOC	U.S. Department of Commerce
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor
FLSA	Fair Labor Standards Act
GDP	Gross Domestic Product
HIES	Household, Income, and Expenditures Survey
SSA	U.S. Social Security Administration
WIC	Women, Infants, and Children

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In 2007, the United States enacted legislation that incrementally applies the U.S. minimum wage to American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).¹ The law applied the first minimum wage increase of \$.50 per hour to American Samoa and the CNMI in July 2007 and mandated subsequent \$.50 increases each year until the minimum wages reach the U.S. minimum wage—currently \$7.25 per hour.² Previously, both U.S. insular areas had minimum wages lower than that of the 50 U.S. states. American Samoa’s minimum wage was set for each of 18 industries by the U.S. Department of Labor (DOL) under biennial reviews; its minimum wages ranged from \$2.68 to \$4.09 in 2006, and the lowest paid workers will reach a minimum wage of \$7.25 in 2016. The CNMI had authority to set its own minimum wage under its 1976 Covenant with the United States; the CNMI’s minimum wage was \$3.05 as of 2006 and is scheduled to reach \$7.25 in 2015. To date, the minimum wages in both American Samoa and the CNMI have been increased by \$.50 three times since enactment of the law.

The economies of both American Samoa and the CNMI face major challenges. American Samoa’s private sector economy is largely based on

¹U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub.L. No. 110–28, §8103, 121 Stat. 188 (May 25, 2007). Under the law, any future changes to the minimum wage enacted under U.S. law for the 50 states, District of Columbia, U.S. Virgin Islands, Guam, and Puerto Rico also will apply to American Samoa and the CNMI. For changes enacted before American Samoa and the CNMI would have reached the current U.S. minimum wage, the minimum wages in the two areas would continue to increase in \$.50 increments until they reach the federal minimum wage, extending beyond the current time frames of 2016 and 2015. After each area reaches the U.S. minimum wage, any additional increase in the U.S. minimum wage would apply to American Samoa and the CNMI on the same schedule as for the 50 U.S. states.

²The 2007 law required minimum wage increases in May of 2008 and in May each year thereafter, until the American Samoa and CNMI minimum wages converged with the U.S. minimum wage. However, on December 16, 2009, the President signed H.R. 3288, providing fiscal year 2010 appropriations for several federal agencies, which includes a provision delaying the month of the minimum wage increases implementation in each scheduled year. House Conference Report 111-366 includes a general provision that delays the American Samoa and CNMI minimum wage increases until September 30, 2010, and until September 30 of each year thereafter until the minimum wages converge.

the tuna canning industry, and the closure of one of its two tuna canneries in September 2009 significantly affects the labor market and economy. Before the first minimum wage increase in 2007, about one-third of workers in American Samoa were employed by the two canneries, and more than three-quarters of cannery employees were foreign workers from neighboring Samoa, an independent country. The CNMI's economy has been affected by the departure of its garment industry and fluctuation in its tourism industry. Until recently, the garment industry was central to the CNMI economy and employed close to a third of all workers; however, by early 2009, the last garment factory had closed. The CNMI also faces uncertainty due to the application of U.S. immigration law to the commonwealth, ending decades of the CNMI's control over its own immigration system.³ U.S. law established federal control of CNMI immigration on November 28, 2009,⁴ with provisions affecting employers' access to foreign workers.⁵ In 2005, foreign workers represented a majority of the CNMI labor force and outnumbered U.S. citizens in most industries.

The American Recovery and Reinvestment Act of 2009 requires that GAO report annually on the impact of past and future minimum wage increases in American Samoa and the CNMI.⁶ This report describes, since the

³Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008).

⁴The Secretary of Homeland Security elected to delay the transition period start date from June 1, 2009, to November 28, 2009, as permitted by the law. U.S. immigration law was applied to the CNMI November 28, 2009, as scheduled; however, implementation of the CNMI worker permit program was delayed following a federal court injunction just before the transition period start date that requires the Department of Homeland Security to allow more time for public comment on the proposed program regulations.

⁵In 2008, we issued a report on the factors that would affect the impact of the law's implementation on the CNMI economy, in particular the CNMI's (1) labor market, including foreign workers; (2) tourism sector; and (3) foreign investment. See GAO, *Commonwealth of the Northern Mariana Islands: Managing Potential Economic Impact of Applying U.S. Immigration Law Requires Coordinated Federal Decisions and Additional Data*, [GAO-08-791](#) (Washington, D.C.: Aug. 4, 2008). Also see GAO, *Commonwealth of the Northern Mariana Islands: Pending Legislation Would Apply U.S. Immigration Law to the CNMI with a Transition Period*, [GAO-08-466](#) (Washington, D.C.: Mar. 28, 2008) and GAO, *Commonwealth of the Northern Mariana Islands: Coordinated Federal Decisions and Additional Data Are Needed to Manage Potential Economic Impact of Applying U.S. Immigration Law*, [GAO-09-426T](#) (Washington, D.C.: May 19, 2009).

⁶Pub. L. No. 111-5, §802 (February 17, 2009). GAO is required to report on the minimum wage increases between March 15 and April 15 of 2010 and each year thereafter until the minimum wages reach the U.S. minimum wage.

minimum wage increases began, (1) wages, (2) employment, (3) employer actions, (4) inflation-adjusted earnings, and (5) workers' views regarding the minimum wage increases.

In preparing this report, we reviewed and analyzed existing information from federal sources:

- We interviewed officials from the U.S. Departments of the Interior (DOI), Commerce (DOC), and DOL and from the Social Security Administration (SSA). We reviewed relevant reports and data from DOL and other U.S. government sources. We also reviewed U.S. minimum wage laws and other relevant laws and regulations. We did not focus on the extent to which laws were properly enforced or implemented, although we considered enforcement as appropriate.⁷
- We obtained SSA data on the earnings, employment, and demographic characteristics of individual taxpayers in American Samoa and the CNMI from 2005 to 2008. While the SSA data cover all types of workers in American Samoa and were sufficiently reliable for our purposes, they exclude CNMI workers who are not subject to SSA withholding taxes.⁸ We have chosen not to report the CNMI SSA data because of these coverage gaps.

In addition, because key federal sources of data on the U.S. labor market do not cover the insular areas, we collected our own data in each area.⁹

- In both American Samoa and the CNMI we collected detailed data from large employers—those with at least 50 employees—including through a questionnaire that covered employment, wage structure, past and planned employer actions, and related topics for 2006 to 2009. The respondents to our questionnaire employed about 72 percent of the American Samoa total

⁷In addition, the scope of our study does not include workers in the underground economy.

⁸The SSA data do not cover CNMI government employees and foreign workers from the Philippines and South Korea.

⁹The federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the Current Population Survey and the Current Employment Statistics program, do not cover these insular areas. The Office of Insular Affairs of DOI has provided technical assistance to American Samoa and the CNMI to help with data collection, including funding for the 2005 Household, Income, and Expenditures Surveys (HIES) and past surveys. However, this assistance has not generated the scope of data collected by federal sources for the United States more generally.

workforce and about 29 percent of the CNMI total workforce, excluding garment factories, which had all closed by the time of our questionnaire.¹⁰ American Samoa questionnaire respondents included the two tuna canneries and other employers in the sectors of manufacturing, wholesale and retail trade, food services, hotel, construction, transportation, publishing and communication, and health care, as well as the American Samoa government and other public sector employers. CNMI questionnaire respondents included hotels and other employers in the sectors of food service, utilities, construction, manufacturing, retail, and transportation, as well as the CNMI government and other public sector employers. Particularly for the CNMI, questionnaire responses are not necessarily representative of all workers and employers in each area. We weighted employers' responses by the number of workers they employ, and results of questionnaire responses are significantly affected by the responses of the two tuna canneries and the local government in American Samoa and by the local government in the CNMI.

- During visits to American Samoa and the CNMI, we conducted interviews and discussion groups with government officials, smaller employers, other private sector representatives, workers, and community members to obtain views and information on the minimum wage increases and related topics. In each area, we held an open public meeting, and we established e-mail accounts to obtain comments from the public. We visited American Samoa in August 2009, after one tuna cannery had announced that it would close, and we visited the CNMI in September 2009, after the closure of all garment factories.

We also analyzed available information from the local American Samoa and CNMI governments:

- We analyzed American Samoa administrative and survey data, including Consumer Price Index data and the American Samoa Department of the Treasury's tax data.
- We analyzed available CNMI administrative and survey data, including Consumer Price Index data and CNMI data on the number and earnings of workers from the CNMI Department of Finance's tax returns. The CNMI

¹⁰The American Samoa large-employer questionnaire responses covered 57 percent of the private sector workforce and about 99 percent of the public sector workforce in 2008. The CNMI large-employer questionnaire responses covered 20 percent of the private sector workforce, excluding garment factories, which had all closed by the time of our questionnaire, and about 87 percent of the total public workforce in 2008.

tax data provide ranges of earnings for both public and private sector workers and for both citizens and noncitizens, for 2005 to 2008.

- We also analyzed data on federally funded income-based programs administered by the insular area governments.

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

American Samoa Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

- *Wages.* Responses to our American Samoa large-employer questionnaire indicate that the hourly wages of about three-quarters of private sector workers employed by respondents were low enough to be affected by the first \$.50 minimum wage increase, in July 2007. From 2007 to 2009, as a result of the first three wage increases, median hourly wages rose by almost \$1.50 (44 percent) among tuna canning workers employed by questionnaire respondents, compared with \$1.00 (25 percent) among other private sector respondents' employees. In addition, the 2007 through 2009 wage increases narrowed the wage gap between the lowest and highest paid employees of questionnaire respondents by 37 percent. Based on American Samoa large-employer questionnaire responses about workers' wages as of June 2009, the minimum wage increases scheduled for 2010 through 2016 would affect the wages of close to 95 percent of those private sector workers by 2016.
- *Employment.* Available data show that from 2006 to 2007, the total number of people employed in American Samoa grew by 5.5 percent (from 17,551 to 18,518) and that from 2007 to 2008, employment growth slowed

to 3 percent (from 18,518 to 19,060). Questionnaire responses show that employment of workers employed by respondents dropped about 12 percent from 2008 to 2009. Although data for all of 2009 are not yet available, employment in American Samoa dropped further with the loss of 2,000 jobs when the cannery closed in September 2009. Public and private sector officials expressed concern about the significant impact on employment if future minimum wage increases led the remaining cannery to close or made it more difficult to attract new industries to the territory.

- *Employer actions.* American Samoa employers responding to our questionnaire reported having taken cost-cutting actions, including freezing hiring and reducing workers' benefits, since the minimum wage increases began. Employers also reported plans to reduce costs by the end of 2010, including laying off workers. Employers representing 84 percent of private sector workers employed by respondents, including the cannery that has now closed, said they planned to close or relocate. More employers attributed their actions largely to the minimum wage increases than attributed their actions to other factors, such as transportation and shipping costs. Tuna cannery officials said that minimum wage increases were a significant contributing factor in the closure of one cannery, in addition to other factors. Our analysis shows that outsourcing cleaning operations from low labor-cost areas, such as Thailand, provides opportunities to significantly reduce cannery operating costs.
- *Inflation-adjusted earnings.* Earnings data from SSA and consumer price data show that from 2006 to 2008, median inflation-adjusted earnings dropped by about 6 percent, resulting from a rise in median annual earnings of about 8 percent while local prices rose by about 15 percent. Although earnings data do not allow for a direct comparison of median and minimum-wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimate that inflation-adjusted earnings of full-time minimum wage workers who retained their jobs and full benefits rose by about 14 percent from 2006 to 2008.
- *Worker views.* Workers participating in discussion groups said that their support for the minimum wage increases had dwindled because of the closure of one cannery and uncertainty about the future of the remaining cannery, as well as concern about job security and reductions in benefits related to the wage increases. Workers also expressed an obligation to support extended families and the broader community negatively affected by the minimum wage increases. In addition, workers expressed a belief that wages had increased less than the cost of living. Cannery workers we spoke with generally opposed future minimum wage increases, but the attitudes of other community members varied.

See table 1 for key findings and appendixes III and V for detailed findings and tables on American Samoa.

Table 1: American Samoa Key Findings

Wages	
Percentage of private sector workers employed by large-employer questionnaire respondents in June 2007 with wages affected by first minimum wage increase (July 2007)	74 percent ^a
Percentage of private sector workers employed by large-employer questionnaire respondents in June 2007 with wages affected by first three minimum wage increases (July 2007, May 2008, and May 2009)	86 percent ^a
Percentage of private sector workers employed by large-employer questionnaire respondents in 2009 who would be affected by minimum wage increases through 2016	95 percent ^a
Employment	
Percentage change in numbers employed, 2006-2007	5.5 percent increase ^b
Percentage change in numbers employed, 2007-2008	3 percent increase ^b
Percentage change in numbers employed by large-employer questionnaire respondents, 2008-2009	12 percent decrease, ^a as well as direct loss of 2,000 jobs due to cannery closure; full extent of employment change unknown ^c
Employer actions	
Percentage of all employers that laid off hourly workers in 2007-2009 and percentage of those that attributed the action largely to past minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none"> • Employers representing 24 percent of workers employed by questionnaire respondents laid off hourly workers • Of those, employers representing 68 percent of workers employed by those respondents attributed the layoffs to past minimum wage increases^a
Percentage of private sector employers that plan to close or relocate by the end of 2010, and percentage of those that attributed the action largely to minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none"> • Employers representing 84 percent of workers employed by private sector questionnaire respondents planned to close or relocate • For each of those planned actions, employers representing 85-87 percent of workers employed by those respondents attributed their plans to minimum wage increases^a
Inflation-adjusted earnings	
Percentage change in inflation-adjusted earnings of median earners, 2006-2008	6 percent decrease ^{b,d}
Estimated percentage change in inflation-adjusted earnings of minimum wage earners who kept full-time employment, 2006-2008	14 percent increase ^{c,d}
Worker views	
Workers said that their support for the minimum wage increases had dwindled. ^e	

Source: GAO analysis of data from GAO large-employer questionnaire, SSA, Consumer Price Index, and GAO discussion groups.

Notes: Employers responding to GAO's questionnaire generally include those with 50 or more employees and exclude smaller employers, employers that had closed between 2007 and the date of our questionnaire, or employers that did not respond to the questionnaire. Although questionnaire responses covered about 72 percent of the American Samoa workforce, they are not necessarily representative of all American Samoa workers and employers. Percentages of employers reporting actions are weighted by each employer's total number of workers in 2009. Percentages of employers that attributed an action largely to minimum wage increases are weighted to reflect those employers' number of workers relative to all workers employed by respondents that reported the action. Because the tuna canneries and local government covered a large percentage of workers employed by all questionnaire respondents, these employers' responses significantly affected reported questionnaire data.

^aGAO analysis of responses to GAO's American Samoa large-employer questionnaire.

^bGAO analysis of SSA data.

^cGAO estimate.

^dGAO analysis of Consumer Price Index data.

^eGAO analysis of American Samoa discussion group results.

CNMI Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

- *Wages.* About a third of private sector workers employed by CNMI questionnaire respondents were directly affected by the first minimum wage increase, in July 2007, according to large-employer questionnaire responses. From 2007 through 2009, as a result of the first three wage increases, the median wage rose by about 19 percent in the tourism industry compared with about 18 percent for the rest of the private sector, for workers employed by questionnaire respondents. The gap between the lowest and highest paid workers narrowed by 9 percent. Based on questionnaire responses about workers' wages as of June 2009, the future minimum wage increases would affect the wages of 82 percent of those private sector workers by 2015.
- *Employment.* From 2006 through 2008, the total number of people employed fell by about 27 percent, according to CNMI government tax data, largely reflecting the garment factories' closure. Small employers and other private sector officials expressed mixed views about the future minimum wage increases, including concern that they would make it more difficult to attract new industries to the CNMI; however, many expressed greater concerns about changes to immigration law. Public sector officials said CNMI government employees will be more directly affected by future increases, increasing budget pressures.
- *Employer actions.* CNMI employers responding to our questionnaire reported having taken cost-cutting actions, such as freezing hiring, since the minimum wage increases began. Employers also reported planning to take such actions by the end of 2010, and some attributed their planned actions largely to the minimum wage increases. Employers also noted other factors, such as changes to immigration law and increased shipping and maintenance costs, that contributed to their actions. Based on an

analysis of responses from CNMI employers in the hotel industry, we found that raising room rates to cover higher wage costs may cause a 2.6 to 13.7 percent decline in visits to the CNMI.

- *Inflation-adjusted earnings.* CNMI government tax data and consumer price data show that, from 2006 to 2008, average inflation-adjusted earnings dropped by about 6 percent, resulting from a rise in average annual earnings of about 12 percent while local prices rose by about 19 percent. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimate that inflation-adjusted earnings for CNMI minimum wage workers who retained their jobs and full hours rose by about 12 percent from 2006 to 2008.
- *Worker views.* Workers participating in our discussion groups generally expressed support for the minimum wage increases and cited other factors affecting living standards. Participants observed that although the wage increases had led some employers to reduce benefits for foreign workers, the wage increases had benefited local workers. In addition, participants expressed concern about the implementation of U.S. immigration law.

See table 2 for key findings and appendixes IV and VI for detailed findings and tables on the CNMI.

Table 2: CNMI Key Findings

Wages	
Percentage of private sector workers employed by large-employer questionnaire respondents in June 2007 with wages affected by first minimum wage increase (July 2007)	36 percent ^a
Percentage of private sector workers employed by large-employer questionnaire respondents in June 2007 with wages affected by first three minimum wage increases (July 2007, May 2008, and May 2009)	61 percent ^a
Percentage of private sector workers employed by large-employer questionnaire respondents in 2009 who would be affected by minimum wage increases through 2015	82 percent ^a
Employment	
Percentage change in numbers employed, 2006-2008	27 percent decrease ^b
Percentage change in numbers employed by large-employer questionnaire respondents, 2008-2009	6 percent decrease ^a
Employer actions	
Percentage of employers that laid off hourly workers 2007-2009 and percentage of those employers that attributed the action largely to past minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none">• Employers representing 11 percent of workers employed by questionnaire respondents laid off hourly workers• Of those, employers representing 2 percent of workers employed by those respondents attributed layoffs to past minimum wage increases^a
Percentage of private sector employers that planned to close or relocate by the end of 2010 and percentage of those employers that attributed the planned action largely to minimum wage increases (weighted by numbers of workers)	<ul style="list-style-type: none">• Employers representing 5 percent of workers employed by private sector questionnaire respondents planned to close or relocate• For each of those planned actions, employers representing 3 percent of workers employed by those respondents attributed their plans to minimum wage increases^a
Inflation-adjusted earnings	
Percentage change in inflation-adjusted earnings of average earners, 2006-2008	6 percent decrease ^{b,c}
Estimated percentage change in inflation-adjusted earnings of minimum wage earners who kept full-time employment, 2006-2008	12 percent increase ^{c,d}
Worker views	
CNMI workers generally expressed support for the minimum wage increases. ^e	

Source: GAO analysis of data from GAO large-employer questionnaire, CNMI government, Consumer Price Index, and GAO discussion groups.

Notes: Employers responding to GAO's questionnaire generally include those with 50 or more employees and exclude smaller employers, employers that did not respond to the questionnaire, and employers that had closed between 2007 and the date of our questionnaire, including garment factories. Questionnaire responses covered about 29 percent of the CNMI workforce and are not necessarily representative of all CNMI workers and employers. Percentages of employers reporting actions are weighted by each employer's total number of workers in 2009. Percentages of employers that attributed action largely to minimum wage increases are weighted to reflect those employers' number of workers relative to all workers employed by respondents that reported the action. Because the CNMI government covered a large percentage of workers employed by all questionnaire respondents, those responses significantly affected reported questionnaire data.

^aBased on responses to GAO's CNMI large-employer questionnaire.

^bBased on CNMI tax data.

^cBased on analysis of Consumer Price Index data.

^dBased on GAO estimate.

^eBased on discussion group results.

Agency Comments and Our Evaluation

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

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

- **Department of the Interior.** In its written comments, DOI agreed with our findings and noted that the report contained useful information on American Samoa and the CNMI. However, DOI commented that the report included insufficient commentary on the future impact of minimum wage increases in American Samoa and the CNMI. We note that information on the potential impact of future minimum wage increases appears in the report's discussions of employment, employer actions, and worker views for both American Samoa and the CNMI.
- **American Samoa.** In its written comments, the American Samoa government generally agreed with our findings. In addition, the comments stated that the report findings lead to the conclusion that without a change to the existing incremental minimum wage increases, American Samoa will face very serious economic difficulties. The comments further stated that the economy was losing jobs more quickly than expected and that with the closure of one cannery and continuing significant job losses in the

private sector, government revenues and funding available for government services and employment will decrease. American Samoa's comments also noted that increases in shipping costs due to decreased tuna exports will likely further increase the cost of imported goods and the overall cost of living. Appendix IX provides our more detailed evaluation of the American Samoa government's letter.

- **CNMI.** In its written comments, the CNMI government agreed with some of our findings but raised concerns about several aspects of our report methodology and analysis. Specifically, the CNMI government expressed concerns about our large-employer questionnaire's coverage, noting that the questionnaire covers employers with 50 or more employees but excludes smaller employers. In response, we note that because key federal sources of data on the U.S. labor market do not cover the insular areas, we collected our own data on employers through the questionnaire, discussion groups, and other methods such as interviews. Our report appropriately states the limitations of the questionnaire data and repeatedly observes that the data may not be representative of all CNMI workers and employers. Moreover, our report summarizes the views of small employers based on the method that we determined would be most effective and efficient in collecting information from them—through discussion groups targeting small employers (see app. IV, employment section). The CNMI government also expressed concern about the questionnaire's response rate, given that 33 of 61 employers responded to our questionnaire. While we spent considerable effort to obtain as high a response rate as possible, employers were not required to respond, and the response rate reflects the individual decisions of CNMI employers who received the questionnaire about whether to provide information regarding the extent to which minimum wage increases had affected their operations. Further, the CNMI government states that it questions our findings related to worker views based on our discussion groups, because of the limitations of this approach. Given the relevance of the minimum wage increases to workers, we considered it critical to include their views; however, no existing federal data source provided this information. We believe the discussion groups were an appropriate and worthwhile approach for collecting and including the views of workers.

In addition to expressing concerns about our methodology, the CNMI government expressed concern that the annual minimum wage increases will greatly and negatively affect the CNMI economy, particularly small employers. The CNMI government proposes capping the minimum wage in the CNMI at the current rate of \$4.55 to allow an in-depth assessment of the effects of the minimum wage increases on the private and public sectors, including small employers, and it proposes allowing the economy

to adjust to the \$4.55 minimum wage level. The CNMI government also stated that we should ask for more time to study the effects of the minimum wage increases; however, the American Recovery and Reinvestment Act does not permit additional time for this report. Appendix X provides our more detailed evaluation of the CNMI government's letter.

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

If you or your staffs have questions about this report, please contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov. 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 XI.



David Gootnick
Director, International Affairs and Trade



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

List of Committees

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

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

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

The Honorable Dianne Feinstein
Madame Chairman
The Honorable Lamar Alexander
Ranking Member
Subcommittee on Interior, Environment,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Harkin
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Labor, Health
and Human Services, Education, and Related Agencies
Committee on Appropriations
United States Senate

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

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

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

The Honorable David R. Obey
Chairman
The Honorable Todd Tiahrt
Ranking Member
Subcommittee on Labor, Health
and Human Services, Education,
and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Madeleine Z. Bordallo
Chairwoman
The Honorable Henry E. Brown
Ranking Member
Subcommittee on Insular Affairs, Oceans and Wildlife
Committee on Natural Resources
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report describes, for American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) since 2007—the year the minimum wage increases began—(1) wages, (2) employment, (3) employer actions, (4) inflation-adjusted earnings, and (5) workers’ views regarding the minimum wage increases.

To describe wages, we collected wage data through a large-employer questionnaire during site visits in each area. To describe employment, we analyzed data from the large-employer questionnaire, earnings data from the Social Security Administration (SSA), and tax data from the CNMI government, and we conducted interviews with public and private sector officials. To describe employer actions, we collected responses through the large-employer questionnaire. To describe inflation-adjusted earnings, we analyzed SSA data and tax data from the CNMI government, and we adjusted earnings data using Consumer Price Index (CPI) data for each area. To describe workers’ views, we conducted discussion groups with workers. We provide additional information on each data source below.

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

Site Visits

Because key federal sources of data on the U.S. labor market do not cover the insular areas, we collected our own data in each area.¹ We visited American Samoa in August 2009, after one tuna cannery announced it would close and just before it actually closed, and we visited the CNMI in

¹The federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the Current Population Survey and the Current Employment Statistics program, do not cover these insular areas. The Office of Insular Affairs of DOI has provided technical assistance to American Samoa and the CNMI to help with data collection, including funding for the 2005 Household, Income, and Expenditures Surveys (HIES) and past surveys. However, this assistance has not generated the scope of data collected by federal sources for the United States more generally. In addition, the 2005 HIES for American Samoa was not completed and is available only in draft form.

September 2009, after the closure of all garment factories. During our visits, we conducted interviews and discussion groups with government officials, smaller employers, other private sector representatives, workers, and community members to obtain views and information on the minimum wage increases and related topics. In each area, we held an open public meeting and established e-mail accounts to obtain comments from the public. We also collected detailed data from large employers in each area including through a questionnaire, as described below.

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

In the CNMI, we visited the islands of Saipan and Tinian and interviewed officials in the Office of the Governor, the Department of Commerce, the Department of Labor, the Department of Finance, and the Marianas Visitors Authority, as well as several other CNMI agencies. We also interviewed representatives of the private sector, including representatives from hotels, and workers. We also visited the island of Rota in January 2010 and interviewed several employers.

Employer Questionnaire

We collected detailed data from large employers in each area through a questionnaire on employment, wage structure, past and planned employer actions, and related topics for the years 2006 to 2009. We defined a large employer as one that employed 50 or more workers in recent years. The employers selected to receive the questionnaire comprised for-profit, not-for-profit, and public sector employers. We sent the questionnaire only to employers with 50 or more workers because we did not have sufficiently reliable frames from which to draw a probability sample of employers and because we could contact only a limited number of employers in each area, given available resources. By limiting our questionnaire to the largest employers, we were able to concentrate data collection efforts on those who employed a disproportionately large percentage of the workforce.

For American Samoa, we used local tax return data to identify employers that filed 50 or more employee wage and tax statements (i.e., Form W-2) in either 2007 or 2008, and we verified this list with the American Samoa government and Chamber of Commerce. We sent questionnaires to 40

employers in American Samoa, covering approximately 84 percent of the American Samoa public and private sector workforce.

For the CNMI, we did not receive local tax return data in time to develop our list. We generated our original list from 2007 Labor and Immigration Identification and Documentation System data from the CNMI government. Because the data include only foreign workers, the CNMI government and Saipan Chamber of Commerce identified additional employers that likely had more than 50 employees. We sent questionnaires to 63 employers in the CNMI, covering approximately 37 percent of the CNMI public and private sector workforce, with greater coverage among public sector workers. The percentage of the workforce covered by our large-employer questionnaire was later calculated by the CNMI government's Department of Finance.

In accordance with other federal employment surveys, our large-employer questionnaire asked for wage data for the 2007, 2008, and 2009 pay periods containing June 12. We selected June as the reference month because it spanned one month before the first minimum wage increase (July 2007) and one month after the most recent increase (May 2009), allowing us to study changes since before the first minimum wage increase and through the most recent increase. The questionnaire asked separately for data regarding workers paid an hourly wage and workers paid an annual salary. The questionnaire also included detailed questions about changes in benefits, about employers' past and possible future actions, and about the extent to which employers attributed these actions to past and future minimum wage increases. (The questionnaire is reproduced in app. VII.)

Before sending the questionnaire to employers, we pretested it over the phone with three employers in the CNMI and two in American Samoa to make sure that the questions were clear and comprehensive, the data were readily obtainable, and the questionnaire did not place an undue burden on employers. Pretest participants included business owners or general managers and, where applicable, financial personnel responsible for maintaining the payroll system. The questionnaire was also reviewed by members of the American Samoa, Saipan, and Tinian Chambers of Commerce, which also provided their endorsements, and an independent GAO reviewer. We made appropriate changes to the content and format of the questionnaire after the pretests and independent reviews.

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

were sent 1 to 2 weeks prior to the start of our visits to each insular area. If we could not obtain an e-mail address for an employer, we delivered a paper copy of the questionnaire during our visits. Employers returned questionnaires by e-mail, mail, or fax. The deadline for the questionnaire was set midway through our visits so that we could conduct nonresponse follow-up in person and by phone while in the insular areas. We also contacted nonrespondents by e-mail and phone after returning from the insular areas. In addition, we contacted respondents to clarify responses and request any missing data.

In American Samoa, 20 of the 40 employers completed the questionnaire, resulting in an unweighted response rate of 50 percent, as shown in table 3. These respondents represented about 87 percent of the workforce employed by questionnaire recipients (those with 50 or more employees) in 2008 and about 72 percent of the total workforce, including 57 percent of the private sector workforce. Questionnaire respondents represented about 99 percent of the public sector workforce in 2008 (all public sector employers received the questionnaire). American Samoa questionnaire respondents provided wage data on a total of 9,685 full-time workers as of June 2009. American Samoa questionnaire respondents included the two tuna canneries and other employers in the sectors of manufacturing, wholesale and retail trade, food services, hotel, construction, transportation, publishing and communication, and health care, as well as the American Samoa government and other public sector employers.

Table 3: American Samoa Large-Employer Questionnaire Respondent Coverage

Percentage of total workforce covered	72 percent
Percentage of private sector workforce covered	57 percent
Percentage of public sector workforce covered	99 percent
Unweighted response rate	50 percent (20/40)
Response rate weighted by number of employees	87 percent

Source: GAO analysis of GAO large-employer questionnaire and American Samoa government tax data.

In the CNMI, 33 of the 61 employers completed the questionnaire, resulting in an unweighted response rate of 54 percent, as shown in table 4. We confirmed that two employers had closed, and thus we did not count them in the final response rate. The respondents represented about 79 percent of the workforce employed by questionnaire recipients (those with 50 or more employees) in 2008 and about 29 percent of the total workforce, including 20 percent of the total private sector workforce. Questionnaire respondents represented about 89 percent of the public sector workforce

employed by questionnaire recipients and about 87 percent of the total public workforce in 2008 (4 public sector employers were not covered by questionnaire because they had fewer than 50 employees). CNMI questionnaire respondents provided wage data on a total of 7,535 full-time workers as of June 2009. CNMI questionnaire respondents included hotels and other employers in the sectors of food service, utilities, construction, manufacturing, retail, and transportation, as well as the CNMI government and other public sector employers.

Table 4: CNMI Questionnaire Respondent Coverage

Percentage of total workforce covered	29 percent
Percentage of private sector workforce covered	20 percent
Percentage of public sector workforce covered	87 percent
Unweighted response rate	54 percent (33/61)
Response rate weighted by number of employees	79 percent

Source: GAO analysis of GAO large-employer questionnaire and information from the CNMI Department of Finance.

In reporting the percentages for questionnaire responses throughout our report, we weighted each percentage to reflect the proportion of workers employed by the responding employers relative to all workers employed by all questionnaire respondents. As a result, the responses of larger employers affect our findings more than those of smaller employers. We determined the number of employees at each employer by summing the number of hourly and salaried workers that employers reported in questionnaire responses. In addition to asking a direct question about number of employees, the questionnaire asked respondents to complete a separate table listing the number of employees at each wage or salary level. Separate tables were required for hourly wage and salaried workers. In cases in which the employers completed the table but did not answer the direct question, the sum of the tabled responses were used as the weight. In the few cases in which employers did not report any employees, they were assigned a weight of zero. To apply the weights, we cross-multiplied the number of employees by the employer response, then divided by the total number of employees in the sample. For example, if three of five employees attributed an action to the minimum wage to a moderate extent, the unweighted response would be 60 percent. However, if those three employers represented 300 of 400 employees, the weighted response that we report would be 75 percent.

From our questionnaire, we obtained information on earnings and employment for both hourly wage and salaried workers during the pay

periods that included June 12, 2007, 2008, and 2009. For hourly wage workers, respondents were asked to provide the number of employees paid at each wage rate, and the number of both regular and overtime hours worked during the pay period. For salaried workers, respondents were asked the number of full-time and part-time workers paid in salary ranges (such as from \$10,000 to \$19,999). In order to determine the wage rate for salaried workers, we assumed that each worker was paid at the midpoint of the range. Because it was unclear the hours each worked, we excluded part-time employees. For any given employer, this may either over or under estimate the wage rate, depending on whether more employees for that employer tend to be at the top or bottom of the range. This particularly affected our reported data regarding government workers. To determine the number of workers affected by each minimum wage increase, we assumed that all workers employed by questionnaire respondents were legally required to receive the minimum wage. If some are not covered or are exempt, the minimum wage increases would affect fewer workers.

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

The questionnaire responses cannot be used to make inferences about all employers and workers in each insular area, particularly in the CNMI. First, because the lists of employers that received the questionnaire were intended to include only those with more than 50 employees, the lists were not representative of all employers.² Second, we were unable to survey employers that had closed between 2007 and our questionnaire date, including those in the CNMI garment industry. Third, some nonresponse bias may exist in some of the questionnaire responses, since characteristics of questionnaire respondents may differ from those of nonrespondents in ways that affect the responses (e.g., if those that

²Because our final list of CNMI large employers was based in part on judgments by government and private sector representatives, the list may have included employers with fewer than 50 workers or mistakenly excluded some large employers.

employ a larger number of workers would have provided different responses than those that employ a smaller number). Last, it is possible that some employers' views of the minimum wage increases may have influenced their responses.

In addition, the tuna canneries and local government in American Samoa employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers' responses significantly affected our reported questionnaire data. Among CNMI employer responses, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately affect our questionnaire results on the public and private sectors combined.

SSA Data

We obtained SSA data on the earnings, employment, and demographic characteristics of individual taxpayers in American Samoa and the CNMI from 2005 to 2008. While the SSA data cover all types of workers in American Samoa and were sufficiently reliable for our purposes, three large groups of people in the CNMI were not required to report earnings to SSA and thus are excluded from the SSA data—Filipino, Korean, and CNMI government workers. In 2008, these three groups represented approximately half of all CNMI workers, according to CNMI government tax data. We have chosen not to report the CNMI SSA data due to these coverage gaps.

For American Samoa, SSA told us that all employees were subject to SSA withholding—no group was systematically excluded. In addition, the data were generally consistent with information from other sources, including local American Samoa W-2 data and our questionnaire results. We used SSA data to review trends in employment in American Samoa since the federal minimum wage increases were implemented. We used SSA earnings data to determine two aspects of employment of American Samoa workers from 2005 to 2008. First, we used SSA data to determine the level of employment. Our count of employed people was based on the number of people that had positive reported earnings to SSA. Second, we reported the median earnings per employed person in American Samoa. Because of data limitations, we were unable to report earnings that were not reported to SSA, either because of a failure on the part of the employer or because the earnings were not subject to SSA withholding. We also were unable to report on earnings that exceeded the SSA withholding cap.

To assess the reliability of the data, we interviewed agency officials at SSA. As discussed above, to the extent possible, we compared employment counts from the SSA data to counts from other sources. We determined that the available data were adequate and sufficiently reliable for the purposes of depicting trends in employment and earnings in American Samoa.

Discussion Groups

We conducted structured discussion groups with Chamber of Commerce members in American Samoa, Saipan, and Tinian to collect information on the impact of the minimum wage increases on employers not covered by our large-employer questionnaire, although several participants did receive the questionnaire. For each discussion group, the president of the Chamber of Commerce invited members to participate. In the CNMI, we also held discussion groups with hotel human resources managers and members of the Korean and Chinese business communities. Participants in these groups were also invited by their organizations' leadership. The number of participants in each group ranged from 4 to 10 business owners or managers.

To collect information on current living standards and workers' views of the minimum wage increases, we conducted structured discussion groups with various worker and community groups with different organizational affiliations. In each case, we asked the organizations' leadership to invite members to the discussion groups. In American Samoa, we conducted two worker discussion groups at each of the two canneries, one group with the U.S. Department of Agriculture's Women, Infants, and Children (WIC) program recipients, and one group recruited by the Office of Samoan Affairs in the American Samoa government. In the CNMI, we conducted discussion groups with hotel workers at two different hotels, one group with the U.S. Department of Agriculture's Nutrition Assistance Program (NAP) recipients, one group with Filipino workers, one group with former garment factory workers, and one group recruited by the DOI Labor Ombudsman's Office in the CNMI. The number of participants in each group ranged from 4 to 13. We also distributed questionnaires to WIC recipients in Saipan and Tinian who visited the WIC office on the day we

were there.³ The questionnaires asked about changes in living standards and views on the minimum wage increases.

All discussion groups were moderated by a GAO employee following a structured guide with open-ended questions about current living standards and the effects of the minimum wage. At the end of each discussion group, we also collected written responses to our questionnaire about changes in living standards and views on the minimum wage increases. Discussion groups are generally designed to obtain in-depth information about specific issues that cannot be easily obtained from single interviews. Methodologically, they are not designed to provide results generalizable to a larger population or provide statistically representative samples or quantitative estimates. They represent the views only of the participants in our 18 groups and may or may not be representative of the population of employers and workers in these insular areas. Therefore, the experiences of other employers and workers may be different from those who participated in our discussion groups. In addition, while we attempted to hold discussion groups with as many groups as our resources allowed, the groups and participants in the groups were not random samples of employers and workers in these insular areas.

Local Administrative Data

We also analyzed available American Samoa administrative and survey data, including the American Samoa Department of the Treasury's tax revenues and demographic data from the American Samoa Department of Commerce. We analyzed available CNMI administrative and survey data, including CNMI data on the number and wages of workers from the CNMI Department of Finance's tax returns. The CNMI tax data provide ranges of earnings, including all payments to employees such as overtime, shift differentials, cash housing and meal allowances, bonuses, etc. The data cover both public and private sector workers and both citizens and noncitizens, and we analyzed data for 2005 to 2008.

We also obtained data on federally funded income-based programs administered by the insular area governments. We obtained data from the U.S. Department of Agriculture's Food and Nutrition Service on the

³In Tinian, we held a brief discussion and distributed questionnaires to all WIC recipients who came in the office that day for a period of about 2 hours. In Saipan, we distributed questionnaires to all recipients who came in during 1 hour and with whom we could talk.

beneficiaries' participation in the WIC Nutrition Program in American Samoa for fiscal years 2005 to 2008. We also obtained data on approved, withdrawn and terminated cases, as well as submitted and denied applications from the CNMI Division of Nutrition Assistance Program for 2006 to 2009. We estimated the number of active cases as the difference between those approved and those withdrawn and terminated.

In addition, we obtained historical data on the CPI from both areas.⁴ The quarterly CPI series for American Samoa cover the time period from the third quarter in 1997 to the second quarter in 2009, and those for CNMI cover the period from the second quarter of 1988 to the second quarter of 2009. However, both areas have revised the CPI series at several points in time, including updating the weights of individual components and adding more groups in the CPI composition. For American Samoa, because the CPI was rebased in the fourth quarter of 2007, we recalculated the quarterly index series from the fourth quarter of 2008 back to the fourth quarter of 2007 by finding a rebasing factor such that the old and new indexes in the fourth quarter of 2007 were identical. We averaged the quarterly price indexes to compute an annual price level to use in computing year-to-year changes in earnings. We also use the annual price indexes to estimate annual inflation for the 2006 through 2008 period on a consistent basis.⁵

Limitations and Data Reliability

Our review had certain limitations in addition to those already noted. In particular, although our approach yielded information on trends in employment, wages, and earnings in both areas, it is difficult to distinguish between the effects of minimum wage increases and of other factors, including the global recession in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI.

In general, to establish the reliability of the data that we used for reporting trends and statistics for both American Samoa and the CNMI, we

⁴We received CPI data from the CNMI and American Samoa Departments of Commerce. The series were updated by a subcontractor funded through a grant from the Office of Insular Affairs.

⁵CNMI CPI data used is consistent with that posted in the CNMI Department of Commerce's second quarter 2009 CPI tables. (These data differ from other CNMI CPI data.)

systematically obtained information about the way in which data were collected and tabulated. When possible, we checked for consistency across data sources. While the data had some limitations, we determined that the available data were adequate and sufficiently reliable for the purposes of our review.

We conducted our work from April 2009 to April 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Appendix II: Background

American Samoa

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

American Samoa— U.S. Relations

U.S. interest in the Samoan islands began in 1872 with the efforts of the U.S. Navy to establish a naval station in Pago Pago harbor. The protectorate over the Samoan islands established by the United States, Britain, and Germany ended in 1899, when the islands comprising American Samoa were placed under U.S. control. The U.S. Naval Station was established in 1900.² From 1900 through 1904, the U.S. government negotiated control over American Samoa,³ and the U.S. Navy subsequently took responsibility for federal governance of the territory. In 1951, governance was transferred to the Secretary of the Interior.⁴ In 1960, American Samoa residents adopted their own constitution. All amendments to the Constitution of American Samoa must be approved by

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

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

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

⁴The 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); Exec. Order No. 10,264, 16 Fed. Reg. 6419 (1951).

Congress.⁵ American Samoa exercises authority over its immigration system and customs through locally adopted laws.

In fiscal year 2008, the American Samoa government spent approximately \$114.4 million in grants from several federal agencies, including the Departments of the Interior (DOI), Education, Agriculture, Transportation, and Health and Human Services.⁶ For example, in 2008, the American Samoa government spent \$15.5 million⁷ provided by DOI.⁸ American Samoa also has begun receiving federal funds under the American

⁵48 U.S.C. § 1662a. In addition, persons born in American Samoa are U.S. nationals but may apply to become naturalized U.S. citizens. American Samoa residents have many of the rights of citizens of the 50 states but cannot vote in U.S. national elections and often 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 and when the House convenes as the Committee of the Whole, but cannot vote when the House convenes as the House of Representatives. U.S. noncitizen nationals from American Samoa have the right to travel freely, live, and work throughout the United States (22 C.F.R. §53.2, §41.0). However, noncitizen nationals do not have the same preferences as U.S. citizens for sponsoring immediate family members for family-based immigration visas. In order to qualify for the same preference categories as citizens, noncitizen nationals must become naturalized citizens of the United States, which includes a requirement to reside in the United States for three months (8 C.F.R. §325.2).

⁶American Samoa Government Single Audit Report (fiscal year 2008). Additional federal funds may go to component units of the American Samoa government not covered by the Single Audit, including the Lyndon B. Johnson Tropical Medical Center, the American Samoa Power Authority, and American Samoa Community College.

⁷American Samoa Government Single Audit Report.

⁸In an effort to improve accountability for federal funds, DOI's Office of Insular Affairs (OIA) has designated American Samoa as a "high-risk" grantee as provided in 43 CFR §12.52, and as recommended by the department's Inspector General and GAO. This designation allows OIA to require American Samoa grantees to comply with special conditions for future or existing grants. OIA will remove this high-risk designation once the American Samoa Government demonstrates its compliance with certain fiscal and internal accounting requirements. See U.S. Department of the Interior, Office of Insular Affairs, *Budget Justifications and Performance Information: Fiscal Year 2010*.

Recovery and Reinvestment Act (Recovery Act) that temporarily supplement local government revenues.⁹

Additionally, the U.S. government has supported American Samoa's economy through trade and tax policies that, respectively, have provided tariff-free access to the United States for tuna canned in American Samoa and have reduced federal taxes on income earned by qualifying U.S. corporations investing in American Samoa.¹⁰ However, changes scheduled to take effect in existing free trade agreements, as well as several pending agreements, are likely to lower tariffs on tuna exported from several other countries, reducing the American Samoa canneries' competitive advantage.¹¹ Moreover, certain U.S. tax policies, designed to encourage U.S. corporations to invest in the U.S. insular areas and create jobs, recently expired.¹²

⁹In February 2009, Congress enacted, and President Obama signed, the American Recovery and Reinvestment Act (Recovery Act). Among other provisions—including the mandate for this and subsequent GAO reports—the Act appropriates roughly \$787 billion in federal spending on infrastructure, research, and other purposes, providing fiscal stimulus to the U.S. economy. By January 19, 2010, federal agencies had reported the availability of Recovery Act funds for American Samoa totaling \$65.9 million and the disbursement of \$8.3 million.

¹⁰Under the Internal Revenue Code, qualifying American Samoa tuna canneries have received a tax credit for U.S. corporate income taxes. See 26 U.S.C. §936, 26 U.S.C. §30A note.

¹¹From 1997 through 2007, U.S. trade laws and agreements helped American Samoa's tuna canning industry remain viable in spite of competition. As tuna exports from other countries into the U.S. market increased, exports from American Samoa remained constant. In August 2002, tariffs decreased on pouched tuna exported from countries covered by the Andean Trade Preference Act. In January 2008, provisions of the North American Free Trade Agreement lifted tariffs imposed on canned tuna and other tuna products exported from Canada and Mexico. Nevertheless, some of American Samoa's foreign competitors still did not qualify for tariff-free access to the U.S. market.

¹²The tax credits under section 936 of the Internal Revenue Code expired for taxable years beginning after December 31, 2005. Section 30A of the Internal Revenue Code extends the Section 936 credits for American Samoa until January 2010, subject to certain limitations. Corporations that were actively conducting business in American Samoa by 1995 who elected Section 936 status in the last taxable year before January 1, 2006, could claim a section 30A tax credit until January 2010. See Pub. L. No. 109-432 §119 (Dec. 20, 2006). Section 30A has been continuously in effect since the expiration of Section 936, and legislation introduced in the House of Representatives (H.R. 4213, §144) would extend it for 1 year.

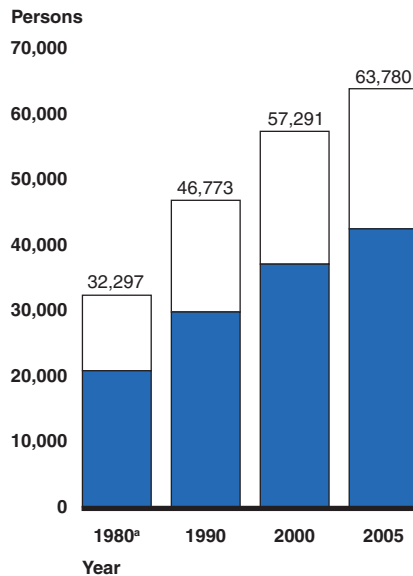
American Samoa Economy

The tuna canning industry and the government sector are American Samoa's two largest employers.¹³ In 2006, about a third of American Samoa's workforce was employed by the two tuna canneries; about a third was employed by other businesses, many supporting the tuna industry; and about a third worked in the government sector.¹⁴ Noncitizens, mostly from the independent state of Samoa, comprised approximately a third of American Samoa's population of 63,780 in 2005 (see fig. 1) and roughly four-fifths of the canneries' employees. Many citizens of the independent state of Samoa reside in American Samoa on a long-term basis, including spouses and relatives of American Samoans.

¹³According to the Economic Census 2007, American Samoa's private sector economy included 812 establishments; 11,247 workers; total annual payroll of \$132.25 million; and transactions (sales, receipts, revenue, shipments) totaling \$1.278 billion. In particular, 44 percent of employees worked in manufacturing, the largest share of employment for any single industry. Establishments that are not covered by the Economic Census include agricultural establishments, schools, and government-owned establishments, such as utilities, among others.

¹⁴U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa*, 2007 (Washington, D.C. May 2007).

Figure 1: Citizenship Status of American Samoa Population, 1980-2005



American Samoa government 2009 population estimate: 70,100.

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

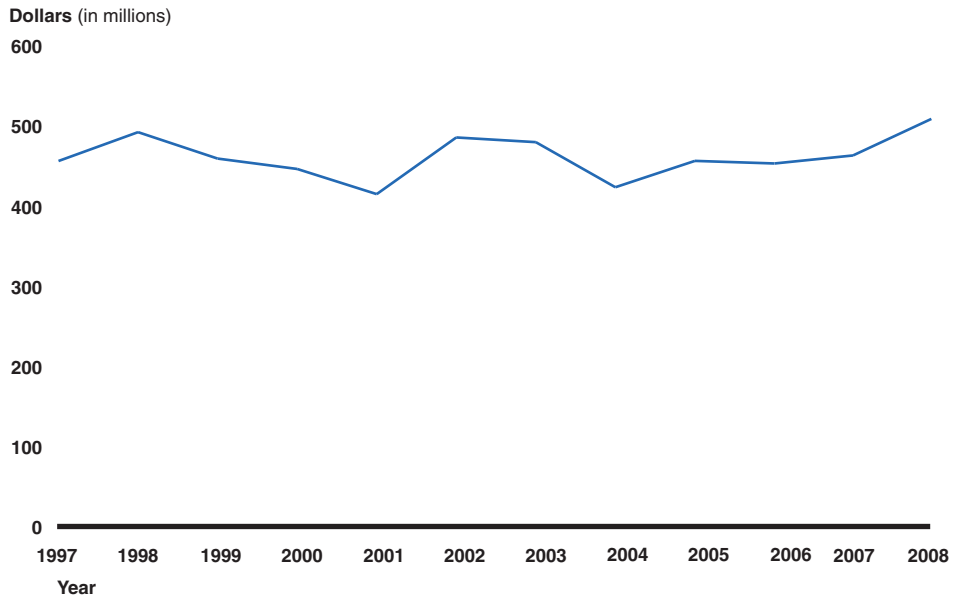
	Neither U.S. citizens nor nationals	11,514	17,031	20,251	21,370
	Percentage	36.7	36.4	35.3	33.5
	U.S. citizens or nationals	20,783	29,742	37,040	42,410
	Percentage	64.3	63.6	64.7	66.5

Sources: GAO analysis of decennial U.S. Census data and 2005 (draft) report by American Samoa government on household, income, and expenditures survey (bar chart); American Samoa Department of Commerce, "American Samoa Population: 2009," official estimate of the population of American Samoa as of July 1, 2009 and *Immigration and Population Growth in the Territory of American Samoa from 1980 to 2008—Analysis and Trends*, January 20, 2009 (text box).

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

The tuna canning industry, a mainstay of the American Samoa economy since the 1950s, has maintained a relatively constant flow of exports to the United States despite competition from other countries. Figure 2 shows the combined value of tuna that the two canneries exported to the United States from 1997 through 2008. Tuna exports represented 98 percent of the total value of American Samoa's commodity exports (over \$591 million) to the United States in 2008.

Figure 2: American Samoa Tuna Exports to the United States, 1997-2008



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

On May 1, 2009, Chicken of the Sea, Inc. (Tri-Union Samoa Packing), which operated one of the two canneries in American Samoa, notified the American Samoa government of plans to terminate its cannery operations in the territory; the cannery closed at the end of September 2009.¹⁵ Chicken of the Sea indicated that the company would relocate canning facilities to the U.S. state of Georgia while outsourcing the more labor-intensive processes, including cleaning and cooking the tuna loins (a low-tariff U.S. import), to countries with lower labor costs. The remaining tuna cannery, StarKist, has expressed concerns about the costs of operating in American Samoa. Following consultations with local government and industry officials, on September 16, 2009, American Samoa’s Delegate in

¹⁵In November 2006, Chicken of the Sea’s Samoa Packing operation employed 40 percent (1,906 workers) of the island’s fish canning and processing workers.

Congress introduced legislation¹⁶ providing for subsidies to canneries in the territory and to fishing vessels delivering to the territories.¹⁷

On September 29, 2009, a tsunami following a strong earthquake left 34 people dead in American Samoa. Although the two tuna canneries were mostly spared, the tsunami caused severe damage to homes, businesses, and water and electrical infrastructure. The federal government issued a disaster declaration and is assisting with tsunami recovery efforts. As of December 9, 2009, the Federal Emergency Management Agency had approved \$15.5 million to assist with tsunami relief, and the Small Business Administration had approved more than \$7 million in low-interest disaster loans.¹⁸

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

¹⁶Legislation introduced in the 111th Congress would authorize a federal subsidy of \$200 per metric ton to firms in American Samoa canning whole tuna delivered directly to the territory. Under the American Samoa Protection of Industry, Resources, and Employment Act, the federal government would adjust this amount each year based on minimum wage increases during the preceding year (H.R. 3583, 111th Cong., 2010). The legislation would grant fishing-boat operators a subsidy of \$200 per metric ton of tuna delivered to American Samoa by eligible vessels with a fishery endorsement from the U.S. Maritime Administration. The House Committee on Natural Resources, Subcommittee on Insular Affairs, Oceans and Wildlife, held a hearing on the act on November 4, 2009.

¹⁷Canneries in American Samoa have benefited from an exemption from local taxes, renewable annually, for employers maintaining payrolls at certain levels. Public and private sector officials said in interviews that StarKist sought to negotiate a 3-month extension to a tax exemption provided by the American Samoa government, expiring on December 31, 2009.

¹⁸To expand disaster assistance available to American Samoa, on January 16, 2010, the President increased federal funding to American Samoa to cover 90 percent of costs resulting from public assistance, hazard mitigation, and other specified needs. The order also increased the federal share for debris removal and emergency protective measures, including increasing direct federal assistance under the public assistance program to 100 percent of total eligible costs for 30 consecutive days. Under the President's major disaster declaration of September 29, 2009, the federal government had assumed 75 percent of these costs.

- In 2004, the median household income in American Samoa was \$22,930,¹⁹ while the U.S. 50-state median household income was \$44,389.²⁰
- In 2004, the poverty rate for persons age 25 and older in American Samoa was 49.9 percent,²¹ while the U.S. 50-state poverty rate for persons age 15 and older was 12.7 percent.²²

Commonwealth of the Northern Mariana Islands

The CNMI is a group of 14 islands in the western Pacific Ocean, lying just north of Guam and 5,500 miles from the U.S. mainland. Most of the CNMI population—65,927 in 2005—²³ resides on the island of Saipan, with additional residents on the islands of Tinian and Rota.

CNMI–U.S. Relations

The United States took control of the Northern Mariana Islands from Japan during the latter part of World War II. After World War II, the U.S. Congress approved the Trusteeship Agreement that made the United States responsible to the United Nations for the administration of the islands.²⁴ Later, the Northern Mariana Islands sought self-government and permanent ties with the United States. In 1976, after almost 30 years as a trust territory, the District of the Mariana Islands entered into a covenant with the United States establishing the island territory's status as a self-

¹⁹American Samoa Government, Department of Commerce, Statistics Division, *Report of the 2005 American Samoa Household Survey* (draft).

²⁰U.S. Department of Commerce, Bureau of the Census, Housing and Household Economic Statistics Division, *The Effects of Government Taxes and Transfers on Income and Poverty*: 2004 (Feb. 14, 2006).

²¹American Samoa Government, Department of Commerce, Statistics Division, *Report of the 2005 American Samoa Household Survey* (draft).

²²U.S. Department of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of the Census, *Current Population Survey—2005 Annual Social and Economic Supplement*.

²³This population estimate includes 60,608 residents of Saipan; 2,829 residents of Tinian; and 2,490 residents of Rota. See Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 Household, Income, and Expenditures Survey* (April 1, 2008).

²⁴In 1947, the United Nations gave the United States authority to administer the Trust Territory of the Pacific Islands, which included the Northern Mariana Islands. The trusteeship over the Northern Mariana Islands was formally dissolved in 1986.

governing commonwealth in political union with the United States.²⁵ This covenant grants the CNMI the right of self-governance over internal affairs and grants the United States complete responsibility and authority for matters relating to foreign affairs and defense affecting the CNMI.²⁶ The covenant initially made many federal laws applicable to the CNMI, including laws that provide federal services and financial assistance programs.²⁷ The covenant preserved the CNMI's exemption from certain federal laws that had previously been inapplicable to the Trust Territory of the Pacific Islands, including federal immigration laws with certain limited exceptions²⁸ and certain federal minimum wage provisions. However, under the terms of the covenant, the federal government has the right to apply federal law in these exempted areas without the consent of the CNMI government.²⁹

²⁵Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Pub. L. No. 94-241, § 1, 90 Stat. 263 (Mar. 24, 1976), 48 U.S.C. § 1801 note). Howard P. Willens and Deanne C. Siemer, *An Honorable Accord: The Covenant between the Northern Mariana Islands and the United States* (Honolulu, Hawaii: University of Hawaii Press, 2002).

²⁶Under the covenant, the U.S. government may enact legislation in accordance with its constitutional processes that will be applicable to the CNMI. To respect the CNMI's right of self-government under the covenant, certain provisions of the covenant may be modified only with the consent of both the federal government and the CNMI government. These provisions include those relating to the political relationship between the United States and the CNMI; the CNMI constitution, citizenship, and nationality; the application of the U.S. constitution to the CNMI; and the land ownership rights of CNMI citizens. Most other provisions of the CNMI covenant may be modified by the federal government without the consent of the CNMI government, and local CNMI laws that were not inconsistent with federal laws or treaties of the United States when the covenant was enacted remain in effect. In addition, international treaty obligations between the United States and other countries apply to the CNMI through the covenant.

²⁷The covenant also made certain provisions of the Social Security Act, the Public Health Service Act, and the Micronesian Claims Act applicable to the CNMI.

²⁸Section 506 of the covenant applied certain provisions of the Immigration and Nationality Act of 1952 (INA) A relating to citizenship and family-based permanent immigration to the CNMI. Certain other nonimmigrant provisions of the INA (T and U) also applied to the CNMI. See 8 U.S.C. § 1101(a)(15)(T)-(U). In addition, the covenant provided U.S. citizenship to legally qualified CNMI residents.

²⁹Public Law 110-229 created a nonvoting delegate seat in the U.S. House of Representatives for the CNMI. In January 2009, the CNMI elected its first representative to the United States Congress. The Delegate from the CNMI has many of the same congressional privileges as other representatives, including a vote in committee and when the House convenes as the Committee of the Whole, but cannot vote when the House convenes as the House of Representatives.

Until recently, the CNMI retained legislative authority over most aspects of immigration, regulating entry into the CNMI through a permit system. In 2008, federal legislation amended the U.S.-CNMI Covenant to establish federal control of CNMI immigration; the law includes several provisions affecting access to the CNMI by foreign workers, tourists, and foreign investors that were implemented beginning in November 2009.³⁰ As we reported in August 2008, the potential impact of the legislation's implementation on the CNMI's labor market will largely depend on decisions that the U.S. Departments of Homeland Security and DOL make in implementing a program to provide foreign workers temporary permits to work in the CNMI during a transition period that ends in 2014.³¹ Although modest reductions in CNMI-only permits for foreign workers would cause minimal impact, any substantial and rapid decline in the availability of CNMI-only work permits for needed workers would have a negative effect on the economy, given foreign workers' prominence in key CNMI industries.

In fiscal year 2008, the CNMI government spent approximately \$51.5 million in grants from several federal agencies, including DOI, DOC, DOL, the Department of Homeland Security, and the Department of Health and Human Services. For example, in 2008, the CNMI government spent \$9.35 million provided by DOI.³² The CNMI also has begun receiving federal

³⁰Consolidated Natural Resources Act of 2008, Pub.L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008). Certain provisions may be extended past 2014. The legislation's stated intent is to ensure effective border control procedures and protect national and homeland security, while minimizing the potential adverse economic and fiscal effects of phasing out the CNMI's own foreign worker permit program and while maximizing the CNMI's potential for economic and business growth. CNMI immigration law was in effect until the start of the transition period under the federal legislation; however, federal restrictions on the total number of foreign workers in the CNMI applied immediately.

³¹[GAO-08-791](#).

³²Independent Auditors' Report on CNMI Government Financial Statements for the Year Ended September 30, 2008. Additional federal funds may go to component units of the CNMI government not fully covered by the single audit, including the Commonwealth Utilities Corporation, the Commonwealth Development Authority, the Public School System, and the Marianas Visitors Authority.

CNMI Economy

funds under the Recovery Act that temporarily supplement local government revenues.³³

The CNMI's garment and tourism industries have contributed directly to its economy by generating employment and bringing revenue from outside the CNMI via exports.³⁴ For example, in 1999, these two industries accounted for about 85 percent of the CNMI's total economic activity and 96 percent of its exports.³⁵

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

³³On November 10, 2009, the CNMI Governor certified the commonwealth's intent to request and use federal funds under the act. By January 19, 2010, federal agencies had reported the availability of Recovery Act funds for CNMI totaling \$53.1 million, and the disbursement of \$11.4 million. Among other initiatives, these federal funds supported infrastructure projects under the Commonwealth Ports Authority, as well as augmenting resources available for nutrition assistance in the Department of Community and Cultural Affairs.

³⁴According to the Economic Census 2007, the CNMI's private sector economy included 1,191 establishments; 22,622 workers; total annual payroll of \$246.1 million; and transactions (sales, receipts, revenue, shipments) totaling \$1.284 billion. Manufacturing employed the largest share of the total workforce, with 31 percent. Twenty-one percent of employees worked in accommodation and food services, the second-largest share of employment for any single industry. Establishments that are not covered by the Economic Census include agricultural establishments, schools, and government-owned establishments, such as utilities, among others.

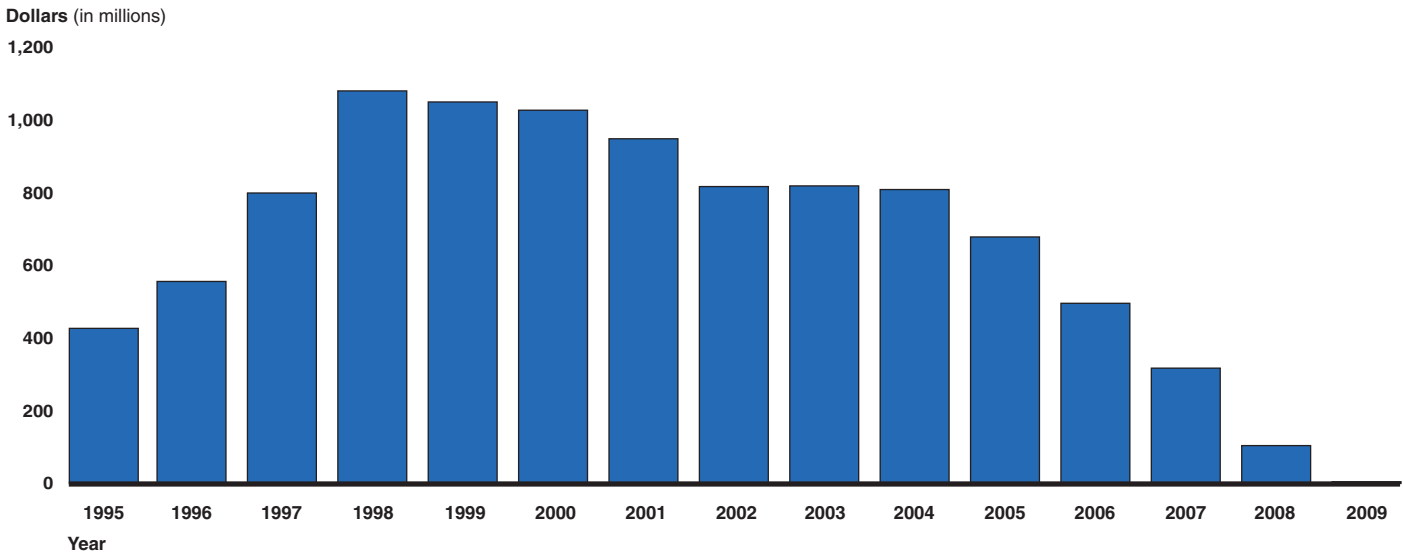
³⁵Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999). See [GAO-08-791](#) for more detailed information regarding the CNMI's economy.

the United States to greater competition.³⁶ Subsequently, the value of CNMI textile exports to the United States dropped from a peak of \$1.1 billion in 1998, to \$98.2 million in 2008, to close to zero in 2009 (see fig. 3).³⁷ The number of licensed CNMI apparel manufacturers decreased rapidly, from 34 firms in 1999 to 6 firms as of July 2008. By the end of the first quarter of 2009, the last garment factory in the CNMI had closed.

³⁶The apparel industry in the CNMI grew and expanded during a time when international rules governing apparel and textile trade were being rewritten. Beginning in the 1960s, exporting and importing nations established the Multifiber Arrangement as a multilateral trade agreement to govern trade restrictions in textiles. Under the Multifiber Arrangement, importing countries could negotiate and implement quota restrictions. The Uruguay Round of Multinational Trade Negotiations, initiated in September 1986, agreed to a negotiating objective of integrating the textile sector into the General Agreement on Tariffs and Trade thereby also contributing to further trade liberalization. Negotiations on textiles began in 1987, and by December 1991, the proposed final agreement brought the sector into conformity with the General Agreement on Tariffs and Trade over a 10-year period through several stages by which imports could increase until all quota restrictions are ended after 10 years. In 1994, the United States agreed to the World Trade Organization Agreement on Textiles and Clothing to remove quota restrictions in a series of stages beginning on January 1, 1995, and ending with the removal of all remaining quotas on January 1, 2005. See Agreement on Textiles and Clothing, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, Multilateral Agreement on Trade in Goods – Results of the Uruguay Round, 33 I.L.M. 28. The end of U.S. quotas on apparel imports in 2005 negated the value of quota-free status for Guam and the CNMI. CNMI shipments to the United States began to fall in advance of the final quota removal.

³⁷Government of the Commonwealth of the Northern Mariana Islands, Department of Commerce, *Economic Indicator: A Quarterly Report* (Saipan, Commonwealth of the Northern Mariana Islands, October-December 2008).

Figure 3: CNMI Textile Exports to the United States, 1995-2009



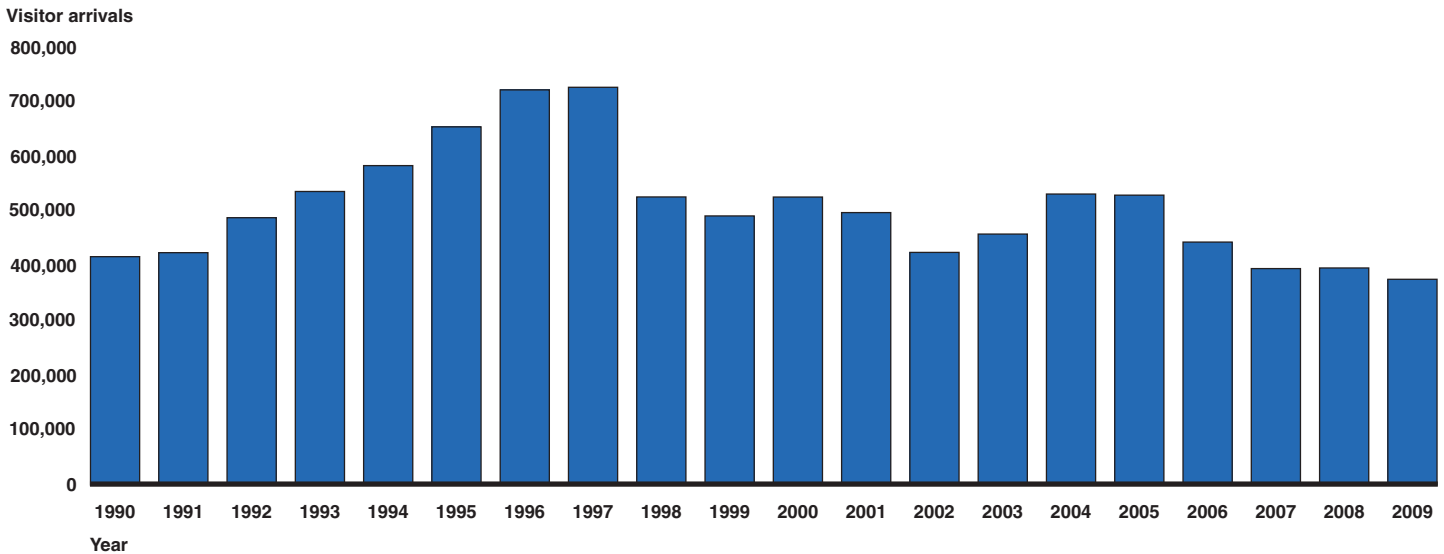
Source: GAO analysis of U.S. Department of Commerce data.

In addition, the CNMI economy has been negatively affected by trends in the tourism industry. For example, tourism in the CNMI experienced a sharp decline in the late 1990s as a result of the Asian financial crisis. In 2003, according to CNMI officials, tourism slowed for several months in reaction to the SARS epidemic, which originated in Asia, and the war in Iraq. Visitors from Japan account for the greatest share of visitor arrivals in the CNMI—56 percent of the total in fiscal year 2009. Total visitor arrivals to the CNMI dropped from a peak of 726,690 in 1997 to 375,808 in 2009, a decline of 48 percent (see fig. 4).³⁸ The CNMI tourism industry also may be affected by the November 28, 2009, implementation of final rules for a joint visa waiver program for visitors to the CNMI and Guam, as part of the application of U.S. immigration law.³⁹

³⁸The number of visitors to the CNMI from Japan decreased by 44 percent from 2005 to 2009 and by 28 percent from 2006 to 2008.

³⁹The legislation establishes a joint visa waiver program for the CNMI and Guam, by amending an existing visa waiver program for Guam visitors. The joint visa waiver program exempts tourism and business visitors from certain countries who are traveling to the CNMI and Guam for up to 45 days from the standard U.S. visa documentation requirements

Figure 4: CNMI Visitor Arrivals, 1990-2009



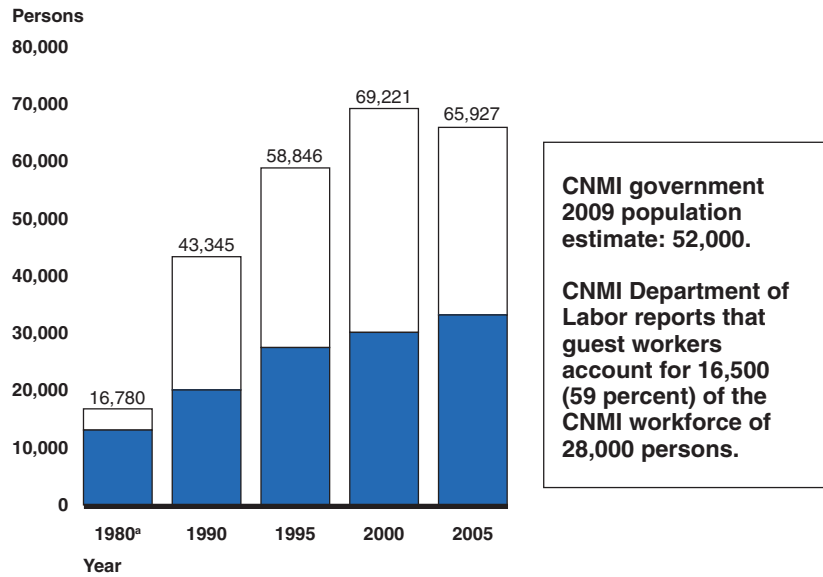
Source: GAO analysis of Marianas Visitors Authority arrivals data.

During the expansion of the CNMI garment and tourism industries prior to 1995, the CNMI economy became dependent on foreign labor, as the CNMI government used its authority over its own immigration policy to bring in large numbers of foreign workers and investors. In 1995, two-thirds of the CNMI working population were temporary residents, including about 93 percent of workers in the garment industry and slightly over 72 percent in the tourism industry. In contrast, in the same year, U.S. citizens and permanent residents of the CNMI held about 96 percent of jobs in the public sector. As a result, the CNMI economy developed a two-tiered wage structure, with U.S. citizens and permanent residents earning 3.5 times more than temporary residents in 1995.⁴⁰ However, with the decline of the garment and tourism industries, the number and proportion of noncitizens in the CNMI labor force and population has decreased (see fig. 5). Noncitizen workers in the CNMI are predominantly Chinese or Filipino. As

⁴⁰Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999). The study did not distinguish between U.S. citizens and U.S. lawful permanent residents, referring to the combined group as permanent residents.

noted above, the application of U.S. immigration law might result in further changes in the composition of the CNMI's workforce.

Figure 5: Citizenship Status of CNMI Population, 1980-2005



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

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

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

In addition, the CNMI's economy may be affected in the future by the planned build-up of the U.S. military in neighboring Guam, possibly bringing new business and tourism opportunities for the CNMI. The U.S. Department of Defense aims to move 8,000 Marines and an estimated 9,000 dependents from Okinawa, Japan, to Guam by 2014, increasing Guam's

current population by an estimated 25,000 active duty military personnel and dependents.⁴¹

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

- In 2004, the CNMI median household income was \$17,138,⁴² while the U.S. 50-state median household income was \$44,389.⁴³
- In 2004, the CNMI poverty rate for all persons was 53.5 percent,⁴⁴ while the U.S. 50-state poverty rate for persons age 15 and older was 12.7 percent.⁴⁵

Minimum Wage Law

U.S. Minimum Wage Law

The federal minimum wage was first enacted as part of the Fair Labor Standards Act of 1938 (FLSA). As of July 2009, the federal minimum wage was set at \$7.25 per hour.⁴⁶ Federal minimum wage laws apply generally to any employee engaged in commerce, with limited exceptions and

⁴¹We reported in May 2008 that the Department of Defense was in the process of conducting a training study covering both Guam and the CNMI to identify options for training in the region. GAO, *Defense Infrastructure: Planning Efforts for the Proposed Military Buildup on Guam Are in Their Initial Stages, with Many Challenges Yet to Be Addressed*, [GAO-08-722T](#) (Washington, D.C.: May 1, 2008).

⁴²Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 CNMI Household, Income, and Expenditures Survey* (April 1, 2008).

⁴³U.S. Department of Commerce, Bureau of the Census, Housing and Household Economic Statistics Division, *The Effects of Government Taxes and Transfers on Income and Poverty: 2004* (February 14, 2006).

⁴⁴Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 CNMI Household, Income, and Expenditures Survey*.

⁴⁵U.S. Department of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of the Census, *Current Population Survey -- 2005 Annual Social and Economic Supplement*.

⁴⁶29 U.S.C. § 206(a)(1)(C).

Minimum Wage Law in
American Samoa

exemptions.⁴⁷ Certain employees who would otherwise be covered under the FLSA definitions are exempted by law from the minimum wage requirements—for example, employees involved with seafood at sea are exempt.⁴⁸ Employees not covered by FLSA include, for example, individuals engaged in agriculture, if the employer is an immediate family member.

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

From 1956 to 2007, employers in American Samoa were allowed to pay their employees at hourly rates less than the federal minimum wage. During that period, rates were set by special industry committees established by DOL.⁴⁹ The special industry committees system continued to exist until May 2007, when Congress required an incremental increase in the minimum wage for all industries in American Samoa, at \$.50 per year in each industry, until it reaches the full federal minimum wage.⁵⁰ For example, if the current federal minimum wage of \$7.25 remains

⁴⁷The federal minimum wage laws apply to employees engaged in commerce or the production of goods for commerce and to employees who work for enterprises engaged in commerce or the production of commerce. An enterprise is deemed to be engaged in commerce or the production of goods for commerce only if it is an activity of a public agency, if its annual gross volume of business is at least \$500,000, or if it is engaged in the operation of a hospital, health facility, or school. 29 U.S.C. § 203(s). Businesses in which the only regular employees are immediate family members of the owner are not considered to be enterprises engaged in commerce.

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

⁴⁹The original FLSA allowed special industry committees to recommend wages for certain industries to DOL, within specified minimum and maximum limits, to move lower-wage industries gradually toward statutory minimums. In 1986, Special Industry Committee 17 mandated raising the minimum wage across several industries in American Samoa to the nationwide rate of \$3.35 per hour. This change was nullified by Congress in a subsequent law (Pub. L. No. 99-396, § 11 (Aug. 27, 1986)), which required that the minimum wage in American Samoa be reset to the rates that existed for each industry prior to the Special Industry Committee 17 rates; this returned the rate for cannery workers to \$2.82 per hour, until it was raised to \$2.87 in March 1991.

⁵⁰Pub. L. No. 110-28, § 8103(b)(2) (May 25, 2007).

unchanged, the minimum wage for American Samoa tuna canning industry workers will reach \$7.25 in 2014 (see table 5).

Table 5: American Samoa Scheduled Minimum Wage Increases for Tuna Canning Industry Workers and for Workers Paid the Lowest Minimum Wage

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

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

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

Minimum Wage Law in the CNMI

Under the terms of the CNMI-U.S. covenant, until May 2007, the CNMI was exempt from the minimum wage provisions of the FLSA and maintained control over its own minimum wage system.⁵¹ The most recent legislative changes to the federal minimum wage specified that the CNMI would be subject to the federal minimum wage, through a staged \$.50 incremental approach. The law raised the CNMI established minimum wage from \$3.05 to \$3.55 per hour in July 2007 and requires a \$.50 increase every year thereafter until the FLSA-CNMI minimum wage equals the full federal minimum wage⁵² (see table 6).

⁵¹Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, §503(b). See 48 U.S.C. §1801 note.

⁵²Pub. L. No. 110-28, § 8103(b)(1) (May 25, 2007). For delay in increases until September 2010, see H.R. Rep. No. 111-366 (Dec. 8, 2009) (Conf Rep.).

Table 6: CNMI Scheduled Minimum Wage Increases

Date	Minimum wage in the CNMI
Before July 25, 2007	\$3.05
July 25, 2007	3.55
May 25, 2008	4.05
May 25, 2009	4.55
September 30, 2010	5.05
September 30, 2011	5.55
September 30, 2012	6.05
September 30, 2013	6.55
September 30, 2014	7.05
September 30, 2015	7.25

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

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

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

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

- In May 2007, DOL’s Wage and Hour Division issued a report on the minimum wage in American Samoa as part of DOL’s biennial review process under the special industry committees.⁵³ The report analyzes American Samoa’s wage and employment structure based on a 2006 employment and wage survey, and it provides the numbers of employees in each industry who would be affected by a range of possible minimum wage increases.
- In January 2008, DOL issued a report on the economic impact of minimum wage increases in both American Samoa and the CNMI,⁵⁴ as required by

⁵³U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa, 2007* (May 2007). DOL issued similar reports for previous industry committees. DOL did not issue a similar report for the CNMI because the CNMI set its own minimum wage until July 2007.

⁵⁴Office of the Assistant Secretary for Policy, U.S. Department of Labor, *Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands* (January 2008). The report noted that data and time limitations constrained the study.

the 2007 supplemental appropriations bill.⁵⁵ For American Samoa, the study noted concern that the tuna canneries would close before the minimum wage reached the U.S. federal minimum wage of \$7.25 per hour, causing substantial job losses. For the CNMI, the study found that although data were not available to precisely quantify the impact of the scheduled minimum wage increases, it seemed likely that the CNMI's existing economic decline would be made worse and that the CNMI population would continue to decline.

- DOI funded studies of the American Samoa and CNMI economies, including the minimum wage increases.⁵⁶
 - A February 2008 study assessing the relationships between different sectors of the American Samoa economy found that a doubling of American Samoa's minimum wage in a 7-year period could result in the end of the fish processing industry and serious consequences for the economy.⁵⁷ The authors predicted that costs would rise, and that, under a worst-case scenario, American Samoa could lose 46 percent of all jobs in the territory.
 - An October 2008 study of the CNMI examined the impact of both federal immigration policy and the minimum wage increases.⁵⁸ In framing this analysis, the study found that lifting of quotas on garment imports to the United States had rendered the CNMI's garment industry unfeasible and estimated that the loss of 16,800 garment jobs could ultimately cost the CNMI economy about 25,200 jobs, about 60 percent of peak employment in 2004. The study projects the combined effect of

⁵⁵U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28 (May 25, 2007).

⁵⁶We did not assess the methodologies or assumptions used in these studies.

⁵⁷Malcolm D. McPhee & Associates with Dick Conway and Lewis Wolman, *American Samoa's Economic Future and the Cannery Industry*, prepared for the American Samoa Department of Commerce under a grant award from the U.S. Department of the Interior, Office of Insular Affairs (February 2008).

⁵⁸Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008). For previous report, see Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands, October 1999).

the closure of the garment industry with the implementation of the federal minimum wage and an application of federal immigration policy, whereby almost the entire foreign workforce is removed from the CNMI economy. In this projection, the employment of U.S.-qualified residents increases by 21 percent from 2005 to 2015, but real wages and salaries of U.S.-qualified residents fall by 19 percent. In addition, immigration-policy changes quickly remove foreign workers on government-approved contracts from the economy, and U.S.-qualified residents take jobs in the visitor industry. Despite the increased minimum wage, most of the jobs are projected to pay lower wages than U.S.-qualified residents had come to expect. The study also provides an alternative projection under which the minimum wage is held at \$4.05, foreign labor is not restricted, and an aggressive promotion program successfully doubles visitor arrivals by 2015. In this projection, the employment of U.S.-qualified residents increases by 4 percent from 2005 to 2015, and real wages and salaries of U.S.-qualified residents increase by 15 percent. The authors suggested, among other recommendations, that the law extending the minimum wage requires further analysis and notes that officials are seeking to modify the scheduled increases. Possible modifications include lengthening the period over which the minimum wage is increased, basing increases on measures of worker productivity, or using a special program for adjustment as had previously been done in American Samoa.

Appendix III: American Samoa Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

In American Samoa, the first minimum wage increase raised the wages of about three-quarters of workers of large private sector employers that responded to GAO's questionnaire. Based on June 2009 wage data from our questionnaire, the future minimum wage increases would affect the wages of 95 percent of those private sector workers by 2016. Federal data show that employment grew from 2006 to 2008, while questionnaire responses show that employment dropped from 2008 to 2009. Since the September 2009 closure of one tuna cannery, employment has continued to drop. Public and private sector officials expressed concern that future increases could impact the remaining cannery and American Samoa's ability to attract new industries. Employers representing many workers employed by questionnaire respondents reported taking cost-cutting actions, including those affecting workers' income and benefits, since the increases began. Private sector employers also reported planning actions such as leaving American Samoa or closing by the end of 2010. More employers attributed their past and planned actions to the minimum wage increases than to other factors. Cannery company officials said in interviews that the minimum wage increases were a significant contributing factor in the cannery's closure, in addition to other factors. Our analysis shows that outsourcing cleaning operations from low labor-cost areas, such as Thailand, provides opportunities to significantly reduce cannery operating costs. Earnings data from SSA show that median annual inflation-adjusted earnings in American Samoa declined by about 6 percent from 2006 to 2008. Although earnings data do not allow for a direct comparison of median and minimum-wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimated that inflation-adjusted earnings for full-time minimum wage workers who retained their jobs and hours rose by about 14 percent. In discussion groups, workers generally said that their support for the wage increases had dwindled because of concerns such as the cannery closure, job insecurity, and loss of benefits.

Minimum Wage Increases through 2016 Would Affect Wages of Almost All American Samoa Private Sector Workers Employed in 2009, Particularly in Canning Industry

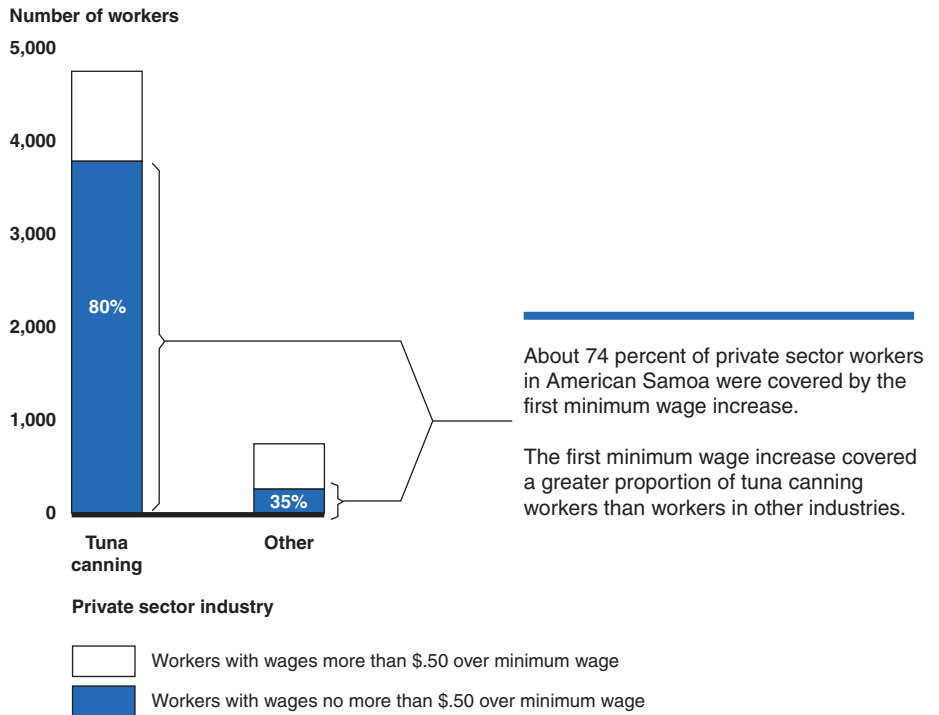
Wages of Most Private Sector
Workers Were Low Enough to
Be Raised By Minimum Wage
Increases in 2007-2009

According to wage data provided in large private sector employers' responses to our questionnaire, before the first minimum wage increase in July 2007 about 74 percent of those employers' workers earned wages close enough to the minimum to be affected by that first increase (see fig. 6).¹

- **Tuna canning industry.** About 80 percent (3,784 of 4,751) of canning industry workers employed by questionnaire respondents earned no more than 50 cents over that industry's minimum wage.
- **Other private sector industries.** About 35 percent (260 of 747) of hourly workers employed by questionnaire respondents in other private sector industries earned no more than 50 cents over the minimum wages for those industries.

¹We assumed that all workers employed by questionnaire respondents were legally required to receive the minimum wage; if some were not covered or were exempt, the minimum wage increase affected fewer workers than our analysis shows. Before the first increase in July 2007, 37 percent of all American Samoa workers employed by questionnaire respondents earned wages close enough to the minimum wage to be directly affected by the first increase. In contrast, according to Bureau of Labor Statistics estimates, in 2006 approximately 2.2 percent of all hourly workers in the U.S. states earned the federal minimum wage of \$5.15 or less.

Figure 6: American Samoa Private Sector Workers with Wages Low Enough to Be Affected by July 2007 Increase, Based on GAO Large-Employer Questionnaire Wage Data



Source: GAO analysis of wage data provided in the American Samoa large-employer questionnaire.

Notes: Data shown are based on wage data for the pay period including June 12, 2007, provided in responses to our American Samoa large-employer questionnaire. In June 2007 in American Samoa, the minimum wage was \$3.26 for the canning industry and ranged from \$2.70 to \$3.63 for other private sector industries; minimum wage increases occurred in July 2007. “Tuna canning” comprises the two tuna canneries and the manufacturer of cans. Wages shown are those of hourly wage workers and full-time salaried workers. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that have closed. Although questionnaire respondents represented about 72 percent of the American Samoa workforce, questionnaire wage data may not be representative of all American Samoa workers and employers.

For the first three minimum wage increases in 2007 through 2009, wage data provided by respondents to our large-employer questionnaire showed the following:

- In July 2007, about 86 percent of private sector workers in American Samoa had wages no more than \$1.50 over the minimum and therefore would have been affected by the minimum wage increases in 2007 through 2009.

Rise in Median Wage after Three Increases Was Greatest for Canning Industry Employees

- In the public sector, according to American Samoa responses to our questionnaire, at most 30 percent of government workers earned wages no more than \$1.50 over the minimum in 2007² and therefore were directly affected by the first three minimum wage increases.³

After the first three minimum wage increases, the median wage for the tuna canning industry increased more than for other parts of the private sector.⁴ Based on large employers' responses to our questionnaire, our analysis shows that from June 2007 to June 2009—the period of the \$1.50 total increase in the minimum wage—the median wage for the canning industry rose by \$1.46 (44 percent) while the median wage for the rest of the private sector rose by \$1.00 (25 percent) (see table 7). For American Samoa public sector workers, the median salary, based on questionnaire responses, remained unchanged in a range between \$10,000 and \$20,000.⁵

Table 7: Median Hourly Wage Rates of Private Sector Workers Employed by American Samoa Respondents in 2007-2009, Based on GAO Large-Employer Questionnaire Wage Data

Sector (employees in 2009)	2007	2009	Percentage change in median hourly wage rate, 2007-2009	Absolute change in median hourly wage rate
Tuna canning industry (4,269 employees)	\$ 3.30	\$ 4.76	44	\$ 1.46
Other private sector (747 employees)	\$ 4.00	\$ 5.00	25	\$ 1.00

Source: GAO analysis of wage data provided in the American Samoa large-employer questionnaire.

²According to a 2007 DOL report, an October 2006 survey showed that 17 percent of American Samoa government employees were paid less than \$4.50 per hour, slightly more than \$1.50 above the minimum of \$4.41 per hour. See U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa* (May 2007).

³DOL has previously identified cases of noncompliance with minimum wage law among U.S. employers. If this occurred in American Samoa, some workers who are covered by FLSA and are entitled to earn a minimum wage may not be paid the minimum wage. In questionnaire responses, no employer reported paying wages below the minimum wage; however, we did not independently verify the wage and other information provided to us.

⁴Our analysis reflects the wages of those employed but does not reflect loss of wages by workers who lost their jobs.

⁵The median government salary might have changed within the \$10,000 to \$20,000 range, but our data do not allow us to measure such variation.

Notes: Table shows the median hourly wage rates of hourly workers' and salaried workers' wages converted to a per hour rate; these rates are based on wage data for the pay period including June 12 of each year, provided in responses to our American Samoa large-employer questionnaire. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that had closed. Although questionnaire respondents represented about 72 percent of the American Samoa workforce, questionnaire wage data may not be representative of all American Samoa workers and employers.

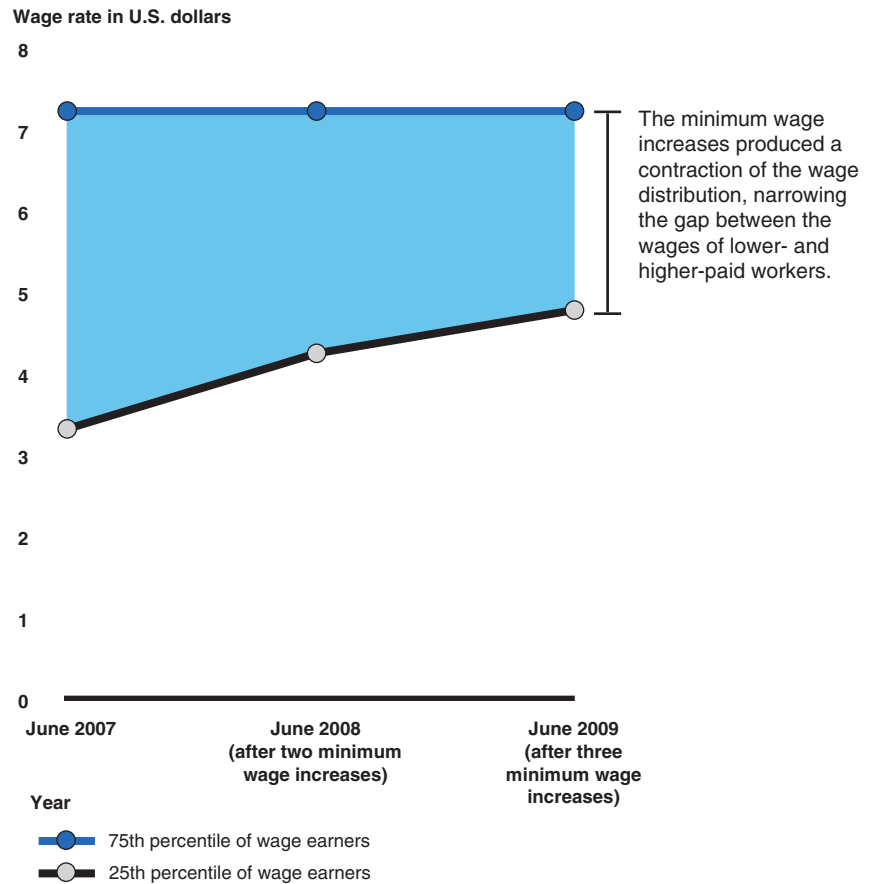
In June 2007 there was no minimum wage increase in American Samoa; in June 2009 there had been three minimum wage increases of 50 cents each (totaling \$1.50).

Minimum Wage Increases in 2007-2009 Narrowed Wage Gap between Lower- and Higher- Paid Workers Employed by Questionnaire Respondents

Responses to our questionnaire indicate that the minimum wage increases narrowed the gap between the wages of lower- and higher-paid workers in American Samoa (see fig. 7).⁶ Workers earning the 25th percentile of wages—that is, higher than 25 percent of all American Samoa workers employed by questionnaire respondents—experienced a larger increase in wages than workers earning the 75th percentile of wages. Workers earning the 75th percentile of wages experienced no increase in wages. Specifically, the gap between wages of workers at the 25th percentile and workers at the 75th percentile dropped from \$3.91 in 2007 to \$2.45 in 2009, a decline of 37 percent.

⁶In contrast, recent minimum wage increases in the 50 states did not cause larger wage increases at the lower end of the wage distribution. From 2006 to 2008, the U.S. minimum wage increased from \$5.15 in 2006, to \$5.85 in July 2007, to \$6.55 in July 2008. According to data from the Bureau of Labor Statistics Current Population Survey, usual weekly earnings at the 25th percentile increased by 9 percent and at the 75th percentile by 10 percent (unadjusted for inflation) during this period.

Figure 7: Changes in Wages of All Workers Employed by Questionnaire Respondents, Based on American Samoa Large-Employer Questionnaire Wage Data



Source: GAO analysis of wage data provided in the American Samoa large-employer questionnaire.

Notes: Wage rates shown are based on wage data for the pay period including June 12 of each year, provided in responses to our American Samoa large-employer questionnaire, and include both hourly wage workers and full-time salaried workers in the private and public sectors. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that had closed. Although questionnaire respondents represented about 72 percent of the American Samoa workforce, questionnaire wage data may not be representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers' responses significantly affected our reported questionnaire data.

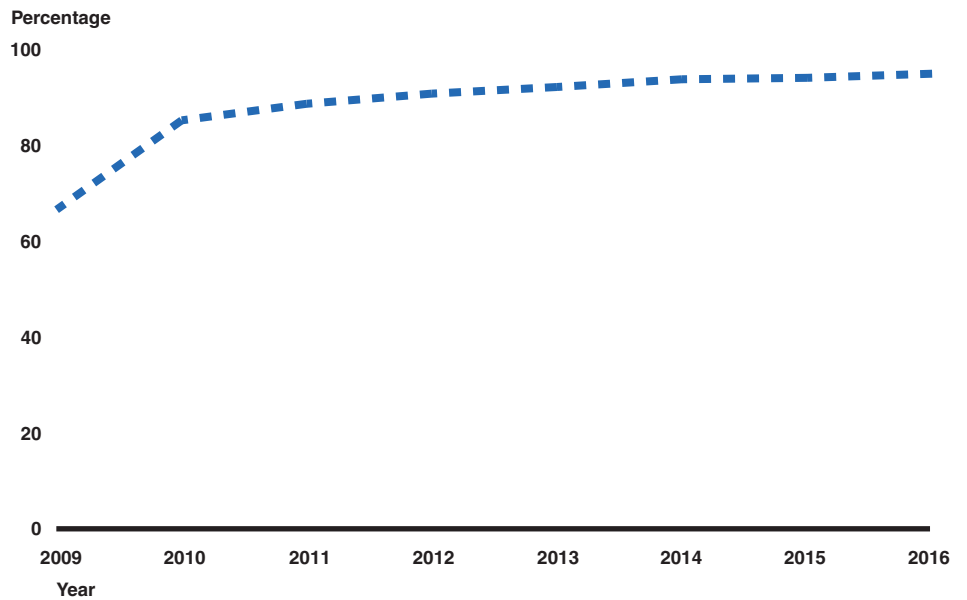
The minimum wage for workers in the tuna canning industry in American Samoa was \$3.26 in June 2007, \$4.26 in June 2008, and \$4.76 in June 2009. From June 2007 to June 2008 there were two minimum wage increases of 50 cents each, and from June 2008 to June 2009 there was one minimum wage increase of 50 cents. The different numbers of increases in each time period may have affected the extent of contraction of the wage distribution in each period.

Minimum Wage Increases in
2010-2016 Would Affect Wages
of Very High Percentage of
American Samoa Private Sector
Workers, but Several Variables
Remain Uncertain

As the minimum wage increases continue, they will affect a growing percentage of workers in American Samoa. Based on large employers' questionnaire responses about workers' wages as of June 2009, in the private sector, the minimum wage increases scheduled for 2010 through 2016 would affect the wages of roughly 95 percent of those employers' workers by 2016 (see fig. 8). Information provided in the large-employer questionnaire also show that in the public sector, the scheduled increases would affect at most about 69 percent of workers by 2016.⁷

⁷A 2007 DOL report found that 83 percent of all surveyed employers and 61 percent of American Samoa government employees were paid less than \$7.00 per hour, based on an October 2006 survey. U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, *Economic Report: The Minimum Wage in American Samoa* (May 2007).

Figure 8: Percentage of American Samoa Private Sector Questionnaire Respondents' Employees in June 2009 Whose Wages Would Be Affected by 2010-2016 Minimum Wage Increases, Based on GAO Large-Employer Questionnaire Wage Data



Source: GAO analysis of wage data provided in the American Samoa large-employer questionnaire.

Notes: The percentages shown for 2010 to 2016 are based on the June 2009 distribution of workers' wages for the private sector, according to wage data provided in responses to our American Samoa large-employer questionnaire. Our analysis assumes that wages of workers not directly affected by the minimum wage increase will not rise and that the distribution of workers' wages will not change over the period for reasons other than the increases. Our analysis includes all workers employed by questionnaire respondents in June 2009. However, if we excluded from the analysis the employees for the cannery that closed in September 2009, the percentage of private sector employees affected by the minimum wage by 2016 would be 93 percent, instead of the 95 percent shown above. The analysis does not take into account possible impacts of the cannery's closure, such as job losses in other sectors. Moreover, if the remaining tuna cannery closes or lays off workers, fewer workers will be affected by each subsequent minimum wage increase than we project. The tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers' responses significantly affected our reported questionnaire data.

Federal minimum wage increases in American Samoa occurred in July 2007, May 2008, and May 2009; additional \$.50 increases are scheduled for September of each year through 2016.

Our analysis assumes full compliance with minimum wage increases required by law. If future minimum wage increases are not fully implemented, they will affect a lower percentage of workers than we project.

However, uncertainty about the future of the American Samoa labor market and economy makes it difficult to project the distribution of wages in American Samoa in 2010 and subsequent years. In particular, the cannery closure in September 2009, the consequent losses of cannery jobs and cannery industry-related jobs, and the loss of cannery demand for

supplies and services may impact the labor market, as well as the general economy, in ways that our analysis does not reflect. Moreover, if the remaining cannery were to close, the labor market and the economy would be affected still further.

American Samoa Employment Dropped after Minimum Wage Increases Began

Employment in American Samoa Grew after First Minimum Wage Increase but Dropped after Second Increase and Cannery Closure

Total employment in American Samoa grew from 2006 to 2008, before dropping from 2008 to 2009. As shown in figure 9, according to SSA data, total employment increased by 5.5 percent (from 17,551 to 18,518) from 2006 to 2007 and then slowed to 3 percent (from 18,518 to 19,060) from 2007 to 2008. SSA data for 2009 were not available at the time of our work.

Questionnaire responses from employers representing about 72 percent of the American Samoa workforce indicate that employment among the workers employed by respondents increased by 2 percent from June 2007 to June 2008 (from 10,865 to 11,050) and dropped by about 12 percent from June 2008 to June 2009 (from 11,050 to 9,685).⁸

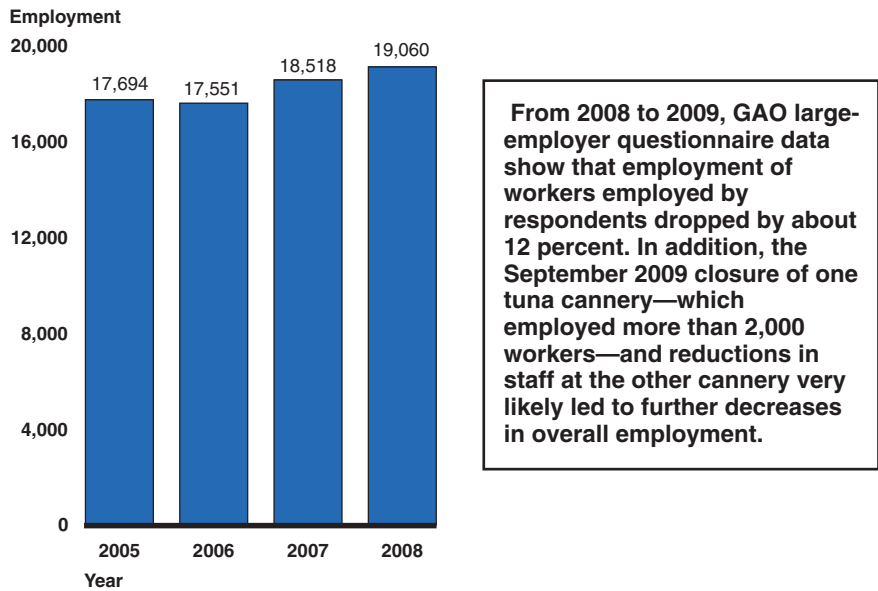
Moreover, the September 2009 closure of one cannery, which employed more than 2,000 workers,⁹ as well as reductions in staff at the other cannery, have very likely led to further decreases in overall employment. Public and private sector officials told us it would be difficult for laid-off workers to find new jobs. Many laid-off workers may leave American

⁸This count does not correct for the following factors: (a) the questionnaire was given only to large employers, (b) some employers did not complete the questionnaire, and (c) we were unable to survey employers that had closed. As a result, questionnaire responses are not necessarily representative of all American Samoa workers and employers. In addition, one cannery told us that, owing to fluctuations in its numbers of employees throughout the year, the June-to-June comparison might mask larger decreases in employment.

⁹Particularly since the early 1990s, economists have debated the overall effects of a minimum wage increase on low-wage employment. According to a recent review of this literature, although there may be consensus that the overall effect is negative, there is no consensus on the size of the effect. For discussion of the economic literature on the effect of the minimum wage, see David Neumark and William Wascher, "Minimum Wages and Employment," *Foundations and Trends in Microeconomics*, vol. 3, no. 1-2 (2007): 1-182.

Samoa rather than seeking new jobs; 84 percent of the laid off workers from the closed tuna cannery are from independent Samoa, and some may return to their home country.¹⁰ However, some of the laid-off workers may have been temporarily re-employed to assist with reconstruction after the September 2009 tsunami. The federal government has paid approximately \$8 million under the Recovery Act and approved roughly \$23 million for tsunami relief, both of which have funded the creation of temporary jobs. Additional temporary jobs are available to assist with the 2010 Census.

Figure 9: American Samoa Employment in 2005-2008, Based on SSA Data and GAO Large-Employer Questionnaire Wage Data



Source: GAO analysis of SSA data and wage data provided in the American Samoa large-employer questionnaire.

Notes: Minimum wage increases occurred in American Samoa in July 2007, May 2008, and May 2009.

Total employment counts are based on SSA data. SSA data were not available for 2009.

¹⁰American Samoa immigration officials told us that, under current American Samoa immigration law, workers with guest worker status must leave the territory if they lose their jobs, while workers with individual sponsors may remain. About 22 percent of foreign workers from independent Samoa who were formerly employed by the closed tuna cannery have guest worker status.

Small Employers and Public
and Private Sector Officials
Expressed Concern about
Impact of Future Wage
Increases on Remaining
Cannery and Ability to Attract
New Industries and Jobs

Public and private sector officials expressed concern that the ripple effect from the closure of one cannery, increasing costs, and future minimum wage increases may force the remaining cannery to close. The closure of one cannery is likely to raise operating costs for the remaining cannery and has ripple effects on other businesses. The remaining cannery will now be responsible for all waste water, waste discharge, and maintenance costs, which the two canneries previously shared. The utility company has announced that it was raising utility rates on remaining customers once one cannery closed. In addition, the closure of one cannery reduced shipping needs and therefore is likely to increase shipping costs of imported goods, including produce and consumer products. Officials expressed concern that closure of the remaining cannery would cause further loss of employment.

Employers who participated in our discussion groups for small employers also discussed the effects that cannery closure would have on their operations.¹¹ Many said cannery closure would not only affect the employment and income of the cannery workers, but also consumer confidence and spending and government revenues. In addition, many small employers said that as a result of the minimum wage increases, they had to lay off workers; cut benefits, hours, and overtime pay; and increase costs for customers, when possible. Some said that they had raised pay only for minimum wage workers, which had decreased the morale of workers who did not receive raises. Furthermore, some small employers said that they wanted workers to earn as much as possible because the cost of living is continuously increasing. While many opposed the minimum wage increases as scheduled, some said they did not oppose minimum wage increases in general but rather advocated a rational approach for setting the increases.

Public sector officials also expressed concern about increased fiscal strain and difficulties in attracting new businesses to American Samoa. In their view, the minimum wage increases will raise costs to the government as more public sector employees are covered by the increases and will coincide with increased fiscal stress on the American Samoa government.

¹¹We conducted structured discussion groups with American Samoa Chamber of Commerce members to collect information on the impact of the minimum wage increases on employers not covered by our large-employer questionnaire. Although many small employers not covered by the questionnaire attended, several participants did receive the questionnaire.

A report for the American Samoa legislature on the consequences of one cannery's closure estimated that government revenue would decline by roughly 25 percent in fiscal year 2010 compared to fiscal year 2009 revenues.¹² Officials we interviewed said rising minimum wages add to the challenges the territory faces in attracting new industries, such as call centers, in addition to existing factors.¹³ For example, a person from a group interested in opening call centers in American Samoa said that local workers must be prepared to work for wages lower than those in the United States until their skill levels improve, and that the U.S. government's failure to consider this in imposing the U.S. minimum wage had caused potential investors to shy away from the territory. In July 2009, the American Samoa government reported that it had collected 12,000 signatures to a petition to the President to repeal the minimum wage increases in American Samoa, leaving only the first \$.50 increase.¹⁴

¹²American Samoa Legislative Staff, *A Report Assessing the Consequences of Tri Union Samoa Packing's Departure*, prepared for the legislative leadership (Pago Pago, American Samoa, May 12, 2009).

¹³According to American Samoa officials, another challenge in attracting investment and new businesses in American Samoa is cabotage. With its South Pacific location, American Samoan government and business officials view Australia and New Zealand as possible sources of business investment and tourists. However, according to these officials, restrictions on the ability of Australian and New Zealand air carriers to land in American Samoa and then continue to other U.S. destinations, such as Hawaii and Los Angeles, hamper investment and tourism. The United States restricts foreign airlines from carrying passengers or cargo between U.S. locations (cabotage) unless authorized by the U.S. Department of Transportation based on specific criteria. 49 U.S.C. section 40109(g).

¹⁴The petition also supported re-establishing the previous system by which special industry committees determined the minimum wages in the territory. A local non-government group Common Cause has questioned the validity of the petition signatures and it has stated support for the \$.50 minimum wage increase scheduled for 2010.

American Samoa
Employers Reported Past
and Planned Actions to
Reduce Costs and Raise
Prices, with More
Attributing Actions to
Minimum Wage Increases
Than to Other Factors

Respondents to our large-employer questionnaire reported having taken a number of cost-cutting actions—some of which affect workers’ income or benefits—as well as raising prices since the minimum wage increases began in June 2007. Employers also reported planning to take additional such actions within 18 months of completing our questionnaire, or by the end of 2010. Widely varying percentages of employers—weighted by numbers of employees—attributed these actions largely to the minimum wage increases, and more attributed their actions largely to the wage increases than to other factors.¹⁵ (See app. V for a complete listing of American Samoa employers’ past and planned actions, as well as the percentages that reported them and that attributed them to the minimum wage increases and other factors.)

Employers Reported Actions to
Cut Costs and Raise Prices
from 2007 to 2009, and
Many Attributed Actions to
Minimum Wage Increases

*Cost-Cutting Actions Affecting Workers’ Income and Benefits in
2007-2009*

- **Closed or relocated.** Employers, including one of the canneries, representing 43 percent of workers employed by private sector respondents reported closing temporarily or relocating outside American Samoa (see fig. 10). Of employers that reported closing temporarily, none attributed the action largely to the past minimum wage increases.¹⁶ Of those that reported relocating, employers representing 4 percent of

¹⁵Percentages of responses regarding actions are weighted by each employer’s total number of workers in 2009. The percentages of respondents that attributed the action largely to the minimum wage increases are weighted to reflect the number of workers employed by those respondents relative to the total number of workers employed by respondents that reported the action. The percentages of respondents that reported other factors contributing to their actions are weighted by each employer’s number of workers in 2009 relative to the total number of workers employed by all respondents. The weighting approach gives more weight to responses from employers with larger number of workers. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire responses do not include smaller employers, employers that had closed, or employers that did not respond to our questionnaire. Although questionnaire responses represented about 72 percent of the American Samoa workforce, they are not necessarily representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers’ responses significantly affected our reported questionnaire data.

¹⁶Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents.

workers employed by these respondents attributed the action largely to the past minimum wage increases.¹⁷

- **Laid off hourly workers.** Employers representing 24 percent of workers employed by all respondents reported having laid off hourly workers (see fig. 10). Of these, employers representing 68 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.¹⁸
- **Froze hiring.** Employers representing 93 percent of workers employed by all respondents reported having implemented a hiring freeze. Of these, employers representing 23 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.
- **Decreased benefits.** Employers representing 42 percent of workers employed by all respondents reported that they had decreased the level of hourly workers' benefits. Of these, employers representing 41 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Additional Cost-Cutting Actions in 2007-2009

- **Implemented labor-saving strategies or technology.** Employers representing 29 percent of workers employed by all respondents reported that they had implemented labor-saving strategies or technology.¹⁹ Of these, employers representing 67 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

¹⁷In addition, of those that reported relocating, employers representing 79 percent of workers employed by those respondents attributed the decision largely to expectations of future minimum wage increases.

¹⁸In addition, data provided by respondents to our large-employer questionnaire show that the average hours of hourly workers stayed about the same over the period from 2007 to 2009, while overtime hours decreased during the same period. Specifically, average regular hours worked per day decreased from 7.41 in June 2007 to 6.34 in June 2008, before rising to 7.46, close to the 2007 level, in June 2009. Data that employers reported on overtime hours showed a net decrease of 17 percent over the same period; average overtime hours worked per day changed from 0.82 to 0.55 to 0.68.

¹⁹Some of the examples of labor-saving strategies include automating certain tasks and cross-training staff in different departments so they can perform multiple tasks.

- **Implemented other cost-saving strategies.** Employers representing 94 percent of workers employed by all respondents reported that they had implemented other cost-saving strategies, such as energy-saving technologies. Of these, employers representing 23 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.
- **Reduced capacity or services.** Employers representing 45 percent of workers employed by all respondents reported that they had reduced their operating capacity or customer services. Of these, employers representing 1 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Price Increases in 2007-2009

- **Raised prices.** Employers representing 96 percent of workers employed by all respondents reported that they had raised prices of goods or services. Of these, employers representing 1 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Employers Reported Plans to
Close or Relocate and Take
Other Actions by the End of
December 2010, with Many
Citing Minimum Wage
Increases

Planned Cost-Cutting Actions Affecting Workers' Income or Benefits

- **Close or relocate.** Employers representing 84 percent of all private sector workers employed by questionnaire respondents—including the cannery that closed in September 2009—reported planning to relocate their business outside American Samoa or close permanently by the end of 2010 (see fig. 10).²⁰ Of those planning to relocate, employers representing 87 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases. Of those planning to close, employers representing 85 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Lay off hourly workers.** Employers representing 46 percent of all workers employed by questionnaire respondents reported planning to lay off hourly workers (see fig. 10). Of these, employers representing 91

²⁰Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents.

percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

- **Freeze hiring.** Employers representing 31 percent of all workers employed by questionnaire respondents reported planning to freeze hiring. Of these, employers representing 35 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Decrease benefits.** Employers representing 25 percent of all workers employed questionnaire respondents reported planning to decrease hourly workers' benefits. Of these, employers representing 85 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

Additional Planned Cost-Cutting Actions

- **Implement labor-saving strategies.** Employers representing 50 percent of all workers employed by questionnaire respondents reported planning to implement labor-saving strategies or technology. Of these, employers representing 88 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Implement other cost-saving strategies.** Employers representing 97 percent of all workers employed by questionnaire respondents reported planning to implement other cost-saving strategies, such as energy-saving technologies. Of these, employers representing 28 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Reduce capacity or services.** Employers representing 89 percent of all workers employed by questionnaire respondents reported planning to reduce operating capacity or customer services. Of these, employers representing 29 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

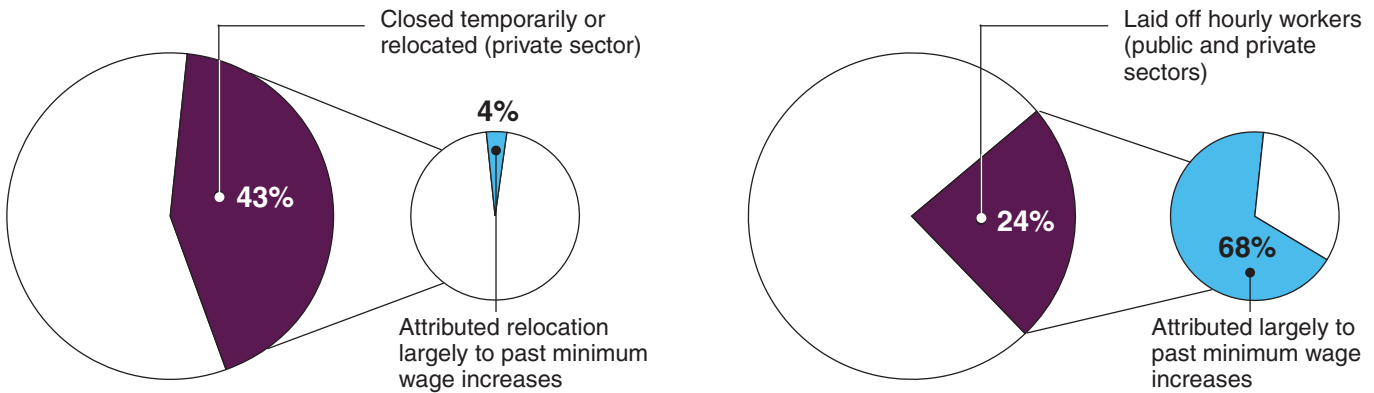
Planned Price Increases

- **Raise prices.** Employers representing 7 percent of all workers employed by questionnaire respondents reported planning to raise prices of goods and services. Of these, employers representing 8 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

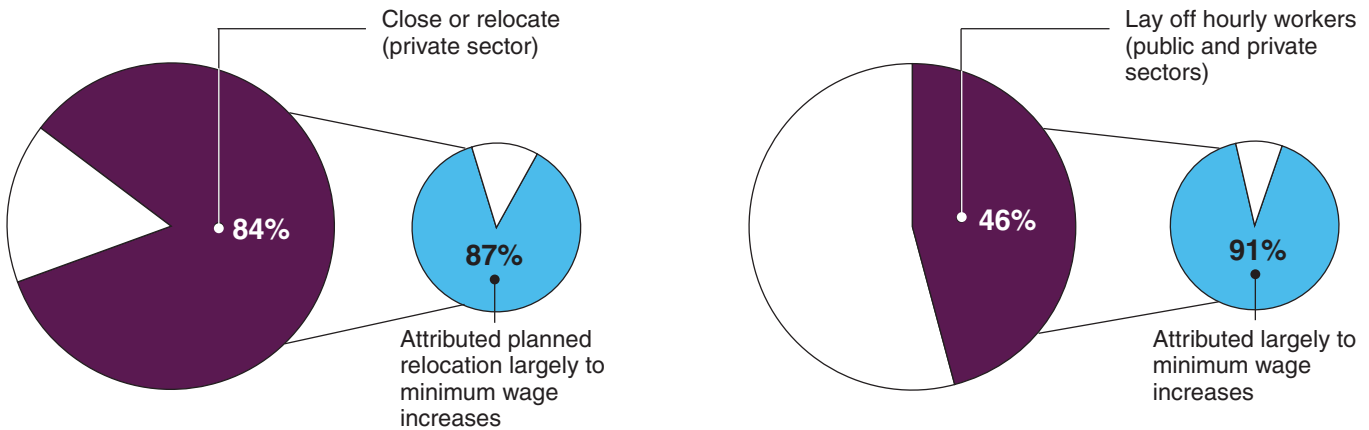
Appendix III: American Samoa Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

Figure 10: Selected American Samoa Reported Employer Actions in 2007-2009 and Planned by End of 2010, with Attribution to Past Minimum Wage Increases

Selected employer actions 2007-2009 and attribution to past minimum wage increases



Selected planned employer actions and attribution to minimum wage increases



- Percentage of workers represented by employers that reported having taken action or planning to take action, relative to all workers represented by respondents
- Percentage of workers represented by employers that attributed past or planned action largely to minimum wage increases, relative to workers represented by employers that reported having taken action or planning to take action

Source: GAO analysis of American Samoa large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents. Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, none of whom are covered by our questionnaire. Data also do not include employers that did not respond to our questionnaire. Although questionnaire responses covered 72 percent of the American Samoa workforce, they may not be representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers' responses significantly affected our reported questionnaire data.

**Fewer Employers Attributed
Their Actions to Factors Other
Than the Minimum Wage
Increases Than Attributed
Actions to the Increases**

Employers also reported that, in addition to the minimum wage increases, factors such as rising costs of utilities and of transportation and shipping contributed to their decisions and plans to cut costs and raise prices. However, fewer employers attributed their actions, in general, largely to these other factors than attributed specific actions to the minimum wage increases. (See app. V for a complete list of the other reported factors and the percentages of employers reporting these factors.) For example, in contrast to the double-digit percentages of employers citing minimum wage increases for many of the actions above, employers representing 6 percent or less of workers employed by questionnaire respondents attributed actions from June 2007 to June 2009 to each possible contributing factor named in our questionnaire.²¹

**Company Officials Said
Minimum Wage Increases
Played Role in Cannery Closure**

By raising the hourly minimum wage for cannery workers in American Samoa from \$3.26 in 2006 to \$4.76 in May 2009—a total increase of 46 percent—the three minimum wage increases to date have further widened the wage gap between American Samoa and other Pacific regions with tuna canning facilities, such as Thailand, which has a minimum wage level of less than \$1 an hour. Cannery company officials we met with stated that minimum wage increases were a significant factor in the closure of one of the two canneries in American Samoa. According to cannery representatives, in addition to minimum wage increases, other factors that contributed to the cannery's closing include (1) the highly competitive market for tuna products, limiting canneries' ability to pass on increased labor and operating costs to consumers; (2) an attractive environment for

²¹Employers representing more workers employed by respondents said that other factors contributed to a moderate extent. In particular, nearly 100 percent cited rising utility costs as contributing to a moderate or large extent, and 28 percent cited increased transportation and shipping costs as contributing to a moderate or large extent.

investment in alternative locations;²² (3) the rising cost of shipping and utility costs—owing to increased fuel costs in recent years; (4) the lessening of the value of tariff protection, owing to global trade liberalization;²³ (5) loss of certain U.S. tax benefits;²⁴ and (6) high costs associated with environmental regulations.

Officials from the remaining cannery report that its operations in American Samoa are no longer viable at the current \$4.76 minimum wage for cannery workers. The company testified to Congress that it had reduced employment by nearly 1,000 workers since May 2008.²⁵ The company also reported that its costs to operate in American Samoa were \$23 million higher than they would be in alternative locations. In addition, officials said trade liberalization made it easier for domestic competitors

²²Local governments have provided various forms of incentives to attract manufacturing, such as tuna canning. American Samoa has provided various tax exemptions and benefits to the tuna canning industry, such as a graduated tax exemption on corporate income taxes, employee tax benefits, and tax exemptions for owners and operators of vessels that supply the canneries. The cannery that moved its canning operations to the U.S. state of Georgia has received local and state incentives, including county and city tax exemptions and contributions from the state to cover part of the build-up cost. According to tuna cannery officials, the Thai government also provides incentives to attract businesses, such as a tax rebate on investment in new manufacturing facilities.

²³Global trade liberalization has reduced trade barriers on some tuna products from certain countries, which leads to the erosion of the tariff-free benefits for American Samoa exports. For example, tariffs on pouched tuna from Andean Trade Preference Act countries have declined.

²⁴The tax credits under section 936 of the Internal Revenue Code expired for taxable years beginning after December 31, 2005. Section 30A of the Internal Revenue Code extends the Section 936 credits for American Samoa until January 2010, subject to certain limitations. Corporations that were actively conducting business in American Samoa by 1995 who elected Section 936 status in the last taxable year before January 1, 2006, could claim a section 30A tax credit until January 2010. See Publ. L. No. 109-432 §119 (Dec. 20, 2006). Section 30A has been continuously in effect since the expiration of Section 936, and legislation introduced in the House of Representatives (H.R. 4213, §144) would extend it for one year.

²⁵The remaining cannery has significant vested interests in Ecuador, a low-cost site of production, and was a major advocate for duty-free treatment of canned tuna from Ecuador. Liam Campling, Elizabeth Havice, and Vina Ram-Bidesi, *Pacific Islands Countries, the Global Tuna Industry and the International Trade Regime-A Guidebook* (Pacific Islands Forum Fisheries Agency, 2007).

to outsource labor-intensive work away from American Samoa and into low-wage countries.²⁶

The firm that owned the American Samoa cannery that closed adopted a business model aimed at reducing labor costs by moving the labor-intensive part of the operation—cleaning, cutting, and cooking the fish to produce cleaned loins ready to be canned—to low labor-cost locations and exporting cleaned loins to the United States for canning. (See text box and fig. 11 for a comparison of the cost factors of the new business model with those of the model previously used by both firms operating canneries in American Samoa.)

Comparison of Two Tuna Canning Business Models

Different business models exist in the tuna canning industry. We compared the two models used by firms that produce for the U.S. market to illustrate how the major cost components differ under each model. Under model A, used by the firm that owns the cannery remaining in American Samoa, a firm conducts loining (cleaning, cutting, and cooking the fish) and canning in American Samoa and exports canned tuna to the U.S. market tariff-free. Under model B, used by the firm that closed its cannery in American Samoa and now operates in the U.S. state of Georgia, the firm sources fish loins from low labor-cost regions outside American Samoa, exports the frozen loins to the United States, pays U.S. tariffs, and cans tuna in the United States. Assuming that the production and employment level are similar to those of the firm that closed its cannery in American Samoa, we found that the annual savings on labor costs (\$12 million) under model B will more than offset the increased tariff costs (\$320,000) per year. We were not able to quantify other production costs, such as utility costs and shipping costs.

- **Wage costs.** Wage costs are significantly lower under model B than under model A. After May 2009 and before the May 2010 increase, the minimum wage for tuna cannery workers in American Samoa is \$4.76 per hour; in contrast, the minimum wage in Thailand is less than \$1 per hour. Assuming that a plant employs 2,000 people, under

²⁶Testimony of Donald J. Binotto, President and CEO, Starkist Co., before the U.S. House of Representatives Committee on Natural Resources, Subcommittee on Insular Affairs, Oceans, and Wildlife (November 4, 2009).

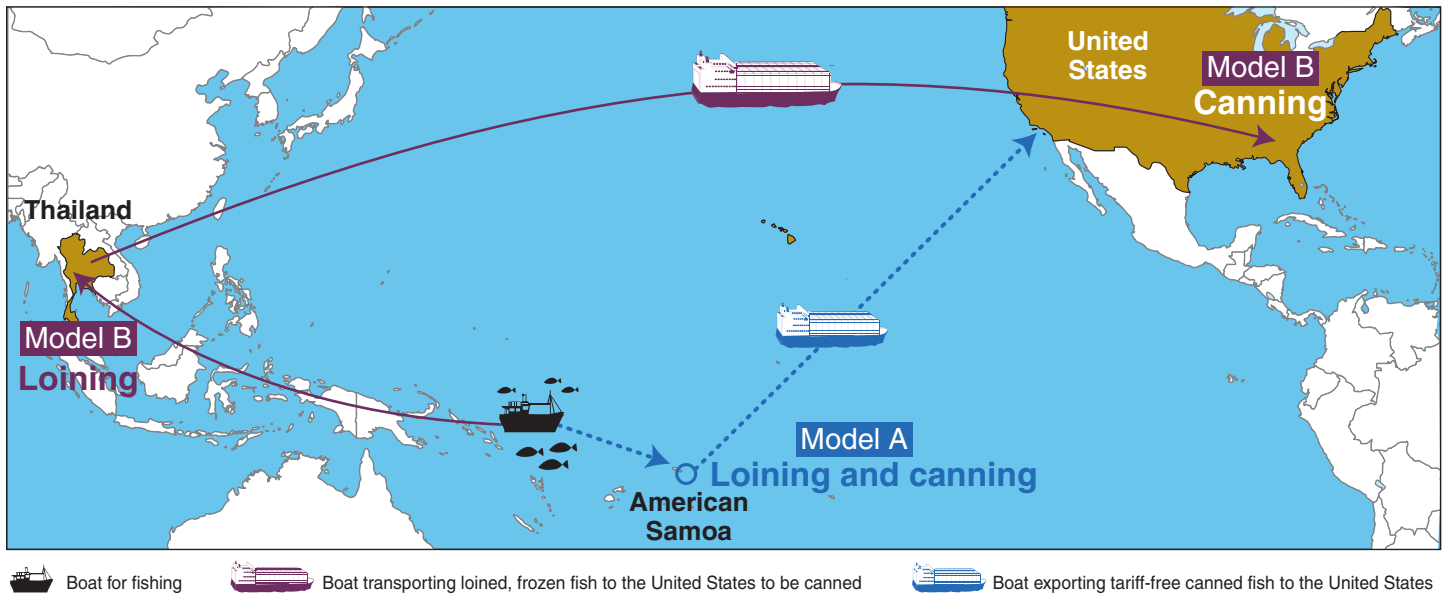
model A, all 2,000 employees would earn a minimum wage of \$4.76 per hour, while under model B, 1,700 foreign employees would earn \$0.75 per hour for loining and 300 U.S.-based employees would earn \$7.25 per hour for canning.²⁷ We estimate that the firm that closed its cannery in American Samoa can save approximately \$12 million in wages in the first year using model B.

- **Tariff costs.** Tariff costs will be higher under model B than under model A. American Samoa exports benefit from tariff-free access to the U.S. market, while the United States imposes tariffs on imported loins.²⁸ Assuming that a firm imports the same amount of cleaned loin to produce the same amount of canned tuna under model B as under model A, we estimate the additional tariff on cleaned loins from Thailand under model B to be around \$320,000 annually.
- **Other costs.** It is not clear which business model has an advantage in terms of shipping cost and prices of fish. According to one cannery official, because tuna is harvested throughout the western Pacific Ocean, and given American Samoa's location, fishing vessels generally deliver directly to the Samoan canneries. Shipping fish to Thailand for cleaning might be more costly than shipping directly to American Samoa. However, an official from a different cannery said economies of scale and other factors may lead to lower cost for fish in Thailand than in American Samoa and to little or no difference in shipping costs. Additionally, the firm using model B may save on other shipping costs. For example, a high-level firm representative told us that under the new business model, the firm will now avoid the high costs of shipping cans and condiments to American Samoa. The company representative also said that the firm will pay less for utilities in Thailand than in American Samoa. In addition, company representatives said the Thai government offers incentives that provide advantages over American Samoa. (Other costs are not shown in fig. 11).

²⁷Annual wage cost of business model A in 2009: \$4.76/hour*2000 hours*2000 employees=\$19 million. Annual wage cost of business model B in 2009: \$0.75/ hour*2000 hours*1700 employees + \$7.25/hour*2000 hours*300 employees=\$6.9 million. For the purposes of our analysis, we assumed that all cannery workers in American Samoa would be paid the minimum wage; however, some workers would likely earn somewhat higher wages.

²⁸The tariff on cleaned tuna loin is \$11 per metric ton.

Figure 11: Comparison of Wage and Tariff Costs for Tuna Canneries Using Separate Business Models



	Estimated wage cost (U.S. dollars)			Tariff cost (U.S. dollars)
	2006	2009	2014	
Model A <ul style="list-style-type: none"> • Canneries located in American Samoa hire local and foreign workers to loin (clean, cook, and cut) and can the fish. • The canned tuna from American Samoa is exported to the United States and benefits from tariff-free access to the U.S. market. 	\$13 million	\$19 million	\$29 million	0
Model B <ul style="list-style-type: none"> • The loining operation—the most labor-intensive part of the operation—moves to low labor-cost countries, such as Thailand, Trinidad, Fiji, or Mauritius, where the fish loin is frozen. • The frozen fish is exported to the United States, where it is canned. 	\$5.6 million	\$6.9 million	\$6.9 million	Cleaned fish: 1.1¢/kg or \$11/metric ton \$320,000

Cost differences between Model A and Model B

<ul style="list-style-type: none"> • Model B results in net cost savings as compared to Model A. • Under Model B, annual labor cost savings are significantly greater than the annual tariff cost. 	Estimated annual cost savings under Model B			Annual tariff cost under Model B
	\$7.4 million	\$12.1 million	\$22.1 million	\$320,000

Sources: GAO analysis of information from tuna companies; Art Explosion (clip art); Map Resources (map).

**Appendix III: American Samoa Wages,
Employment, Employer Actions, Inflation-
Adjusted Earnings, and Worker Views**

Notes: Our analysis assumes that the two models produce the same amount of canned tuna and workers under the two models have same productivity. We also assume the wage rate remains constant in Thailand from 2006 to 2014. If the wage increases in Thailand, the wage cost under model B will be higher and the wage cost differential between model A and model B will be lower than what is presented in the figure above.

The minimum wage for the tuna canning industry in American Samoa was \$3.26 in 2006 and \$4.76 as of May 25, 2009. The minimum wage is scheduled to increase to \$7.25 on September 30, 2014.

Annual wage cost of business model A in 2009: \$4.76/hour*2000 hours*2,000 employees=\$19 million. Annual wage cost of business model B in 2009: \$0.75/ hour*2000 hours*1,700 employees + \$7.25/hour*2,000 hours*300 employees=\$6.9 million. Our analysis assumes that all cannery workers in American Samoa are paid the minimum wage; however, some workers would likely earn somewhat higher wages.

The tariff on cleaned loins is \$11 per metric ton under model B.

American Samoa Median Annual Inflation-Adjusted Earnings Declined, but Estimated Earnings for Minimum Wage Workers Who Remained Employed Increased

Median Inflation-Adjusted Earnings Declined from 2006 to 2008

Although data show that median annual earnings of workers employed in American Samoa rose from 2006 to 2008, inflation eroded these income gains; as a result, median inflation-adjusted annual earnings in American Samoa declined by about 6 percent from 2006 to 2008. According to earnings data from the federal government, median annual earnings rose by about 8 percent to \$7,858 from 2006 to 2008.²⁹ However, average prices increased by about 15 percent over the same period (see table 8).

²⁹We analyzed SSA data on reported earnings covered by Social Security withholding taxes. For American Samoa, these data covered workers from all sectors and nationalities. While wages reflect each worker's hourly rate of pay, earnings are determined by wages, as well as hours worked. The results of our SSA data analysis are also consistent with the results from our questionnaire of large employers, which show that median earnings of workers employed by the covered employers increased by 12.4 percent from 2007 to 2008.

Table 8: Change in Median Annual Inflation-Adjusted Earnings of American Samoa Workers, 2006-2008

	2006	2007	2008	Percentage change		
				2006-2007	2007-2008	2006-2008
Median annual earnings in nominal dollars	\$7,253	\$7,470	\$7,858	3.0	5.2	8.3
Median annual earnings in inflation-adjusted dollars	\$7,253	\$7,205	\$6,854	-0.7	-4.9	-5.5
Change in Consumer Price Index				3.7	10.6	14.6

Source: GAO analysis of SSA data and American Samoa Consumer Price Index data.

Note: Earnings in inflation-adjusted dollars are in 2006 constant dollars. Inflation is estimated using the American Samoa Consumer Price Index.

Estimated Inflation-Adjusted Earnings for Minimum Wage Workers Who Remained Employed Rose from 2006 to 2008

Although earnings data do not allow for a direct comparison of median and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimate that inflation-adjusted earnings of a full-time minimum wage worker who retained a job and full hours rose by about 14 percent from 2006 to 2008.³⁰ We assume, based on minimum wage data, that a minimum wage worker earned \$3.26 per hour in 2006 and \$4.26 per hour in 2008.³¹ Using these assumptions, we estimate that a minimum wage worker who worked 2,000 hours per year in each calendar year earned \$6,520 in 2006 and \$8,520 in 2008.

While the minimum wage for many workers increased by 31 percent from 2006 to 2008 (from \$3.26 to \$4.26), local prices increased by a smaller percentage, resulting in a rise in estimated inflation-adjusted earnings for a minimum wage worker who retained full employment and hours. In 2007,

³⁰SSA data do not provide information on hours worked for individual workers, including minimum wage workers. Without data on hours worked per worker, it is not possible to distinguish minimum wage workers from other workers, because total earnings are a product of hours worked and wage per hour. Therefore, while SSA data allow for ordering of earnings and thus a computation of median earnings, they do not allow us to determine minimum wage workers' earnings. SSA data also do not provide information on hours worked for any individual worker during the year and do not cover workers who have lost their jobs and earned zero income.

³¹We made the simplifying assumption that the minimum wage increases occurred in the beginning of the calendar year. We also based our calculations on the minimum wage rate of workers in the tuna canning industry.

average prices rose by about 3.7 percent but earnings rose by 15.3 percent; as a result, inflation-adjusted earnings of a minimum wage worker increased by about 11.2 percent. In 2008, the rise in inflation-adjusted earnings was smaller, owing to higher average prices (see table 9).

Table 9: Change in Estimated Inflation-Adjusted Annual Earnings of Minimum Wage Workers Retaining Full-time Employment in American Samoa, 2006-2008

	2006	2007	2008	Percentage change		
				2006-2007	2007-2008	2006-2008
Estimated annual earnings in nominal dollars	\$6,520	\$7,520	\$8,520	15.3	13.3	30.7
Estimated annual earnings in inflation-adjusted dollars	\$6,520	\$7,253	\$7,432	11.2	2.5	14.0
Change in Consumer Price Index				3.7	10.6	14.6

Source: GAO analysis of minimum wage data and American Samoa Consumer Price Index data.

Note: Earnings in inflation-adjusted dollars are in 2006 constant dollars. Inflation is estimated using the American Samoa Consumer Price Index.

Inflation in 2006-2008 Was Mostly Due to Rising Prices of Imported Goods

According to the American Samoa government, 90 percent of the economy of American Samoa is dependent on foreign and U.S. imports.³² As a result, the increase in local prices from 2006 to 2008 appears to have been largely due to rising prices of imported goods such as food, utilities, and transportation. The American Samoa Consumer Price Index shows that prices rose by about 14.6 percent from 2006 to 2008. Over the same period, the price of imports such as food rose by more than 22.2 percent; the price of transportation, including the price of new cars and fuel costs, which are primarily imports, rose by 13.5 percent; and the price of housing and utilities such as electricity rose by 18.4 percent.³³ In contrast, the price of education and communication services, mostly a domestic product, increased by only 0.3 percent in 2008.

³²American Samoa Department of Commerce, Statistics Division, *American Samoa Statistical Yearbook 2007*.

³³Utilities such as electricity are an import, but housing is not; however, the consumer price index tracks housing and utilities as one category.

Available Data for 2006-2008
Do Not Suggest Link Between
Changes in Poverty-related
Program Participation and
Changes in Inflation-Adjusted
Earnings

Minimum wage increases disproportionately affect households at the lower end of the income distribution. However, direct measures of American Samoa poverty rates are not available for recent years.³⁴ Available data for federal need-based assistance in American Samoa in 2006 to 2008 do not suggest that changes in inflation-adjusted earnings led to significant changes in poverty-related program participation.

Data from the U.S. Department of Agriculture’s WIC Nutrition Program show that the program participation trend in American Samoa remained stable for the last 4 years, as shown in table 10. Assuming that there was no change in the percentage of the eligible population actually reached and covered by the program, this suggests that the number of people earning less than 185 percent of the U.S. poverty line in American Samoa did not change much during the period.³⁵

Table 10: Participation in WIC Nutrition Program in American Samoa, Fiscal Years 2005-2008

	2005	2006	2007	2008
American Samoa program participation	6,644	6,934	6,779	6,804
Year-to-year percentage change		4.36%	-2.24%	0.37%

Source: U.S. Department of Agriculture Food and Nutrition Service data as of January 8, 2010.

³⁴Minimum wage increases may cause employed workers’ income to rise, eliminating their need for assistance. However, minimum wage increases may also lead to loss of income for workers who are laid off or have experienced a reduction in hours worked, making them eligible for need-based assistance.

³⁵However, need-based program enrollment rates may not accurately reflect the numbers of people living in poverty, because not all people in need seek need-based assistance. In addition, the lack of any indication of the change in the poverty rate may be due to many factors. For example, changes in population growth rates would affect changes in the poverty rate. Effects of population growth on this analysis depend on (1) the magnitude of the population growth rate and (2) the source of growth. Regarding the source of growth, if the growth rate is partially due to increased immigration into American Samoa, and many new immigrants may qualify for but are not aware of, or do not apply for, WIC benefits, the enrollment rate would decline but the poverty rate would stay the same. If the source of growth is a high domestic birth rate (among the general population, poor and nonpoor alike), that would likely not change the enrollment rate but would imply a lower poverty rate.

American Samoa Workers Said Support for Increases Had Dwindled over Time, Particularly Due to Cannery Closure

Workers Said in Discussion
Groups That Their Support for
the Increases Has Diminished
over Time

Discussion group participants said that their views about the minimum wage increases had grown more negative over time.³⁶ Participants gave various reasons for their dwindling support of minimum wage increases. For example:

- **Cannery closure.** Discussion group participants said that their views related to the minimum wage increases had been negatively affected by the closure of one cannery, which they attributed to the wage increases, as well as uncertainty about the remaining cannery's future. Participants told us they worried about the large number of unemployed workers and their families and possible additional layoffs at the remaining cannery. One cannery worker said that cannery management had attributed layoffs and benefit cuts to the wage increases.
- **Job insecurity.** Participants said that businesses were laying people off because they could not afford to pay all workers the minimum wage. Participants commented that they would rather have a secure job without the minimum wage increases than lose their jobs because of the increases. Participants also told us that if a person resigns or retires, companies eliminate the position instead of hiring a new person and that store owners are not hiring but are relying on family members for help. Cannery workers also indicated that keeping their jobs was particularly important because there were no alternative employment opportunities.
- **Loss of benefits.** Participants said that they have experienced reduction in benefits. Cannery workers told us that they had lost many benefits, including free night shift transportation, paid holidays, end-of-year bonuses, overtime pay, pensions, and sick leave.

³⁶To collect information on workers' views of the minimum wage increases, we conducted six structured discussion groups with various worker and community groups with different organizational affiliations. We asked the organization's leadership to invite 6 to 12 members to the discussion groups. In American Samoa, we conducted four discussion groups with cannery workers, one group with WIC recipients, and one group that was recruited by the American Samoa government's Office of Samoan Affairs.

Workers Expressed Obligation to Support Extended Families and Broader Community Negatively Affected by Minimum Wage Increases

Many residents we spoke with told us that they live in large households of extended family members and that when a household member experiences a loss of income, the family experiences an obligation to help. Workers reported that Samoans are also expected to share their resources with unemployed relatives who are not immediate family members. Therefore, residents expressed concern about relatives getting laid off as a result of the minimum wage increases and their responsibility to provide for them.

Workers Said Purchasing Power Shrank because Wages Grew Less Than Prices

Participants stated that their incomes had been stretched owing to increases in the prices of groceries, such as infant formula, as well as increases in the prices of fuel, water and electricity, bus fares, hospital care, and private school tuition. In addition, workers said that minimum wage increases have not kept pace with the cost of living. Workers stated that they still cannot afford things despite the raises because the cost of living has increased more.

Cannery Workers Generally Opposed Future Minimum Wage Increases

Comments by the cannery workers who participated in our discussion groups indicated that although the higher wage was welcomed by some, the past wage increases were unpopular among many cannery workers and most opposed the future minimum wage increases as scheduled. All of the discussion group participants in one cannery strongly opposed future minimum wage increases, and the majority of participants in the second cannery said they wanted minimum wage increases to stop for fear of company closure and job losses.

Non-Cannery-Workers Expressed Various Views on Future Minimum Wage Increases

Among discussion group participants outside the canneries, views on the minimum wage increases varied. Among those who welcomed the wage increases, some participants said that they supported future minimum wage increases because of inevitable growth in the cost of living. One participant said that the minimum wage increase was needed and would have positive effects in the long term and that the economy would have to adjust. Among those who opposed the increases, participants said that the wage increases would have no lasting benefit because inflation would diminish purchasing power. Another participant argued for revisiting the question of whether to continue raising the minimum wage after the wage reached about \$5 per hour.

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

American Samoa Workers' Views Based on Discussion Groups

Support for the American Samoa minimum wage increases has dwindled over time for several reasons.

- **Cannery closure**

“I’m worried about the cannery closure, the unemployed thousands, and their families.”

“This is the worst nightmare here at the plant... with the worries.”

“The cannery next door is closing next month. It is the impact of the minimum wage increase, and we don’t want that to happen here.”

“When management has announced layoffs and benefit cuts, they have said it’s because of the wage increases.”

- **Job insecurity**

“We would rather have little pay than zero pay.”

“We just want to make sure jobs are secure. “

“As wages increase there are no jobs.”

“There is nothing else to do once we lose jobs.”

- **Loss of benefits**

“Since the minimum wage went into effect, there have been no more benefits or paid holidays.”

“Businesses are laying people off because they can’t afford to pay everyone the minimum wage.”

Workers expressed obligation to support extended families and the broader community affected by minimum wage increases.

“We have family obligations in American Samoa, including [community] and church obligations... If your family needs help, you help them. My family asks for more money, because more is available. I see relatives hungry and can’t be selfish. We can budget for what we need now and can share with unemployed relatives. I’m worried about relatives getting laid off, getting hungry, and knocking on my door. Who will feed the cannery layoffs? We will. I think about it day and night.” [Others participants nodding]

“I have dependents who are sisters and brothers. Since the raise, I’ve been trying hard to support my family. We are expected to respect and support our parents. Like for the funeral yesterday, we are

required to contribute a lot of money, such as \$100 per person. We will have to ask people at work if they can share money. Right now, if someone at work has a coffee, we all share it.”

Workers said purchasing power has decreased because wages rose less than prices.

“Prices have gone up, stretching incomes.”

“We still can’t afford things with the raise, because the cost of living is going up more.”

Cannery workers generally oppose future minimum wage increases, although the higher wage is welcomed by some.

“They should stop increasing wages. It’s enough—we should stop right now. Everyone wants the minimum wage to stop right now.”

“We are begging—we don’t want the \$.50.”

“I don’t support any more increases in the minimum wage and don’t support petitions to reduce it to the first \$.50 increase level. Because going back to the initial increase when cost of living is so high doesn’t make sense, unless there is a system to reduce the cost of living. I support leaving the minimum wage as is, with no increase or decrease.”

Non-cannery-workers expressed varying views about the future minimum wage increases.

“It [the wage increase] has to happen. The cost of living will go up whether you have the raise or not. I support the minimum wage because of this.”

“The person who goes from \$4 to \$7.25 won’t come out ahead, because everything they purchase will cost more, decreasing buying power.”

“With the prospect of losing the canneries, it is not good in the short term. But it is positive in the long term: 10 to 15 years from now. The economy will have to adjust. It will not be in a poverty state. It will be painful, but it has to happen.”

Appendix IV: CNMI Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

In the CNMI, the first minimum wage increase raised wages for about a third of workers of private sector employers that responded to GAO's questionnaire. Based on June 2009 wage data from our questionnaire, the future minimum wage increases would affect the wages of 82 percent of those private sector workers by 2015. CNMI government data show that following the 2007 wage increase, employment continued an existing downward trend largely reflecting the garment factory closures. Small employers and other private sector officials expressed mixed views about the future minimum wage increases, and many expressed greater concerns about changes to immigration law. In questionnaire responses, employers reported having taken cost-cutting actions, such as freezing hiring, since the increases began. They also reported planning such actions by the end of 2010. Employers attributed their actions both to the minimum wage increases and to other factors. Based on an analysis of responses from CNMI employers in the hotel industry, we found that raising room rates to cover higher wage costs may cause a 2.6 to 13.7 percent decline in visits to the CNMI. CNMI government tax data show that average annual inflation-adjusted earnings declined by about 6 percent from 2006 to 2008. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, GAO estimated that annual inflation-adjusted earnings for minimum wage full-time workers who retained their jobs and hours rose by about 12 percent. In discussion groups, CNMI workers generally expressed support for the minimum wage increases and cited other factors affecting living standards.

Minimum Wage Increases through 2016 Would Affect Wages of the Majority of CNMI Private Sector Workers Employed in 2009

Wages of Some CNMI Private
Sector Workers Were Low
Enough to Be Raised by
Minimum Wage Increases in
2007-2009

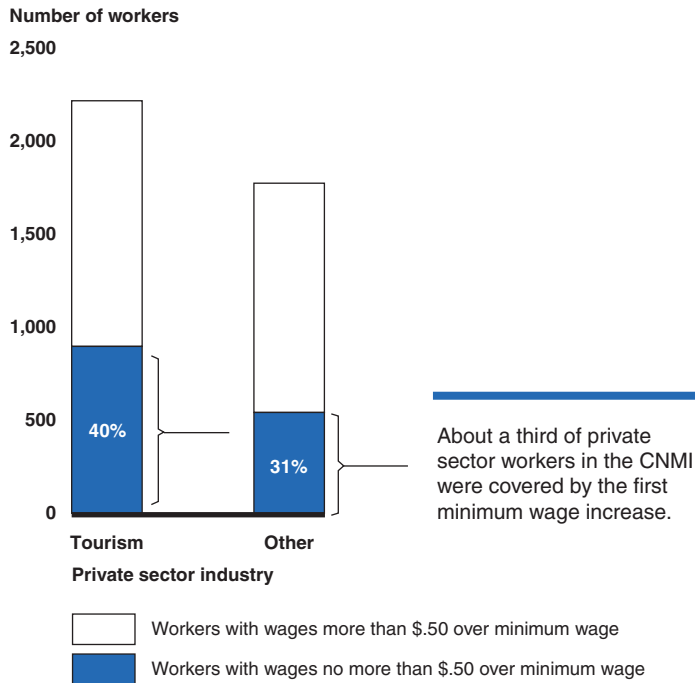
Responses to our questionnaire show that before the first minimum wage increase, in July 2007, about a third (36 percent) of private sector workers employed by the respondents earned wages close enough to the \$3.05 minimum to be affected by the increase (see fig. 12).¹

- **Tourism industry.** About 40 percent (897 of 2,217) of tourism workers earned no more than \$.50 over the \$3.05 minimum wage.
- **Other private sector industries.** About 30 percent (542 of 1,774) of workers in other private sector industries earned no more than \$.50 over the \$3.05 minimum wage. Although we were unable to include garment factories in our questionnaire because they had closed before the time of our work, based on past work, we assume that a large percentage of employed garment workers were affected by the minimum wage increases.²

¹Before the first increase in July 2007, 18 percent of all CNMI workers employed by questionnaire respondents earned wages close enough to the minimum wage to be directly affected by the first increase. DOL has previously identified cases of noncompliance with minimum wage law among U.S. employers; if this occurred in the CNMI, some workers who are covered by FLSA and are entitled to earn a minimum wage may not be paid the minimum wage. In questionnaire responses, no employer reported paying wages below the minimum wage. However, we did not independently verify that the wage and other information provided to us were correct.

²Our 2008 report showed that in the garment industry, almost all workers in the factories operating in the CNMI at the end of 2007 earned no more than the minimum wage (see [GAO-08-791](#), p. 43); however, because our August 2009 large-employer questionnaire was sent only to employers currently in operation, we are unable to present updated information from the garment firms operating in 2007 that subsequently closed. Our 2008 report noted that more than 95 percent of foreign garment workers earned the minimum wage at the end of 2007. We projected that, based on the 2007 wages, by 2015 almost all foreign workers would be affected by the minimum wage increases. In addition, according to tax data we obtained from the CNMI government, almost all garment workers were foreign.

Figure 12: CNMI Private Sector Workers Outside the Garment Industry with Wages Low Enough to Be Affected by the July 2007 Increase, Based on GAO Large-Employer Questionnaire Wage Data



Source: GAO analysis of wage data provided in the American Samoa large-employer questionnaire.

Notes: Numbers shown are from wage data for the pay period including June 12, 2007, provided in responses to our CNMI large-employer questionnaire. Numbers include both hourly wage workers and full-time salaried workers. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that had closed, in particular garment factories. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers.

In June 2007, the local minimum wage was \$3.05. The first minimum wage increase occurred in July 2007.

For the first three minimum wage increases in 2007 through 2009, wage data provided by respondents to our large-employer questionnaire showed the following:

- About 61 percent of CNMI private sector workers outside the garment industry earned wages low enough—that is, no more than \$1.50 over the minimum—in July 2007 to be affected by the three minimum wage increases.

**Rise in Median Wage Was
Slightly Larger for CNMI
Tourism Workers**

- In the public sector in 2007, according to data provided by the CNMI government, only about 2 percent of CNMI government workers earned wages within \$1.50 over the minimum—that is, close enough to the minimum to be affected by the first three increases.

After the first three minimum wage increases, median wages for the tourism industry rose slightly more than for other sectors of the CNMI economy.³ Our analysis, based on large employers’ responses to our questionnaire, shows that from June 2007 to June 2009—the period of the \$1.50 total increase in the minimum wage—the median wage for the tourism sector rose by 19.2 percent compared with 17.6 percent for the rest of the private sector (see table 11). For CNMI public sector workers, the median annual salary, based on questionnaire responses, remained unchanged in a range between \$20,000 and \$30,000.⁴

Table 11: Median Hourly Wage Rates of Workers Employed by CNMI Private Sector Respondents to GAO Large-Employer Questionnaire, 2007-2009

Sector (employees in 2009)	2007	2009	Percentage change in median hourly wage rate, 2007-2009	Absolute change in median hourly wage rate
Tourism industry (2,089)	\$3.90	\$4.65	19.2	\$0.75
Other private sector industries (1,441)	\$4.25	\$5.00	17.6	\$0.75

Source: GAO analysis of wage data provided in CNMI large-employer questionnaire.

Notes: Rates shown are based on wage data for the pay period including June 12 of each year, provided in responses to our CNMI large-employer questionnaire. Wage rates shown are for hourly wage workers and full-time salaried workers. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that had closed, including garment factories. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers.

In June 2007, there had been no federal minimum wage increase in the CNMI, and in June 2009 there had been three minimum wage increases of \$.50 each (totaling \$1.50).

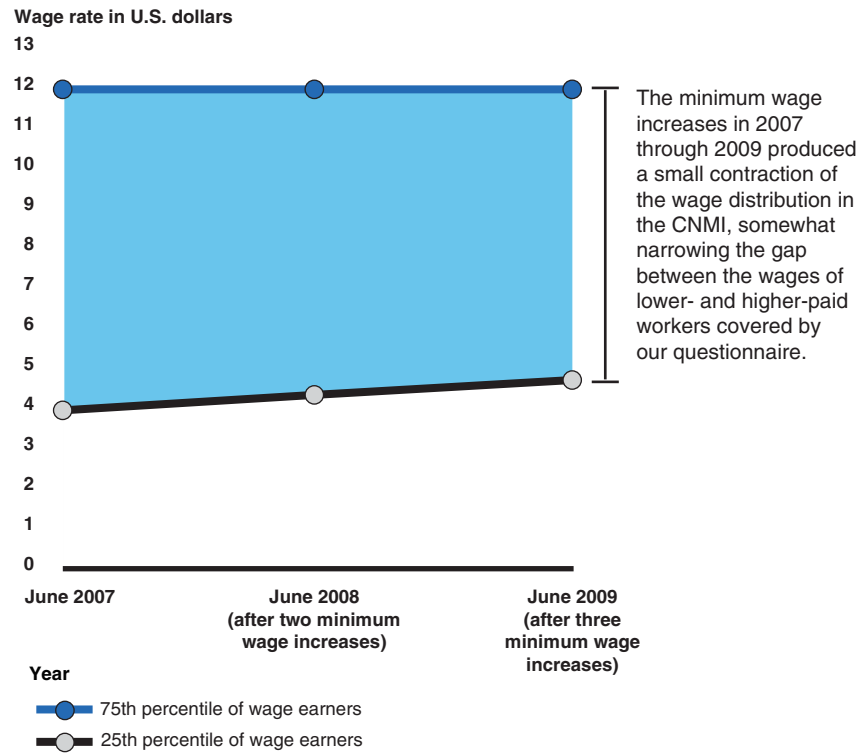
³Our analysis covers wages of those employed but does not reflect loss of wages by workers who lost their jobs.

⁴The median government salary might have changed within the \$20,000 and \$30,000 range, but our data do not allow us to measure such variation. Available data show that for the 17 percent of workers earning less than \$15,000, the median annual salary remained at about \$13,000.

Minimum Wage Increases in 2007-2009 Somewhat Narrowed Wage Gap between Lower- and Higher-Paid Workers Employed by Questionnaire Respondents

The minimum wage increases in 2007 through 2009 somewhat narrowed the gap between the wages of lower- and higher-paid workers employed by questionnaire respondents. As figure 13 shows, based on employer questionnaire responses, the wages of workers at the 25th percentile rose while the wages of workers at the 75th percentile remained constant. Specifically, the gap between wages of workers at the 25th percentile and workers at the 75th percentile dropped from \$8.04 in 2007 to \$7.32 in 2009, a decline of 9 percent.

Figure 13: Change in Wages of All CNMI Employees of Respondents to GAO Large-Employer Questionnaire



Source: GAO analysis of wage data provided in the CNMI large-employer questionnaire.

Notes: Wage rates shown are based on wage data for the pay period including June 12 of each year, provided in responses to our large-employer questionnaire. Wage rates include both hourly wage workers and full-time salaried workers in the public and private sectors. Data shown cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that have closed, including garment factories. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government’s responses disproportionately influence our questionnaire results on the public and private sectors combined.

From June 2007 to June 2008 there were two federal minimum wage increases of \$.50 each in the CNMI, and from June 2008 to June 2009, there was one minimum wage increase of \$.50. The different numbers of increases in each time period may have affected the extent of contraction of the wage distribution in each period.

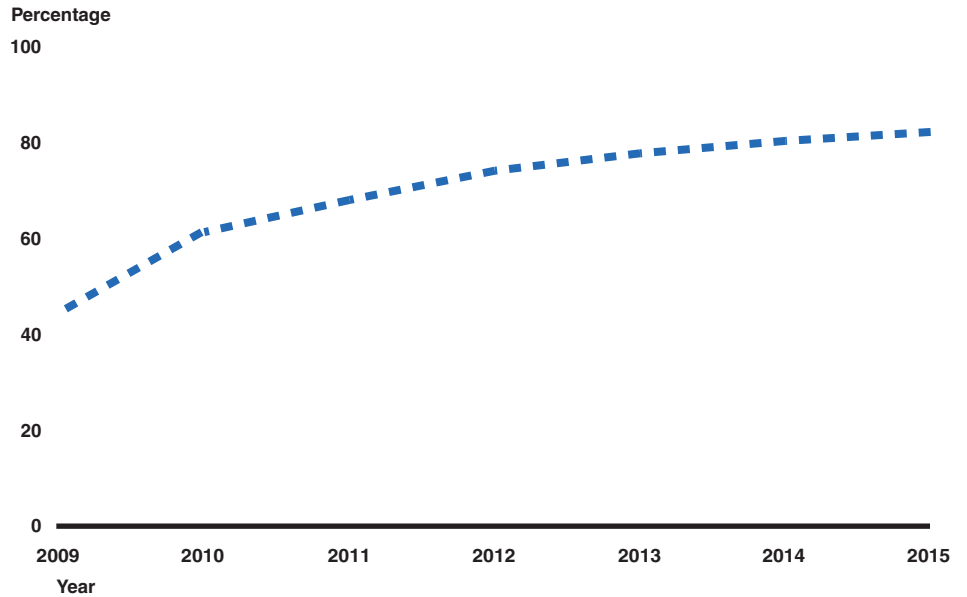
**Minimum Wage Increases in
2010-2015 Would Affect Wages
of a Growing Share of Workers,
but Several Variables Remain
Uncertain**

As the minimum wage increases continue, they will affect a growing number of workers in the CNMI. Based on large employers' questionnaire responses about workers' wages as of June 2009, in the private sector, the increases scheduled for 2010 through 2015 would affect the wages of about 82 percent of those employers' workers by 2015 (see fig. 14).⁵ In the public sector, the scheduled increases would affect at most about 38 percent of workers by 2015.⁶

⁵In addition, in prior work, [GAO-08-791](#), we found that almost 95 percent of foreign workers in the CNMI earned less than the \$7.25 minimum wage in December 2007. We also estimated that almost 95 percent of foreign workers would be covered by the minimum wage by 2015, based on their 2007 wages.

⁶In addition to the questionnaire data, we received more precise data on the numbers of workers in each salary range from one component of the public sector, the CNMI central government. According to this information, about 17 percent of CNMI government workers would be affected by the \$7.25 minimum wage in 2015.

Figure 14: Percentage of CNMI Private Sector Questionnaire Respondents' Employees in June 2009 Whose Wages Would Be Affected by 2010-2015 Minimum Wage Increases, Based on GAO Large-Employer Questionnaire Wage Data



Source: GAO analysis of wage data provided in the CNMI large-employer questionnaire.

Notes: The percentages shown for 2010 to 2015 are based on the June 2009 distribution of workers' wages for the private sector, according to wage data provided in employers' responses to our questionnaire. Our analysis assumes that workers not directly affected by the minimum wage will not experience an increase and that the distribution of workers' wages will not change over the period for reasons other than the increases. However, any significant changes in the CNMI labor market would change the percentage of workers affected by the minimum wage.

Federal minimum wage increases in the CNMI occurred in July 2007, May 2008, and May 2009; additional \$.50 increases are scheduled for September of each year through 2016.

Our analysis assumes full compliance with minimum wage increases required by law. If future minimum wage increases are not fully implemented, they will affect a smaller percentage of workers than we project.

However, uncertainty about several critical variables not reflected in our analysis makes it difficult to project the distribution of wages in the CNMI following the minimum wage increases in September 2010 and subsequent years.

- **Impact of U.S. immigration law.** Although the application of U.S. immigration law in the CNMI as of November 2009 may affect the size and

composition of the CNMI workforce, it is too soon to assess the extent of such impacts.⁷

- **Changes in CNMI labor market.** Changes in the CNMI labor market could affect the wage distribution of workers. For example, the departure of the garment industry may continue to affect other industry sectors, decreasing the number of workers at the lower end of the wage distribution.⁸

CNMI Employment Continued to Drop as Minimum Wage Increased, and Future Increases Could Have Growing Impact on Employment

Total CNMI Employment Continued to Drop as Minimum Wage Rose

During the period following the first minimum wage increase, total employment in the CNMI continued a downward trend that existed before the minimum wage increases went into effect. From 2006 through 2008, total employment fell by about 27 percent, from 48,945 to 35,907, according to CNMI government tax data (see fig. 15).⁹ In addition, questionnaire responses from large employers representing about 30 percent of the CNMI workforce indicate that among the represented

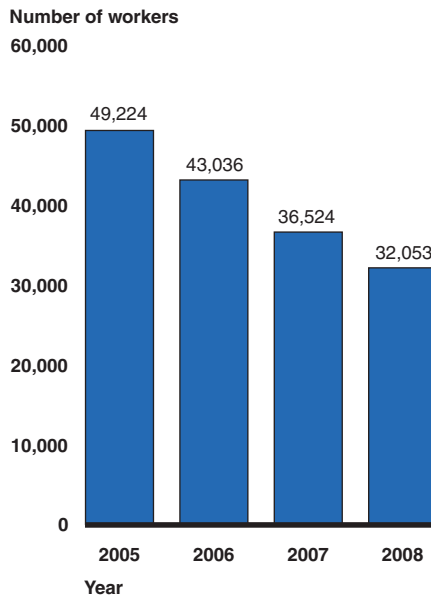
⁷U.S. immigration law was applied to the CNMI beginning on November 28, 2009, as scheduled; however, implementation of the CNMI transitional worker permit program was delayed following a federal court ruling just before the transition period start date.

⁸In addition to the direct loss of garment jobs, the departure of the garment industry may result in losses in other sectors. The impact that reductions in employment in one CNMI sector can have on another is supported by a recent analysis that used a CNMI-specific input-output model. Specifically, the authors estimated that in 1995 every garment worker supported .5 other jobs, while every tourism worker supported .8 other jobs. Recently, this multiplier was used to gauge the effect of the decline of garment workers on the CNMI economy. Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008).

⁹Above numbers reflect the number of taxpayers and not the number of W-2 tax records filed. W-2s with the same taxpayer ID were combined to provide annual taxpayer totals by the CNMI Department of Finance.

workers, employment dropped by about 6 percent from June 2008 to June 2009.¹⁰

Figure 15: CNMI Employment Based on CNMI Government Tax Data, 2005-2008



Source: GAO analysis of CNMI government annual tax data for 2005-2008.

Note: Minimum wage increases occurred in July 2007 and May 2008.

Some employment loss coincided with increases in the minimum wage, and the closure of the garment factories, for multiple reasons, likely contributed substantially to employment loss. According to CNMI tax data, much of the decline in employment was due to the reduction in the number of foreign workers, many of whom worked in the garment

¹⁰According to our questionnaire of large CNMI employers, employment remained virtually unchanged from 2007 to 2008 (changing from 8,037 to 8,027) and fell 6 percent to 7,535 in 2009. Data cover large employers—generally, those with at least 50 employees. Questionnaire wage data do not include smaller employers, employers that did not respond, and employers that have closed, including garment factories. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

**Small Employers and Other
Private Sector Officials
Expressed Mixed Views about
Future Increases, While
Government Officials Were
Concerned about Growing
Budget Pressures**

industry. These data show that in 2006 there were approximately 14,000 tax records for garment industry workers and that by 2008, the number of garment worker tax records was approximately 3,000.¹¹ According to a CNMI economic study, the phasing out of quotas for garment trade led to the decline of the CNMI industry prior to the minimum wage increases. According to industry officials, the wage increases caused the remaining factories to close more quickly.¹²

Small business owners and managers told us in discussion groups that they wanted workers to have higher incomes and that CNMI employers had not paid workers enough before the minimum wage increases were implemented. However, they expressed concern that local businesses might not be able to afford future cost increases, and they stated that it would be difficult for the economy to sustain wage increases while it was experiencing other difficulties. For example, the owners stated that the garment factory closures have resulted in increased shipping costs, decreased government tax revenues, and decreased demand for goods and services provided by local businesses. Some small business owners said that they could more easily afford to cover the costs of scheduled minimum wage increases if they did not provide room and board, medical insurance, and work permit fees for foreign workers.

Small employers participating in discussion groups also said that the application of U.S. immigration law had increased uncertainty for small businesses and was more important than the minimum wage increases. Participants noted that without a policy regarding foreign workers, it was

¹¹In this analysis, we used W-2 tax records of employees to analyze the decline in the number garment workers; however, there are more W-2s than people in each year because some workers may have multiple employers. Specifically, we found there were from 11 percent to 14 percent more W-2s than individual workers in the years 2005 to 2008. In addition, we found that, based on the CNMI tax data, the percentage of the workforce that were non-U.S. citizens changed from 76 to 66 percent from 2006 to 2008.

¹²Malcolm D. McPhee & Associates and Dick Conway, *Economic Impact of Federal Laws on the Commonwealth of the Northern Mariana Islands*, prepared for the CNMI Office of the Governor under a grant from the U.S. Department of the Interior, Office of Insular Affairs (October 2008). In 2001, garment industry representatives told us that the CNMI industry was already declining due to a range of factors, including elimination of quotas under WTO agreements, increased costs of inputs, and declining global garment prices. In 2007, garment industry representatives said the minimum wage increases were hastening the closure of the remaining garment factories that were closing due to multiple factors, including high transportation and power costs and increased competition under the WTO changes.

difficult to plan for the future. Because of the uncertainty regarding U.S. immigration law, participants said that firms preferred not to hire foreign workers, but they needed to train local residents before they would be able to replace foreign workers. In addition, small business owners from other countries expressed anxiety about not knowing whether they will be able to remain in the CNMI under U.S. immigration law.

Similarly, many larger private sector employers we interviewed expressed greater concern about the economic effects of U.S. immigration law on the CNMI economy than about the effects of minimum wage increases. For example, the CNMI's tourism industry association observed that although the minimum wage increases could lead to greater interest in tourism-related employment among locally-born CNMI residents, application of U.S. immigration law would result in the elimination of some tourism-related jobs in the CNMI. Other private sector officials expressed concern that the scheduled wage increases would make it more difficult to attract new businesses, such as call centers and new tourism businesses, to the CNMI. For example, the CNMI's dial-tone provider said that although past minimum wage increases in the CNMI had not impeded the company's ability to offer call-center services in the CNMI, the wage increases had affected the company's subscriber base by causing other businesses to close. The company also said that future minimum wage increases could prevent the company from competing internationally for call-center services from the CNMI.

In addition, public sector officials said that the CNMI government will be more directly affected by future than past minimum wage increases as budget pressures grow. CNMI government officials whom we interviewed noted that although past minimum wage increases had not substantially increased their agencies' labor costs, subsequent increases could cover more employees and thus raise costs. Although we found that the minimum wage increases would not substantially affect CNMI government workers until 2014 and 2015, they will likely coincide with an existing high degree of fiscal stress on the CNMI government. For example, the NMI Retirement Fund's actuarial assessment for fiscal year 2007 reports unfunded pension liabilities of \$369 million. In addition, the financial audit conducted of the Fund's Group Health and Life Insurance Trust Fund for

fiscal years 2007 to 2008 indicates a net deficit in the government's group health and life insurance trust fund of \$18.3 million.¹³

**CNMI Employers Reported
Past and Planned Actions
to Reduce Costs and Raise
Prices, Attributing Actions
Both to Minimum Wage
Increases and to Other
Factors**

Respondents to our CNMI large-employer questionnaire reported having taken a number of cost-cutting actions, some of which directly affect workers' wages or benefits, and raising prices. However, few—weighted by numbers of employees—attributed these actions largely to the minimum wage increases. Employers also reported planning to take such actions by the end of 2010, and some attributed their plans largely to the minimum wage increases. CNMI employers also attributed their actions largely to other factors.¹⁴ (See app. VI for a complete listing of employers' past and planned actions, as well as the percentages that reported them and that attributed them to the minimum wage increases and other factors to a small, moderate, or large extent.)

¹³Government accounting standards define "unfunded liability" as the excess, if any, of government liabilities over government assets. Unfunded liabilities indicate formal commitments by a government to expend funds for which the government has set aside no assets. In addition, these standards define "net deficit" as the difference between a government's assets and its liabilities.

¹⁴Percentages of responses regarding employer actions are weighted by each employer's total number of workers in 2009. The percentages of respondents that attributed the action largely to the minimum wage increases are weighted to reflect the proportion of workers employed by those respondents relative to all workers employed by respondents that reported the action. The percentages of respondents that reported other factors contributing to their actions are weighted to reflect the number of workers employed by each respondent relative to the total number of workers employed by all questionnaire respondents. Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, including garment factories, none of whom are covered by our questionnaire. Data also omit employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

CNMI Employers Reported
Cutting Costs and Raising
Prices in June 2007-
June 2009, but Few Attributed
These Actions Largely to
Minimum Wage Increases

Cost-Cutting Actions Directly Affecting Wages and Benefits

- **Closed or relocated.** Employers representing 2 percent of all private sector workers employed by questionnaire respondents reported closing temporarily or relocating outside the CNMI (see fig. 16).¹⁵ Of these employers, none attributed the decisions to close temporarily or to relocate largely to past minimum wage increases.
- **Laid off hourly workers.** Employers representing 11 percent of all workers employed by questionnaire respondents reported having laid off hourly workers (see fig. 16). Of these, employers representing 2 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.¹⁶
- **Froze hiring.** Employers representing 72 percent of all workers employed by questionnaire respondents reported having implemented a hiring freeze. Of these, employers representing 17 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.
- **Decreased benefits.** Employers representing 17 percent of all workers employed by questionnaire respondents reported that they had decreased the level of hourly workers' benefits. Of these, employers representing 2 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Additional Cost-Cutting Actions in 2007-2009

- **Implemented labor-saving strategies or technology.** Employers representing 42 percent of all workers employed by questionnaire respondents reported that they had implemented labor-saving strategies or

¹⁵Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents.

¹⁶In addition, employers representing 68 percent of workers employed by questionnaire respondents reported that they had reduced hourly workers' overtime hours; of these, employers representing 14 percent of workers employed by respondents attributed the action largely to the minimum wage increases. Our questionnaire wage data from employers show that hourly workers' average overtime hours worked per day rose from 0.43 in 2007 to 0.51 in 2008, before dropping to 0.27 in 2009—a net decrease of 37 percent.

technology.¹⁷ Of these, employers representing 10 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

- **Implemented other cost-saving strategies.** Employers representing 44 percent of all workers employed by questionnaire respondents reported that they had implemented other cost-saving strategies, such as energy-saving technologies. Of these, employers representing 20 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.
- **Reduced capacity or services.** Employers representing 27 percent of all workers employed by questionnaire respondents reported that they had reduced their operating capacity or customer services. Of these, employers representing 8 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Price Increases in 2007-2009

- **Raised prices.** Employers representing 75 percent of all workers employed by questionnaire respondents reported that they had raised prices of goods or services. Of these, employers representing 6 percent of workers employed by these respondents attributed the action largely to the past minimum wage increases.

Planned Cost-Cutting Actions Directly Affecting Wages or Benefits

- **Close or relocate.** Employers representing 5 percent of all private sector workers employed by questionnaire respondents reported planning to close permanently or to relocate their business outside the CNMI (see fig. 16).¹⁸ Of these, employers representing 3 percent of workers employed by these respondents attributed the decision to close, and employers representing 3 percent attributed the decision to relocate, largely to the minimum wage increases.

CNMI Employers Reported Planning to Cut Costs and Raise Prices by December 2010, and Some Attributed These Actions Largely to Minimum Wage Increases

¹⁷One CNMI hotel we interviewed reported replacing separate waitstaff for different dining facilities with a single shift covering all of the facilities.

¹⁸Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents.

- **Lay off hourly workers.** Employers representing 15 percent of all workers employed by questionnaire respondents reported planning to lay off hourly workers (see fig. 16). Of these, employers representing 12 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Freeze hiring.** Employers representing 72 percent of all workers employed by questionnaire respondents reported planning to freeze hiring. Of these, employers representing 54 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Decrease benefits.** Employers representing 19 percent of all workers employed by questionnaire respondents reported planning to decrease hourly workers' benefits. Of these, employers representing 11 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

Additional Planned Cost-Cutting Actions

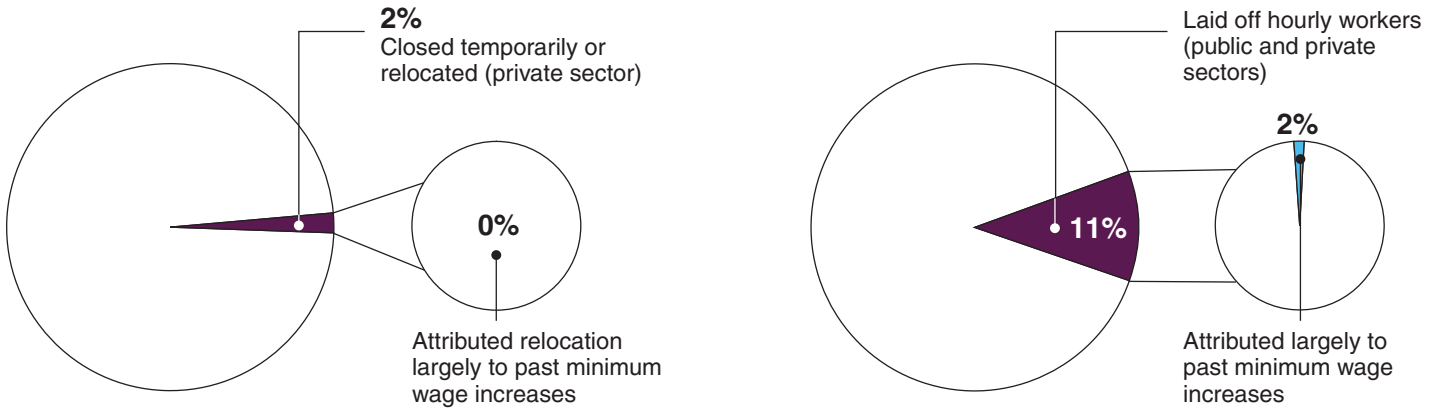
- **Implement labor-saving strategies.** Employers representing 22 percent of all workers employed by questionnaire respondents reported planning to implement labor-saving strategies or technology. Of these, employers representing 44 percent of workers employed by these respondents attributed this planned action largely to the minimum wage increases.
- **Implement other cost-saving strategies.** Employers representing 79 percent of all workers employed by questionnaire respondents reported planning to implement other cost-saving strategies (e.g., energy-saving technologies). Of these, employers representing 29 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.
- **Reduce capacity or services.** Employers representing 22 percent of all workers employed by questionnaire respondents reported planning to reduce operating capacity or customer services. Of these, employers representing 34 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

Planned Price Increases

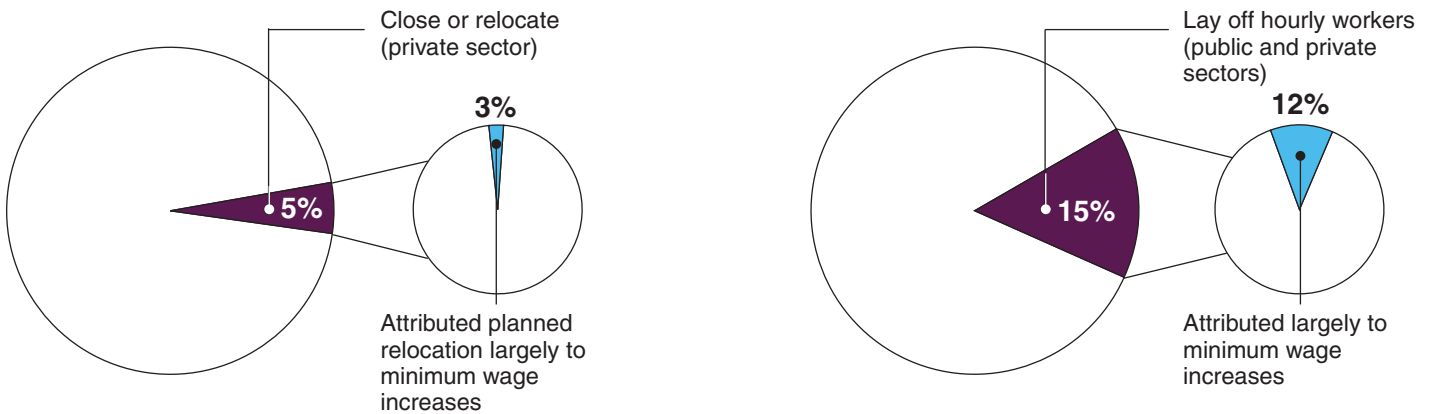
- **Raise prices.** Employers representing 34 percent of all workers employed by questionnaire respondents reported planning to raise prices of goods and services. Of these, employers representing 15 percent of workers employed by these respondents attributed the planned action largely to the minimum wage increases.

Figure 16: Selected CNMI Reported Employer Actions in 2007-2009 and Planned by End of 2010, with Attribution to Past Minimum Wage Increases

Selected employer actions 2007-2009 and attribution to past minimum wage increases



Selected planned employer actions and attribution to minimum wage increases



■ Percentage of workers represented by employers that reported having taken action or planning to take action, relative to all workers represented by respondents

■ Percentage of workers represented by employers that attributed past or planned action largely to minimum wage increases, relative to workers represented by employers that reported having taken action or planning to take action

Source: GAO analysis of CNMI large-employer questionnaire responses.

Notes: Percentages of employers that reported actions are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Because only private sector employers can choose to close or relocate, we limited our analysis for these actions to private sector respondents. Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, including garment factories, none of whom are covered by our questionnaire. Data also omit employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

**CNMI Employers Attributed
Past Actions Largely to Several
Factors Other Than Minimum
Wage**

CNMI employers reported that, in addition to the minimum wage increases, factors such as changes to U.S. immigration laws and increased transportation and shipping costs contributed to their past actions and plans to cut costs and raise prices. Questionnaire respondents identified factors other than the minimum wage increases that contributed largely to the actions they reported having taken. (See app. VI for a complete list of the other reported factors and the percentages of employers reporting these factors.) For example, employers representing 64 percent of workers employed by respondents cited changes to U.S. immigration laws; employers representing 45 percent of workers cited fewer customers; employers representing 33 percent of workers cited increased transportation or shipping costs; and employers representing 26 percent of workers cited increased cost of materials as contributing to a large extent to their reported actions.

Minimum Wage Increases and CNMI Hotels

Like other employers in the CNMI, hotels' payroll costs will rise as the minimum wage increases. A hotel's capacity to absorb the higher payroll costs, given its number of workers and wage structure, will depend in part on its ability to raise prices of rooms and services to cover the higher costs. All hotels that responded to our large-employer questionnaire reported having raised prices from June 2007 to June 2009, and hotels representing 75 percent of hotel workers employed by respondents to our questionnaire reported planning to raise prices in the future. We estimate that for the hotels that responded to our questionnaire, the minimum wage increases through 2010 and 2015 will raise average annual payroll costs by approximately \$300,000 and \$1.3 million, respectively, from their average payroll costs in 2008. As a result, payroll costs as a percentage of total operating costs will increase from approximately 27 percent in 2008 to 38 percent in 2015. Figure 17 shows

the estimated average impact of the minimum wage increases on these hotels' payroll costs in 2010 and 2015, assuming that the number of employees and other operating costs remain at the levels reported by the hotels for 2008.

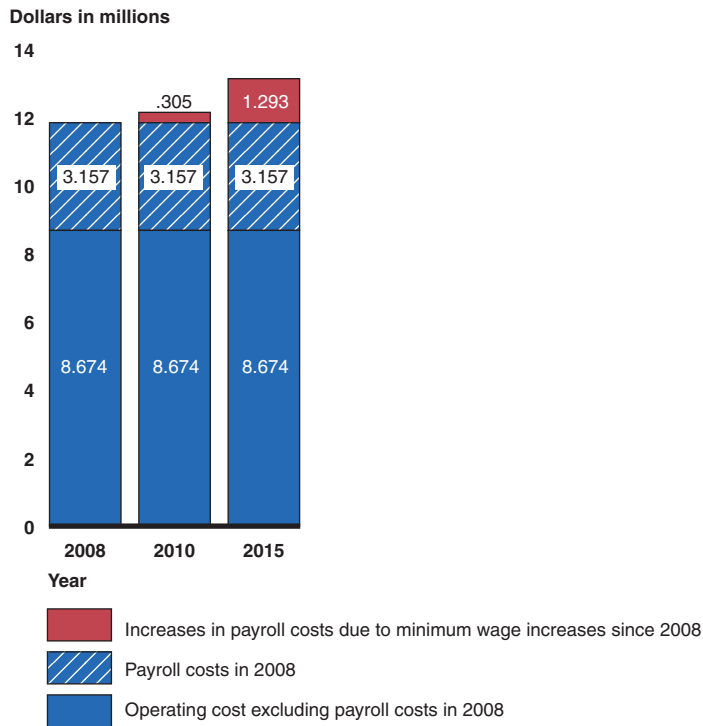
Whether the hotels can increase their prices to cover the additional wage costs will depend on price elasticity—that is, how visitors respond to the higher prices of visiting the CNMI. To estimate the effect of higher hotel prices on total trip cost, we used data from a 2009 survey by the Hotel Association of the Northern Mariana Islands and estimated that the ratio of workers to hotel rooms sold is approximately 1.18.¹⁹ Using our projection of the percentage of hotel workers who will be affected by the future minimum wage increases, we estimated that the total trip cost per visitor will need to increase by approximately 3.2 percent to cover the minimum wage increases for the hotel workers through 2015 (see table 12). Using the elasticity estimates from the literature, including one used in a study commissioned by the Department of Homeland Security study,²⁰ we found that raising prices to cover higher costs from the minimum wage increases through 2015 for hotel workers may cause visits to the CNMI to decline by approximately 2.6 percent to 13.7 percent. However, hotels may have different abilities to raise prices. For

¹⁹Data from the Hotel Association of the Northern Mariana Islands show that the association's members hire approximately 1,800 workers and have approximately 2,750 available rooms. We calculated the number of workers per room sold, after adjusting for the occupancy rate. When the occupancy rate declines, the ratio will increase in the short run and vice versa.

²⁰Industrial Economics Incorporated, *Economic Analysis for the Interim Final Rule*, a study prepared for the Department of Homeland Security (Cambridge, Mass., 2008) used a price elasticity of 1.04 percent—that is, for every percentage increase in the visit cost, the demand will decline by 1.04 percent. However, there is much uncertainty in the price elasticity for visits to the CNMI, for which we did not find an estimate in the literature. One paper ("Analysis of Japanese Tourist Demand to Guam," *Asian Pacific Journal of Tourism Research*, vol. 12, no. 2 (June 2007)) found that Japanese tourist demand is more sensitive to income changes and less so to price changes and it estimated the Japanese tourists' demand for visits to Guam, which is a close alternative destination to the CNMI, had a price elasticity of -0.81 percent. However, another paper ("Japanese Demand for Tourism in Singapore: A Cointegration Approach," *Tourism Analysis*, vol. 10 (2006)) found Japanese tourists' demand for visits to Singapore, another close alternative destination to the CNMI, to be much more sensitive to price changes, with a price elasticity of -4.27 percent.

example, hotels that cater to budget conscious visitors might be less able to raise prices than hotels catering to visitors for whom prices are less important. In addition, the current business environment may make it difficult to increase prices. The CNMI hotel industry group noted recent declines in the tourism sector, reflected in declining room rates from 2008 to 2009, declining occupancy rates from 2005 to 2009, and declining revenues from 2006 to 2009.

Figure 17: Estimated Average Impact of Minimum Wage Increases on CNMI Hotels' Payroll Costs in 2010 and 2015, Relative to Average Payroll and Other Costs in 2008



Source: GAO analysis of wage data provided in responses to GAO large-employer questionnaire.

Notes: Our estimates of hotels' average costs in 2010 and 2015 are based on hotels' responses to our large-employer questionnaire. These estimates assume that numbers of workers and other operating costs will remain constant at the 2008 level and that only workers directly affected by the minimum wage increases will receive raises as a result of increases.

"Operating costs excluding payroll costs" includes FICA contributions, payments for employee benefits, and other operating expenses. "Payroll costs" includes payroll before deductions for taxes and benefits. "Increases in payroll costs due to minimum wage" is the annual cost of payroll increases that would be required to comply with the minimum wages since 2008, based on the 2008 distribution of wages.

Costs shown are unweighted average costs for CNMI hotels that responded to our questionnaire.

Table 12: Simulated Impact on CNMI Visitor Trip Cost from Hotel Workers' Minimum Wage Increases from 2009 through 2015, Compared to 2008

	2008	Rates to cover minimum wage increases for hotel workers from 2009 to 2015	Percentage change
Airfare	\$594	\$594	0
Hotel room cost	163	204	25.3
Other expenditure per person	531	531	0
Total trip cost per visitor	\$1,288	\$1,329	3.2

Source: GAO analysis based on data from the Marianas Visitors Authority, as presented in the Department of Homeland Security Economic Analysis of the Interim Rule.

Note: This analysis focuses on the effect of minimum wage increases on hotel workers. Per visit cost can also be affected by other factors, such as visa requirements, which we do not investigate in this simulation. We averaged costs for visitors from Japan and Korea, where the majority of the visitors to the CNMI originate.

CNMI Average Inflation-Adjusted Earnings Dropped as Estimated Earnings of Minimum Wage Workers Who Remained Employed Rose

Average Inflation-Adjusted Earnings Declined in 2006-2008

From 2006 to 2008, average annual inflation-adjusted earnings in the CNMI declined by about 6 percent.²¹ In particular, according to CNMI government tax data, average annual earnings rose by about 12 percent to \$12,781 in 2008. However, from 2006 to 2008 average prices increased by about 19 percent. Therefore, inflation eroded all income gains over the 2006-2008 period. (See table 13.)

²¹We analyzed data on reported earnings by the CNMI Division of Revenue and Tax. These data covered workers from all sectors and nationalities. The data do not allow us to analyze median earnings, as we did for American Samoa, because they do not include earnings by individual taxpayers that can be rank ordered. However, we analyzed average earnings using data on total earnings and total number of taxpayers. While wages reflect each worker's hourly rate of pay, earnings are determined by wages as well as hours worked. The results of our data analysis are also consistent with the results from our large-employer questionnaire, which show that average earnings of workers employed by the covered employers increased by 1.68 percent from 2007 to 2008.

Appendix IV: CNMI Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

Table 13: Change in Average Annual Inflation-Adjusted Earnings of CNMI Workers, 2006-2008

	2006	2007	2008	Percentage change		
				2006-2007	2007-2008	2006-2008
Average annual earnings in nominal dollars	\$11,460	\$11,925	\$12,781	4.1	7.2	11.5
Average annual earnings in inflation-adjusted dollars	\$11,460	\$10,506	10,747	-8.3	2.3	-6.2
Change in Consumer Price Index				13.5	4.8	18.9

Source: GAO analysis of CNMI Division of Revenue and Tax data and CNMI Consumer Price Index data.

Note: Earnings in inflation-adjusted dollars are in 2006 constant dollars. Inflation is estimated using the CNMI Consumer Price Index.

Estimated Inflation-Adjusted Earnings of Minimum Wage Workers Who Remained Employed Rose in 2006-2008

Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimate that inflation-adjusted earnings for CNMI minimum wage workers who retained their jobs and full hours rose by about 12 percent from 2006 to 2008. We estimate that annual minimum wage earnings increased by 33 percent from 2006 to 2008 (from \$3.05 to \$4.05),²² while Consumer Price Index data show that local prices increased by 19 percent.

To estimate total annual earnings of a minimum wage worker from 2006 to 2008, we assumed that a minimum wage worker earned \$3.05 per hour in 2006 and \$4.05 per hour in 2008²³ and that a minimum wage worker worked 2,000 hours per year in each calendar year. As a result, we

²²CNMI Division of Revenue and Tax data do not provide information on hours worked for individual workers, including minimum wage workers. Without data on hours worked per worker, it is not possible to distinguish minimum wage workers from other workers, because total earnings are a product of hours worked and wage per hour. Therefore, while the data allow for ordering of earnings and thus a computation of median earnings, they do not allow us to determine minimum wage workers' earnings. The data also do not provide information on hours worked for any individual worker during the year and do not cover workers who lost their jobs and earned zero income.

²³We made the simplifying assumption that the minimum wage increases occurred in the beginning of the calendar year.

Appendix IV: CNMI Wages, Employment, Employer Actions, Inflation-Adjusted Earnings, and Worker Views

estimate that total earnings of a minimum wage worker were \$6,100 in 2006 and \$8,100 in 2008. Because in 2007 average prices rose by about 13.5 percent but earnings rose by 16.4 percent, inflation-adjusted earnings of a minimum wage worker increased by about 2.5 percent. In 2008, the increase in purchasing power was larger (8.9 percent) owing to a similar increase in annual earnings (about 14.1 percent) but a smaller increase of average prices (4.8 percent) (see table 14).

Table 14: Change in Estimated Inflation-Adjusted Annual Earnings of Minimum Wage Workers Retaining Full-time Employment in the CNMI, 2006-2008

	2006	2007	2008	Percentage change		
				2006-2007	2007-2008	2006-2008
Estimated annual earnings in nominal dollars	\$6,100	\$7,100	\$8,100	16.4	14.1	32.8
Estimated annual earnings in inflation-adjusted dollars	\$6,100	\$6,256	\$6,811	2.5	8.9	11.7
Change in Consumer Price Index				13.5	4.8	18.9

Source: GAO analysis of minimum wage data and CNMI Consumer Price Index data.

Note: Earnings in inflation-adjusted dollars are in 2006 constant dollars. Inflation is estimated using the CNMI Consumer Price Index.

However, for foreign workers whose employers chose to add charges for food and lodging after the minimum wage increases, inflation-adjusted earnings may have increased less or have decreased since 2006. According to the CNMI government, employers providing room and board are permitted to deduct up to \$100 for lodging and \$100 for food per month from the wages of foreign workers. Employers and workers we spoke with told us that in response to minimum wage increases, some employers started to make these deductions from foreign workers' paychecks.²⁴

²⁴In addition, according to our large-employer questionnaire, employers representing 37 percent of CNMI workers employed by private sector questionnaire respondents said they had reduced or eliminated at least one type of benefit for foreign workers paid an hourly wage. For housing benefits in particular, CNMI employers representing 37 percent of workers employed by private sector respondents said they decreased or eliminated housing benefits for foreign workers paid an hourly wage from 2007 to 2009; employers representing 40 percent of workers employed by private sector respondents did not offer the housing benefit to foreign workers paid an hourly wage at any time during this period.

**Inflation in 2006-2008 Resulted
Mainly from Higher Import
Prices**

Therefore, we estimate that in 2008, foreign workers could earn from \$5,700 to \$8,100, depending on deductions for food and lodging.²⁵ As a result, those workers may have experienced a range of changes in their inflation-adjusted earnings from 2006 to 2008, from a 12 percent increase with no change in deductions to a 21.4 percent decrease with the maximum allowable deduction.²⁶

According to the CNMI government, most consumer goods in the CNMI are imported.²⁷ As a result, the increase in local prices from 2006 to 2008 appears to have been largely due to price increases in imported goods such as food and utilities. In particular, the CNMI Consumer Price Index shows that prices rose by about 19 percent from 2006 to 2008. Over the same period, the price of imports such as food increased by about 8 percent and the price of housing and utilities such as electricity increased by 53.5 percent.²⁸ According to data from the CNMI's Commonwealth Utilities Corporation, electricity rates increased by 25 percent in 2007 alone. In contrast, the price of education and communication services, mostly a domestic product, has dropped from 2006 to 2008 by 0.5 percent.

²⁵Since foreign-born workers may be charged up to \$200 a month for living expenses, the lower bound of our estimate assumes that workers are charged the full amount in 2008.

²⁶One group of foreign workers experienced a larger increase in their inflation-adjusted earnings. Under the CNMI established minimum wage, household workers' minimum pay was set at \$300 per month for up to 72 hours of work per week, or about \$1 per hour if all 72 hours were worked. The application of the federal minimum wage established an hourly rate of pay of \$3.55 per hour in 2007 and applied to household workers. By 2008, household workers working 40-hour weeks could earn from \$5,700 to \$8,100 per year depending on deductions for food and lodging. As a result, household workers experienced a range of increases in their inflation-adjusted earnings from 2006 to 2008, from a 33 percent increase with maximum allowed deductions to 89 percent increase without deductions.

²⁷CNMI government, Energy Division.

²⁸Utilities such as electricity are imports, but housing is not; however, the consumer price index tracks housing and utilities as one category.

Data Available for 2006-2008 Do Not Suggest Link between Changes in Poverty-Related Program Participation and Changes in Inflation-Adjusted Earnings

Minimum wage increases generally disproportionately affect households at the lower end of the income distribution. However, direct measures of the CNMI poverty rate are not available for recent years. Available data for federal need-based assistance in the CNMI in 2006 to 2008 do not suggest that changes in inflation-adjusted earnings, resulting from the wage increases, led to changes in poverty-related program participation.²⁹

Our analysis of CNMI Nutrition Assistance Program data shows that from 2006 to 2009, there was no significant observable trend in the number of program beneficiaries (local residents and U.S.-born children of nonlocal residents) (see table 15).³⁰ The relatively constant number of program beneficiaries suggests that the low-income population remained about constant.³¹

Table 15: CNMI Nutrition Assistance Program Beneficiaries, 2006-2009

	2006	2007	2008	2009
Number of beneficiaries (annual average)	7,995	8,027	7,579	8,074
Year-to-year percentage change		0.40%	-5.58%	6.52%

Source: CNMI Division of Nutrition Assistance Program, data as of December 2009.

²⁹Minimum wage increases may cause employed workers' income to rise, eliminating their need for assistance. However, minimum wage increases may also lead to loss of income for workers who are laid off or have experienced a reduction in hours worked, making them eligible for need-based assistance.

³⁰The U.S. Department of Agriculture's Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program, helps low-income people and families buy the food they need for good health. The Nutrition Assistance Block Grant in the CNMI provides food assistance to such low-income households in the CNMI. In addition, a newly established WIC program has increased its intake of beneficiaries, who are both local residents and foreign nationals. However, because the program has been in operation for only the last 3 years, the increased enrollment count may be due to successful outreach efforts and may not imply that more people have become eligible for assistance.

³¹However, as noted earlier, need-based program enrollment rates may not accurately reflect the numbers of people living in poverty, because not all people in need seek need-based assistance. In addition, the lack of any indication of the change in the poverty rate may be due to many factors. If the total population in the CNMI has dropped due to U.S.-born residents leaving the area and the coverage rate has not changed, then it is possible that despite the constant enrollment rate, the percentage of those living in poverty might have increased.

CNMI Workers Generally Expressed Support for Minimum Wage Increases and Cited Other Factors Affecting Living Standards

Discussion Group Participants Generally Supported Higher Wages for Workers

Salaried and hourly workers we spoke with generally expressed support for the minimum wage increases. For example, the majority of WIC recipients we spoke with in Saipan and Tinian favored future minimum wage increases. Hotel human resources staff also stated that the minimum wage increases were long overdue. Local workers in the discussion groups expressed their desire to earn higher wages to cope with increasing costs. However, some workers also said they were uncertain whether increases in labor costs due to the minimum wage increases had been responsible for price increases.

Workers Said Closure of Garment Factories and Events Affecting Tourist Arrivals Had Lowered Living Standards for Residents

Discussion group participants said that the closure of the garment factories and external factors affecting tourist arrivals had negatively affected living standards for CNMI residents.³² Workers stated that the closure of the garment factories had a ripple effect in the economy. Statements by discussion group participants indicated that they were less concerned about the minimum wage increases than about other factors beyond their control that affect living standards. For example, as human resource managers from the hotel industry observed, the week before we convened the group, hundreds of reservations were cancelled as a result of the global alarm over the H1N1 virus. Other participants mentioned the effects on the CNMI of the SARS virus and the recent financial crises in the Korean and Japanese markets. Hotel employees noted that hours worked depend on occupancy rates and any factors that negatively affect tourist arrivals decrease earnings.

³²To collect information on workers' views of the minimum wage increases, we conducted six structured discussion groups with various worker and community groups with different organizational affiliations. We conducted discussion groups with hotel workers at two different hotels, one group with Nutrition Assistance Program recipients, one group with Filipino workers, one group with former garment factory workers, and one group recruited by the CNMI Labor Ombudsman Office.

**Local Workers Stated That
Minimum Wage Increases Had
Helped Improve Their Living
Standards, but They Need
Additional Training to Replace
Foreign Workers**

Discussion group participants also told us the minimum wage increases had benefited some local workers. For example, hotel human resources staff said that local workers were learning how to plan rather than live from paycheck to paycheck, as their income earned became more significant. The hotel staff told us that as the workers' spending power had increased, they had become more careful in budgeting their expenses. Other local workers also indicated that the higher wages had helped their families better cover their living expenses. However, discussion group participants said local workers needed additional training to replace foreign workers. Workers participating in discussion groups expressed concern that it is difficult for locals to find jobs because many local workers lack skills needed for minimum wage jobs previously held by foreign workers.

**Workers Indicated That
Minimum Wage Increases Had
Not Improved Living Standards
of Foreign Workers**

Workers we talked with stated that the minimum wage increases had generally not directly improved the living standards of foreign workers. According to workers participating in our discussion groups, benefits had decreased as income increased; for example, some foreign workers reported that since the first minimum wage increase, their employers had begun requiring them to pay up to \$200 per month for housing and food. Further, many foreign workers lost their jobs as a result of the demise of the garment industry, and many of these workers have left the CNMI.³³ Ex-garment workers still living in Saipan told us that they were drawing on their savings, relying on help for their U.S.-born children from the Nutrition Assistance Program,³⁴ and looking for work.

**Foreign Workers Expressed
Concern about Immigration
Changes and Requirements**

Discussion group participants in Saipan and Tinian said that the application of U.S. immigration law had increased uncertainty about the employment of foreign workers. Foreign workers expressed anxiety over not knowing whether they will be able to remain in the CNMI under U.S. immigration law. Moreover, laid-off foreign workers said that employers had begun asking job applicants whether they were U.S. citizens because employers did not know how long they would be able to retain foreign workers under U.S. immigration law.

³³While the earnings of foreign-born workers who remained in the CNMI have not changed significantly, according to CNMI tax data, their number dropped by 43 percent from 2005 to 2008. In particular, the number of foreign-born earners in the CNMI dropped from 37,711 in 2005 and 32,116 in 2006, to 25,732 in 2007, to 21,316 in 2008.

³⁴Children born in the CNMI are U.S. citizens by birth.

The text box lists some comments by CNMI discussion group participants.

CNMI Workers' Views Based on Discussion Groups

Some discussion group participants supported higher wages for workers.

“There is no price control, minimum wage is up and prices are up. Prices have been going up regardless of the minimum wage. Without the minimum wage increases we would have been worse off.”

“Minimum wage is way overdue. We can't deny raises. People come in and want a job and it is hard to deny them that.”

Workers said closure of garment factories and decreased tourist arrivals had lowered living standards for all residents.

“This week hundreds of nights [were] cancelled due to the H1N1. Occupancy rates were sad.”

“If Japan goes into recession, so does the CNMI.”

“I was a manager in the [garment] factory for 9 years...December of 2008 the factory closed. This was the last factory that closed. Now the factory's wall is torn and the place is deserted. I am on a student visa now, using up my savings.”

Local workers stated that minimum wage increases had helped improve their living standards, but they need additional training to replace foreign workers.

“The minimum wage has had some good impact due to the increased spending power. People are trying to make their pay check last longer.”

“Now local people are more careful what they can afford.

Before they used to live paycheck to paycheck, the paycheck would be spent by the end of the weekend. It is re-education of the population.”

“Before, the wages were so insignificant, people just went out and spent it. Now they are learning how to plan.”

“Coming from someone [who] has a home here, is a local resident, it’s definitely more positive. The wages are good for my family.”

“It is hard to find a job, need to have degrees, finished college, employers want experience.”

Workers indicated that minimum wage increases have not improved the living standards of foreign workers.

“Income has increased but benefits have decreased [for foreign workers]...the employer gets more back.”

“[Before]—low minimum wage, benefits for [foreign] contract workers. Now, higher minimum wage, lower benefits... we lose more.”

“Reductions for staff housing, before it was free. Same for food. Deduction is \$100 for housing and same for food.”

Foreign workers expressed concern about immigration changes and requirements.

“I think [the] economy [is] very low because of [the] immigration problem...Some people who have been here [a] long time can’t stay.”

“I am using an extension, after an extension. Federalization is the issue for me.”

“I have a family, [the] company is [our] source of bread and butter. If I need to leave, [this will have a] big impact on life... I don’t have [any] idea if I can stay.”

Appendix V: American Samoa Employers' Reported Actions and Contribution of Minimum Wage Increases and Other Factors, Based on GAO Large-Employer Questionnaire Responses

Table 16: American Samoa Employers' Reported Actions in June 2007-June 2009 and Contribution of Minimum Wage Increases, Based on GAO Large-Employer Questionnaire Responses

Employer action	Percentage of employers that reported action, weighted by percentage of workers employed by all respondents		Percentage of employers reporting action that said past minimum wage increases contributed to a moderate or large extent, weighted by percentage of workers employed by respondents taking action		Percentage of employers reporting action that said expectations of future minimum wage increases contributed to a moderate or large extent, weighted by percentage of workers employed by respondents taking action	
	Number of employers	Percent	Moderate extent	Large extent	Moderate extent	Large extent
a. Introduce labor-saving strategies or technology	8	29	5	67	3	74
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	15	94	68	23	67	25
c. Reduce operating capacity or services offered [to customers]	3	45	87	1	58	31
d. Delay expansion of business	4	43	2	80	0	84
e. Relocate business outside of American Samoa	2	22	65	3	1	68
f. Close establishment temporarily	1	21	67	0	1	0
g. Lay off salaried employees	2	22	0	68	4	4
h. Lay off employees who are paid an hourly wage	6	24	3	68	2	74
i. Reduce regular work hours for employees paid an hourly wage	7	24	4	5	2	76
j. Reduce overtime work hours for employees paid an hourly wage	13	30	3	73	2	76
k. Decrease level of benefits for salaried employees	1	1	3	3	5	3
l. Decrease level of benefits for employees paid an hourly wage	4	42	41	41	40	45
m. Implement a hiring freeze	11	93	68	23	66	26
n. Raise prices of goods or services	12	96	71	1	49	4

Source: GAO analysis of American Samoa large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Numbers of employers reporting taking each action ranged from 1 to 15.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, none of whom are covered by our questionnaire. Data also do not include employers that did not respond to our questionnaire. Although questionnaire responses covered about 72 percent of the American Samoa workforce, they may not be representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers' responses significantly affected our reported questionnaire data.

**Appendix V: American Samoa Employers’
Reported Actions and Contribution of
Minimum Wage Increases and Other Factors,
Based on GAO Large-Employer Questionnaire
Responses**

**Table 17: American Samoa Employers’ Reported Contribution of Other Factors,
Based on GAO Large-Employer Questionnaire Responses**

	Not at all	To a small extent	To a moderate extent	To a large extent
a. Increased utility costs	0	0	94	6
b. Increased costs of materials	0	93	1	6
c. Increased transportation/ shipping costs	0	72	22	6
d. Increased maintenance costs	88	5	1	6
e. Decreased number of customers	73	23	1	3
f. Changes to U.S. immigration laws	97	1	0	0
g. Changes in business taxes or fees	96	0	1	1

Source: GAO analysis of American Samoa large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer’s total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, none of whom are covered by our questionnaire. Data also do not include employers that did not respond to our questionnaire. Although questionnaire responses covered about 72 percent of the American Samoa workforce, they may not be representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers’ responses significantly affected our reported questionnaire data.

Some rows do not add up to 100 percent due to rounding or the category “do not know,” which is not reported here.

**Appendix V: American Samoa Employers’
Reported Actions and Contribution of
Minimum Wage Increases and Other Factors,
Based on GAO Large-Employer Questionnaire
Responses**

Table 18: American Samoa Employers’ Reported Actions Planned by End of 2010 and Contribution of Minimum Wage Increases, Based on American Samoa Large-Employer Questionnaire Responses

Employer action	Percentage of employers that reported planning action, weighted by percentage of workers employed by all respondents		Percentage of employers planning action that said minimum wage increases will contribute to a moderate or large extent, weighted by percentage of workers employed by respondents taking action	
	Number of employers	Percent	Moderate extent	Large extent
a. Introduce labor-saving strategies or technology	12	50	1	88
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	14	97	45	28
c. Reduce operating capacity or services offered [to customers]	10	89	49	29
d. Delay expansion of business	8	27	1	49
e. Relocate business outside of American Samoa	4	43	0	87
f. Close establishment temporarily	1	1	4	4
g. Lay off salaried employees	8	44	1	91
h. Lay off employees who are paid an hourly wage	11	46	2	91
i. Reduce regular work hours for employees paid an hourly wage	11	27	4	86
j. Reduce overtime work hours for employees paid an hourly wage	13	31	0	78
k. Decrease level of benefits for salaried employees	7	25	2	85
l. Decrease level of benefits for employees paid an hourly wage	8	25	2	85
m. Implement a hiring freeze	12	31	61	35
n. Raise prices of goods or services	9	7	62	8
o. Close establishment permanently	3	41	0	85

Source: GAO analysis of American Samoa large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer’s total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Numbers of employers reporting taking each action ranged from 1 to 14.

Data shown cover large employers—generally, those with at least 50 employees. Questionnaire responses do not include smaller employers; employers that had closed, or employers that did not respond to our questionnaire. Although questionnaire responses covered about 72 percent of the American Samoa workforce, they are not necessarily representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers’ responses significantly affected our reported questionnaire data.

Employers reported actions that they planned to take within 18 months of our August 2009 questionnaire.

**Appendix V: American Samoa Employers’
Reported Actions and Contribution of
Minimum Wage Increases and Other Factors,
Based on GAO Large-Employer Questionnaire
Responses**

Table 19: American Samoa Employers’ Reported Contribution of Other Factors to Future Actions, Based on GAO Large-Employer Questionnaire Responses

	Not at all	To a small extent	To a moderate extent	To a large extent
a. Increased utility costs	0	25	69	6
b. Increased costs of materials	20	72	2	6
c. Increased transportation/ shipping costs	0	93	2	5
d. Increased maintenance costs	88	5	2	5
e. Decreased number of customers	71	3	1	26
f. Changes to U.S. immigration laws	96	1	1	0
g. Changes in business taxes or fees	92	1	2	1

Source: GAO analysis of American Samoa large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer’s total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, none of whom are covered by our questionnaire. Data also do not include employers that did not respond to our questionnaire. Although questionnaire responses covered about 72 percent of the American Samoa workforce, they may not be representative of all American Samoa workers and employers. In addition, the tuna canneries and local government employed a large percentage of workers employed by all questionnaire respondents, as in the actual American Samoa workforce; as a result, these employers’ responses significantly affected our reported questionnaire data.

Some rows do not add up to 100 percent due to rounding or the category “do not know,” which is not reported here.

Employers reported contribution to actions that they planned to take within 18 months of our August 2009 questionnaire.

Appendix VI: CNMI Employers' Reported Actions and Contribution of Minimum Wage Increases and Other Factors, Based on GAO Large-Employer Questionnaire Responses

Table 20: CNMI Employers' Reported Actions in June 2007-June 2009 and Contribution of Minimum Wage Increases, Based on GAO Large-Employer Questionnaire Responses

Employer action	Percentage of employers that reported action, weighted by percentage of workers employed by all respondents		Percentage of employers reporting action that said past minimum wage increases contributed to a moderate or large extent, weighted by percentage of workers employed by respondents taking action		Percentage of employers reporting action that said future minimum wage increases contributed to a moderate or large extent, weighted by percentage of workers employed by respondents taking action	
	Number of employers	Percent	Moderate extent	Large extent	Moderate extent	Large extent
	a. Introduce labor-saving strategies or technology	24	42	43	10	30	46
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	27	44	48	20	36	39
c. Reduce operating capacity or services offered [to customers]	14	27	31	8	32	16
d. Delay expansion of business	17	27	12	27	3	19
e. Relocate business outside of CNMI	0	0	0	0	0	0
f. Close establishment temporarily	1	1	2	0	4	0
g. Lay off salaried employees	9	10	16	0	8	7
h. Lay off employees who are paid an hourly wage	10	11	13	2	2	10
i. Reduce regular work hours for employees paid an hourly wage	17	36	47	7	38	13
j. Reduce overtime work hours for employees paid an hourly wage	28	68	55	14	50	27
k. Decrease level of benefits for salaried employees	10	18	14	2	4	11
l. Decrease level of benefits for employees paid an hourly wage	9	17	19	2	3	14
m. Implement a hiring freeze	19	72	57	17	69	13
n. Raise prices of goods or services	26	75	65	6	76	6

Source: GAO analysis of responses to CNMI large-employer questionnaire.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Numbers of employers reporting each action ranged from 0 to 28.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, including garment factories, none of whom are covered by our questionnaire. Data also omit employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

Appendix VI: CNMI Employers' Reported Actions and Contribution of Minimum Wage Increases and Other Factors, Based on GAO Large-Employer Questionnaire Responses

Table 21: CNMI Employers' Reported Contribution of Other Factors, Based on GAO Large-Employer Questionnaire Responses

	Not at all	To a small extent	To a moderate extent	To a large extent
Increased utility costs	0	13	66	19
Increased costs of materials	3	38	30	26
Increased transportation/ shipping costs	7	36	22	33
Increased maintenance costs	7	37	31	23
Decreased number of customers	0	12	39	45
Changes to U.S. immigration laws	0	8	17	64
Changes in business taxes or fees	23	13	32	24

Source: GAO analysis of CNMI large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Numbers of employers ranged from 0 to 28.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, including garment factories, none of whom are covered by our questionnaire. Data also omit employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

Some rows do not add up to 100 percent due to rounding or the category "do not know," which is not reported here.

**Appendix VI: CNMI Employers' Reported
Actions and Contribution of Minimum Wage
Increases and Other Factors, Based on GAO
Large-Employer Questionnaire Responses**

Table 22: CNMI Employers' Reported Actions Planned by the End of 2010 and Contribution of Minimum Wage Increases, Based on GAO Large-Employer Questionnaire Responses

Employer actions	Percentage of employers that reported planning action, weighted by percentage of workers employed by all respondents		Percentage of employers planning action that said minimum wage increases will contribute to a moderate or large extent, weighted by percentage of workers employed by respondents taking action	
	Number of employers	Percent	Moderate extent	Large extent
a. Introduce labor-saving strategies or technology	12	22	21	44
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	26	79	15	29
c. Reduce operating capacity or services offered [to customers]	12	22	7	34
d. Delay expansion of business	14	23	17	20
e. Relocate business outside of CNMI	1	1	0	3
f. Close establishment temporarily	0	0	5	0
g. Lay off salaried employees	5	6	1	10
h. Lay off employees who are paid an hourly wage	9	15	25	12
i. Reduce regular work hours for employees paid an hourly wage	18	35	37	16
j. Reduce overtime work hours for employees paid an hourly wage	27	44	44	23
k. Decrease level of benefits for salaried employees	11	18	26	11
l. Decrease level of benefits for employees paid an hourly wage	12	19	26	11
m. Implement a hiring freeze	23	72	28	54
n. Raise prices of goods or services	23	34	45	15
o. Close establishment permanently	1	2	0	3

Source: GAO analysis of CNMI large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers. Numbers of employers reporting each planned action ranged from 0 to 27.

Data shown cover large employers—generally, those with at least 50 employees. Questionnaire responses do not include smaller employers; employers that have closed, including garment factories; or employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

Employers reported actions that they planned to take within 18 months of our September 2009 questionnaire.

Appendix VI: CNMI Employers' Reported Actions and Contribution of Minimum Wage Increases and Other Factors, Based on GAO Large-Employer Questionnaire Responses

Table 23: CNMI Employers' Reported Contribution of Other Factors to Future Actions, Based on GAO Large-Employer Questionnaire Responses

	Not at all	To a small extent	To a moderate extent	To a large extent
a. Increased utility costs	2	60	8	24
b. Increased costs of materials	4	33	18	28
c. Increased transportation/ shipping costs	8	29	12	40
d. Increased maintenance costs	4	31	20	34
e. Decreased number of customers	2	12	47	37
f. Changes to U.S. immigration laws	0	14	19	60
g. Changes in business taxes or fees	5	13	36	27

Source: GAO analysis of CNMI large-employer questionnaire responses.

Notes: Percentages of responses are weighted by each employer's total number of workers in 2009, which gives more weight to responses from employers with larger numbers of workers.

Data shown cover large employers—generally, those with at least 50 employees. Data do not include smaller employers and employers that have closed, including garment factories, none of whom are covered by our questionnaire. Data also omit employers that did not respond to our questionnaire. Questionnaire responses cover about 29 percent of the CNMI public and private sector workforce. As a result, the data may not be representative of all CNMI workers and employers. In addition, the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined.

Some rows do not add up to 100 percent due to rounding or the category "do not know," which is not reported here.

Employers reported actions that they planned to take within 18 months of our September 2009 questionnaire.

Appendix VII: GAO Questionnaire Used in Report

Note: The questionnaire reproduced below was provided to American Samoa large employers. CNMI large employers received a questionnaire with nearly identical wording, except as noted and except where “American Samoa” was replaced with “CNMI.”

Instructions for Completing the Questionnaire Onscreen

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

START HERE

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

PART I. ESTABLISHMENT INFORMATION

These questions cover basic information about this establishment. Responses will be used to classify the establishment based on location, years in operation, ownership structure, and type of business. These questions also ask about this establishment’s competitors and position in the global marketplace. These responses will be used to assess how susceptible this establishment is to global competition in the goods-and-services market.

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

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

(Please enter numerals only)

2. What is this establishment’s name?

3. Since what year has this establishment been in continuous operation?

If this establishment has ever shut down temporarily but later reopened under the same EIN (e.g., seasonal closure or remodel), please count this temporary shutdown as part of the continuous operation.

(Please enter in YYYY format)

Appendix VII: GAO Questionnaire Used in Report

4. Which category listed below best describes this establishment?

(Please check only ONE box)

- For-profit business..... → Continue with QUESTION 5
- Not-for-profit organization..... → Skip to QUESTION 12
- Government administrative agency or government-owned enterprise (e.g. public utility or hospital)..... → Skip to QUESTION 12
- Other..... → Please specify: _____



Skip to QUESTION 12

5. Are the majority of this establishment's owners U.S. citizens or nationals, U.S. or American Samoan permanent residents, or citizens of the Freely Associated States (FAS)?

(Please check only ONE box)

- Yes..... → Continue with QUESTION 6
- No..... → Skip to QUESTION 7
- Don't know → Skip to QUESTION 8

[Note: For the CNMI questionnaire, question 5 was worded as follows:

Which of the following best describes the majority ownership of this establishment?
(Please check only ONE box)

- U.S. citizen – CNMI born (Chamorro or Carolinian).....
- U.S. citizen – CNMI born (NOT Chamorro or Carolinian).....
- U.S. citizen – not CNMI born.....
- Chinese citizen.....
- Filipino citizen.....
- Japanese citizen.....
- Korean citizen.....
- Other..... → Please specify: _____
- Don't know/ unable to determine]

6. Are the majority of this establishment's owners of American Samoan heritage?

(Please check only ONE box)

- Yes..... → Skip to QUESTION 8
- No..... → Skip to QUESTION 8
- Don't know → Skip to QUESTION 8

Appendix VII: GAO Questionnaire Used in Report

7. What is the citizenship status of the majority ownership of this establishment?

(Please check only ONE box)

- Australian citizen
- Chinese citizen
- Filipino citizen.....
- Japanese citizen
- Korean citizen
- New Zealand citizen
- Other..... → Please specify: _____
- Don't know..... → Please explain: _____

8. Which one of the following best describes this establishment's principal kind of business?

(Please check only ONE box)

- Agriculture, forestry, fishing and hunting
- Mining, quarrying, and oil and gas extraction.....
- Utilities
- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- Transportation and warehousing
- Publishing, broadcasting, and telecommunications
- Finance and insurance
- Real estate and rental and leasing
- Professional, scientific, and technical services
- Educational services
- Health care/ social assistance
- Accommodations (i.e., hotels).....
- Food service
- Arts, entertainment, and recreation
- Repair and maintenance services.....
- Other..... → Please specify: _____

Appendix VII: GAO Questionnaire Used in Report

9. Thinking about where your customers primarily reside, approximately what percentage of the goods or services that this establishment provides is sold to (a) local residents of American Samoa, (b) temporary visitors to American Samoa, and (c) consumers who reside outside of American Samoa?

The percentages across the three groups should roughly equal 100 percent.

(Please check only ONE box per customer group)

a. Local residents of American Samoa:

- None...
- Less than 20 percent...
- 20 to 39 percent...
- 40 to 59 percent...
- 60 to 79 percent...
- More than 80 percent...
- Don't know...

b. Temporary visitors to American Samoa, such as tourists or business travelers:

- None...
- Less than 20 percent...
- 20 to 39 percent...
- 40 to 59 percent...
- 60 to 79 percent...
- More than 80 percent...
- Don't know...

c. Consumers who reside outside of American Samoa and are not temporary visitors:

- None...
- Less than 20 percent...
- 20 to 39 percent...
- 40 to 59 percent...
- 60 to 79 percent...
- More than 80 percent...
- Don't know...

Appendix VII: GAO Questionnaire Used in Report

10. Does this establishment compete for customers with others that provide similar goods or services in the following markets, and if yes, where are the other establishments located in each market listed below?

If this establishment does not compete in the market, please check the box in column 1.

	Establishment does not compete in this market ▼	Establishment does compete in this market <i>(Please check all that apply)</i>			
		Within AS ▼	Other U.S. territories or States ▼	Outside the U.S. ▼	Don't know ▼
a. Goods or services sold to local residents of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Goods or services sold to temporary visitors to American Samoa, such as tourists or business travelers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Goods or services sold to consumers outside of American Samoa.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. What are this establishment's competitive advantages, if any, in the markets for which you compete for customers?

(Please check ONE box per advantage)

	Yes ▼	No ▼	Don't know ▼
a. State-of-the-art technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Brand name.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Skilled workforce.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. High-quality goods or services.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Low production costs (both labor and operating costs).....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Location.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Access to U.S. markets.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Government tax incentives.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Others (please specify): _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix VII: GAO Questionnaire Used in Report

PART II. EXPENSES AND INCOME

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

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

Calendar year..... → Skip to QUESTION 13
 Fiscal year..... →

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

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

The data reported in questions 13 to 15 will be used to determine this establishment's total costs incurred for its employees. Each question asks you to report a different type of employee cost that most establishments incur—total payroll, FICA contributions, and costs of employee benefits. Specific definitions of each of these three categories are provided below.

13. What was the total U.S. dollar amount of this establishment's payroll before employee deductions for taxes and benefits for the 12-month period for 2006, 2007, and 2008 identified in question 12?

For each year, only include the following as payroll expenses:	12-month period that includes June 12th			
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>			
<ul style="list-style-type: none"> Wages and salaries, including overtime pay, commissions, and bonuses, paid only to employees of this establishment 	2006	\$	, ,	.00
<ul style="list-style-type: none"> Paid holidays, vacation, sick leave, and other paid leave for all employees 	2007	\$	, ,	.00
	2008	\$	, ,	.00

Appendix VII: GAO Questionnaire Used in Report

14. What was the total U.S. dollar amount of this establishment's FICA contributions for the 12-month period for 2006, 2007, and 2008 identified in question 12?

FICA contributions are those made for <ul style="list-style-type: none"> • Social Security (OASDI) and • Medicare 	12-month period that includes <u>June 12th</u>		
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2006	\$	, , .00
	2007	\$	, , .00
	2008	\$	, , .00

15. What was the total U.S. dollar amount of this establishment's payments for employee benefits (other than FICA) for the 12-month period for 2006, 2007, and 2008 identified in question 12?

For each year, <u>only include</u> the following as benefits if offered to any employee who earned an annual salary or an hourly wage: <ul style="list-style-type: none"> • Insurance contributions (e.g., health, life) • Payments for health expenses • Pension or 401(k) contributions • Housing or food allowances • Transportation payments for local or international travel • Payments for education expenses • Workers' compensation • Other benefits not listed above 	12-month period that includes <u>June 12th</u>		
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2006	\$	, , .00
	2007	\$	, , .00
	2008	\$	, , .00

Appendix VII: GAO Questionnaire Used in Report

16. Excluding payroll, FICA contributions, and employee benefits, what was the total U.S. dollar amount of this establishment's other operating expenses for the 12-month period for 2006, 2007, and 2008 identified in question 12?

<p>For each year, only include:</p> <ul style="list-style-type: none"> • Lease and rental payments • Costs of materials, such as raw materials, packaging, or food • Utilities and telecommunications costs • Advertising services, office supplies, and shipping costs • Services provided by contractors, such as legal, data processing, janitorial, or other • Insurance, storage, repairs, theft, and damage losses • Merchandise purchased for resale • Equipment that was expensed (rather than capitalized) • Depreciation and amortization charges • Business taxes and fees • Other expenses not listed above, <u>except</u> expenses reported in questions 13 to 15 	12-month period that includes <u>June 12th</u>				
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>				
	2006	\$,	,	.00
	2007	\$,	,	.00
2008	\$	,	,	.00

17. What was the total U.S. dollar amount of this establishment's capital expenditures for the 12-month period for 2006, 2007, and 2008 identified in question 12?

<p>For each year, only include the following as capital expenditures:</p> <ul style="list-style-type: none"> • Value of new construction completed • Value of physical improvements made to establishment's facilities that were completed • Equipment that was capitalized (rather than expensed) travel 	12-month period that includes <u>June 12th</u>				
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>				
	2006	\$,	,	.00
	2007	\$,	,	.00
2008	\$	,	,	.00

Appendix VII: GAO Questionnaire Used in Report

18. What was the approximate total U.S. dollar amount of this establishment's income (before taxes, if applicable) for the 12-month period for 2006, 2007, and 2008 identified in question 12?

Please do not include the value of sales or other taxes collected directly from customers and paid directly to a federal or local tax agency.

(Please check ONE box per year)

	2006 ▼	2007 ▼	2008 ▼
a. Less than \$500,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. \$500,000 to \$749,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. \$750,000 to \$999,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. \$1 million to \$2,999,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. \$3 million to \$4,999,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. \$5 million to \$6,999,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. \$7 million to \$8,999,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. \$9 million or higher (please specify to nearest million dollar below): _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Don't know	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Not applicable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19. What percentage increase in operating costs would cause this establishment to close its operation in American Samoa?

(Please check only ONE box)

- Less than 10 percent.....
- 10 to 19 percent.....
- 20 to 29 percent.....
- 30 to 39 percent.....
- 40 to 49 percent.....
- More than 50 percent.....
- Don't know.....
- Not applicable.....

Appendix VII: GAO Questionnaire Used in Report

PART III. EMPLOYMENT, WAGES, AND BENEFITS DATA

These questions ask for detailed data about employment, wages, and benefits for employees at this establishment for 2007, 2008, and 2009. These data are necessary to establish a historical time series of comparable employment and wage data for large employers in American Samoa.

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

Include the following in your count of employees:

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

Exclude the following in your count of employees:

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

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

20. Approximately what percentage of the employees at this establishment is female?

(Please check only ONE box)

- Less than 20 percent.....
- 20 to 39 percent.....
- 40 to 59 percent.....
- 60 to 79 percent.....
- More than 80 percent.....
- Don't know.....

21. Are any of the employees on this establishment's payroll covered by the FLSA?

(Please check only ONE box)

- Yes.....
- No.....
- Don't know.....

Appendix VII: GAO Questionnaire Used in Report

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

(Please check only ONE box)

- Yes..... → Continue with QUESTION 23
 No..... → Skip to QUESTION 32
 Don't know → Skip to QUESTION 32

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

(Please check only ONE box)

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

24. For employees paid an hourly wage, what were the start and end dates of the pay period including June 12th for 2007, 2008, and 2009?

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

(Please enter two numerals per answer box)

a. 2007

Start date of pay period that includes <u>June 12, 2007</u>		End date of pay period that includes <u>June 12, 2007</u>		Establishment was not in operation on <u>June 12, 2007</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

b. 2008

Start date of pay period that includes <u>June 12, 2008</u>		End date of pay period that includes <u>June 12, 2008</u>		Establishment was not in operation on <u>June 12, 2008</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

c. 2009

Start date of pay period that includes <u>June 12, 2009</u>		End date of pay period that includes <u>June 12, 2009</u>		Establishment was not in operation on <u>June 12, 2009</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

Appendix VII: GAO Questionnaire Used in Report

25. What was the total number of employees paid an hourly wage on this establishment's payroll during the pay periods that included June 12th for 2007, 2008, and 2009 who were (a) U.S. citizens, nationals, or permanent residents; (b) American Samoa permanent residents and citizens of the FAS; (c) citizens or permanent residents of nations other than the U.S., American Samoa, or the FAS?

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

(Please enter numerals in each box below)

Employee category	Pay period that includes <u>June 12, 2007</u>	Pay period that includes <u>June 12, 2008</u>	Pay period that includes <u>June 12, 2009</u>
(a) U.S. citizens, nationals, or permanent residents			
(b) American Samoa permanent residents and citizens of the FAS			
(c) citizens or permanent residents of nations other than the U.S., American Samoa, or the FAS			

26. If the number of employees paid an hourly wage at this establishment increased or decreased between 2007 and 2009, can you please describe below some of the factors that contributed to the increase or decrease?

Appendix VII: GAO Questionnaire Used in Report

27. The next three tables ask for detailed information about employees who were paid different base hourly wages (before deductions) during the pay period that included June 12th in 2007, 2008, and 2009. Question text and instructions are provided at the top of each column.

Please do not include employees paid an annual salary in these tables. Data for employees paid an annual salary will be reported separately in question 34.

You may also submit the requested data in an Excel spreadsheet or as a computer printout instead of reentering the data into the tables below.

a. For each of the questions below, please answer for the pay period that included **June 12, 2007**:

(A) Base hourly wage rate before deductions (in U.S. dollars) <i>(Please enter in \$XX.XX format for each hourly wage earned by employees at your establishment)</i>	(B) How many employees earned the base hourly wage listed in (A)? <i>(Please enter only numerals)</i>	(C) How many of the employees listed in (B) are covered by the FLSA? <i>(Please enter only numerals)</i>	(D) How many of the employees listed in (B) are U.S. citizens or nationals, U.S. or American Samoan permanent residents, or citizens of the FAS? <i>(Please enter only numerals)</i>	(E) How many total hours (<u>not including overtime hours</u>) did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(F) How many total <u>overtime hours</u> did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(G) What were the total earnings (before taxes and deductions) of employees who earned this wage during this pay period, including overtime, bonuses, and commissions? <i>Please do not include the value of employee benefits. (Please round to the nearest whole dollar)</i>
Example: \$ 4.63	10	9	2	819.25	30.50	\$ 1,763.00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
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\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00

Appendix VII: GAO Questionnaire Used in Report

b. For each of the questions below, please answer for the pay period that included June 12, 2008:

(A) Base hourly wage rate before deductions (in U.S. dollars) <i>(Please enter in \$XX.XX format for each hourly wage earned by employees at your establishment)</i>	(B) How many employees earned the base hourly wage listed in (A)? <i>(Please enter only numerals)</i>	(C) How many of the employees listed in (B) are covered by the FLSA? <i>(Please enter only numerals)</i>	(D) How many of the employees listed in (B) are U.S. citizens or nationals, U.S. or American Samoan permanent residents, or citizens of the FAS? <i>(Please enter only numerals)</i>	(E) How many total hours (<u>not including overtime hours</u>) did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(F) How many total <u>overtime hours</u> did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(G) What were the total earnings (before taxes and deductions) of employees who earned this wage during this pay period, including overtime, bonuses, and commissions? <i>Please do not include the value of employee benefits. (Please round to the nearest whole dollar)</i>
Example:						
\$ 4.63	10	9	2	819 . 25	30 . 50	\$ 1 , 763 . 00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00

Appendix VII: GAO Questionnaire Used in Report

c. For each of the questions below, please answer for the pay period that included June 12, 2009:

(A) Base hourly wage rate before deductions (in U.S. dollars) <i>(Please enter in \$XX.XX format for each hourly wage earned by employees at your establishment)</i>	(B) How many employees earned the base hourly wage listed in (A)? <i>(Please enter only numerals)</i>	(C) How many of the employees listed in (B) are covered by the FLSA? <i>(Please enter only numerals)</i>	(D) How many of the employees listed in (B) are U.S. citizens or nationals, U.S. or American Samoan permanent residents, or citizens of the FAS? <i>(Please enter only numerals)</i>	(E) How many total hours (not including overtime hours) did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(F) How many total overtime hours did employees who earned this base hourly wage work during this pay period? <i>(Please report hours rounded to the quarter hour and to two decimal places)</i>	(G) What were the total earnings (before taxes and deductions) of employees who earned this wage during this pay period, including overtime, bonuses, and commissions? <i>Please do not include the value of employee benefits.</i> <i>(Please round to the nearest whole dollar)</i>
Example:						
\$ 4.63	10	9	2	819.25	30.50	\$ 1,763.00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00
\$.				.	.	\$, .00

Appendix VII: GAO Questionnaire Used in Report

28. Did this establishment change any benefits offered to a typical U.S. citizen, national, or permanent resident paid an hourly wage between the pay periods for 2007 and 2009 that included June 12th?

Please do not include American Samoa permanent residents or citizens of the FAS.

Changes in benefits include:

- *Introduction of a new benefit*
- *Change in the level of a benefit offered*
- *Elimination of a benefit*

(Please check ONE box per benefit)

	Did not offer in any year ▼	Benefit was introduced ▼	Level of benefit increased ▼	Level of benefit remained about the same ▼	Level of benefit decreased ▼	Benefit was eliminated ▼
a. Paid vacation or personal leave (not including sick leave)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Paid sick leave	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Paid holidays	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Health insurance or reimbursement for expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Retirement benefits, such as 401(k)s or pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Housing allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Food allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Local transportation allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Transportation to employees' home countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Others (Please specify):						
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

29. If any benefit was added, eliminated, or was increased or decreased, can you please describe the changes below?

Appendix VII: GAO Questionnaire Used in Report

30. Did this establishment change any benefits offered to a typical non-U.S. citizen, national, or permanent resident paid an hourly wage between the pay periods for 2007 and 2009 that included June 12th?

Changes in benefits include:

- *Introduction of a new benefit*
- *Change in the level of a benefit offered*
- *Elimination of a benefit*

(Please check ONE box per benefit)

	Did not offer in any year ▼	Benefit was introduced ▼	Level of benefit increased ▼	Level of benefit remained about the same ▼	Level of benefit decreased ▼	Benefit was eliminated ▼
a. Paid vacation or personal leave (not including sick leave)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Paid sick leave	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Paid holidays	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Health insurance or reimbursement for expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Retirement benefits, such as 401(k)s or pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Housing allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Food allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Local transportation allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Transportation to employees' home countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Others (Please specify):						
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

31. If any benefit was added, eliminated, or was increased or decreased, can you please describe the changes below?

Appendix VII: GAO Questionnaire Used in Report

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

(Please check only ONE box)

- Yes..... → Continue with QUESTION 33
 No..... → Skip to QUESTION 39
 Don't know → Skip to QUESTION 39

33. What was the total number of employees paid an annual salary on this establishment's payroll during the pay periods that included June 12th for 2007, 2008, and 2009 who were (a) U.S. citizens, nationals, or permanent residents; (b) American Samoa permanent residents and citizens of the FAS; (c) citizens or permanent residents of nations other than the U.S., American Samoa, or the FAS?

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

(Please enter numerals in each box below)

Employee category	Pay period that includes <u>June 12, 2007</u>	Pay period that includes <u>June 12, 2008</u>	Pay period that includes <u>June 12, 2009</u>
(a) U.S. citizens, nationals, or permanent residents			
(b) American Samoa permanent residents and citizens of the FAS			
(c) citizens or permanent residents of nations other than the U.S., American Samoa, or the FAS			

Appendix VII: GAO Questionnaire Used in Report

34. During the pay period for 2007, 2008, and 2009 that includes June 12th, how many full- and part-time employees on this establishment's payroll were paid an annual salary in the following ranges, and how many of these employees were covered under the FLSA?

Please **do not** include employees paid an hourly wage. Data for employees paid an hourly wage were reported separately in question 27.

Full-time employees are those who typically worked 35 or more hours per week; part-time employees are those who typically worked less than 35 hours per week. If this establishment was not in operation during the pay period, please enter a 0 for that year in each box.

(Please enter numerals only in each box below)

Annual salary range before deductions for taxes and benefits (in U.S. dollars)	Pay period including <u>June 12, 2007</u>			Pay period including <u>June 12, 2008</u>			Pay period including <u>June 12, 2009</u>		
	Number of full-time employees	Number of part-time employees	Number of employees covered by FLSA	Number of full-time employees	Number of part-time employees	Number of employees covered by FLSA	Number of full-time employees	Number of part-time employees	Number of employees covered by FLSA
Example:	31	2	33	28	0	28	32	2	34
Less than 10,000									
10,000 to 19,999									
20,000 to 29,999									
30,000 to 39,999									
40,000 to 49,999									
50,000 to 59,999									
60,000 to 69,999									
70,000 to 79,999									
80,000 to 89,999									
90,000 to 99,999									
100,000 or more									

Appendix VII: GAO Questionnaire Used in Report

35. Did this establishment change any benefits offered to a typical U.S. citizen, national, or permanent resident paid an annual salary between the pay periods for 2007 and 2009 that included June 12th?

Please do not include American Samoa permanent residents or citizens of the FAS.

Changes in benefits include:

- *Introduction of a new benefit*
- *Change in the level of a benefit offered*
- *Elimination of a benefit*

(Please check ONE box per benefit)

	Did not offer in any year ▼	Benefit was introduced ▼	Level of benefit increased ▼	Level of benefit remained about the same ▼	Level of benefit decreased ▼	Benefit was eliminated ▼
a. Paid vacation or personal leave (not including sick leave)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Paid sick leave	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Paid holidays	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Health insurance or reimbursement for expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Retirement benefits, such as 401(k)s or pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Housing allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Food allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Local transportation allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Transportation to employees' home countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Others (Please specify):						
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

36. If any benefit was added, eliminated, or was increased or decreased, can you please describe the changes below?

Appendix VII: GAO Questionnaire Used in Report

37. Did this establishment change any benefits offered to a typical non-U.S. citizen, national, or permanent resident paid an annual salary between the pay periods for 2007 and 2009 that included June 12th?

Changes in benefits include:

- *Introduction of a new benefit*
- *Change in the level of a benefit offered*
- *Elimination of a benefit*

(Please check ONE box per benefit)

	Did not offer in any year ▼	Benefit was introduced ▼	Level of benefit increased ▼	Level of benefit remained about the same ▼	Level of benefit decreased ▼	Benefit was eliminated ▼
a. Paid vacation or personal leave (not including sick leave)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Paid sick leave	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Paid holidays	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Health insurance or reimbursement for expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Retirement benefits, such as 401(k)s or pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Housing allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Food allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Local transportation allowances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Transportation to employees' home countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Others (Please specify):						
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

38. If any benefit was added, eliminated, or was increased or decreased, can you please describe the changes below?

Appendix VII: GAO Questionnaire Used in Report

PART IV. QUESTIONS ABOUT THE MINIMUM WAGE INCREASES

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

39. Between June 2007 and June 2009, did this establishment implement any of the following actions?

(Please check ONE box per action)

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

↓

If you checked YES for ANY of these actions, continue to questions 40.

If you did not check YES for any of these actions, skip to question 43.

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40. To what extent did the past minimum wage increases in 2007, 2008, and 2009 contribute to this establishment's decision to implement each action listed in question 39 for which you checked YES?

(Please check ONE box per action)

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

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41. To what extent did expectations of future minimum wage increases in 2010 and beyond contribute to this establishment's decision to implement each action listed in question 39 for which you checked YES?

(Please check ONE box per action)

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

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42. To what extent did each of the following factors contribute to this establishment's decision to implement actions listed in question 39?

(Please check ONE box per cost)

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

Appendix VII: GAO Questionnaire Used in Report

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

(Please check ONE box per action)

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

↓

If you checked YES for ANY of these actions, continue to question 44.

If you did not check YES for any of these actions, skip to question 46.

Appendix VII: GAO Questionnaire Used in Report

44. To what extent do you think the minimum wage increases will contribute to this establishment's decision to implement each action listed in question 43 for which you checked YES?

(Please check ONE box per action)

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

Appendix VII: GAO Questionnaire Used in Report

45. To what extent do you think each of the following factors will contribute to this establishment's decision to implement the actions listed in question 43?

(Please check ONE box per cost)

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

46. Would you like to provide any other comments regarding the impact the increases in the minimum wage or other factors had or will have on this establishment or its employees?

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

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

48. What is this establishment's mailing address?

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

Appendix VIII: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240



MAR 10 2010

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

Dear Mr. Gootnick:

The Department of the Interior, through its Office of Insular Affairs, has reviewed the U.S. Government Accountability Office's Report Draft No. GAO-10-333 entitled, *AMERICAN SAMOA AND COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS: WAGES, EMPLOYMENT, EMPLOYER ACTIONS, INFLATION-ADJUSTED EARNINGS, AND WORKER VIEWS SINCE MINIMUM WAGE INCREASES BEGAN*.

The Congressional request for the Report is contained in the American Recovery and Reinvestment Act of 2009 that the GAO shall conduct a study to:

- (1) Assess the impact of the minimum wage increases...in 2007 and 2008...on the rates of employment and the living standards of workers, with full consideration of the other factors that impact rates of employment and the living standards of workers such as inflation in the cost of food, energy, and other commodities; and
- (2) Estimate the impact of any further wage increases on rates of employment and the living standards of workers...with full consideration of the other factors that may impact the rates of employment and the living standards of workers, including assessing how the profitability of major private sector firms may be impacted by wage increases in comparison to other factors such as energy costs and the value of tax benefits.

The Department values the fact that the Report contains a great deal of useful and diverse information on both American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI), and agrees with the GAO's findings. The Department, however, notes that there is a lack of sufficient commentary on the future impact of minimum wage increases in American Samoa and the CNMI. With regard to the impact of further wage increases contained in item (2) above, the relatively minor amount of material is interspersed throughout the Report among the findings on the minimum wage impact from 2007 to date. Currently, there is little research or data on the implementation and impact of Federal minimum wage rules in American Samoa and the CNMI, and the Report, along with the subsequent reviews, could be instrumental in identifying trends.

Appendix VIII: Comments from the
Department of the Interior

The downward spiraling economic situations in the U.S. territories of American Samoa and the CNMI present an austere future for the areas, and information in the Report helps to identify the immediate need for actions to assist the territories. In American Samoa there is only one major industry, *i.e.*, canning tuna, and one of the only two canneries has already closed its operations, as is identified in the Report, “[c]annery officials cited that minimum wage increases were a significant contributing factor”. The closure of the cannery resulted in the layoff of over 2,100 employees, and closure of the one remaining cannery will result in the layoff of 2,000, plus more employees. The number of displaced workers is quite significant as the canneries have employed over one-third of the work force and provided approximately 35% of total revenues of the American Samoa Government.

Additionally, the ripple effect of the closures on other businesses will reduce further the revenues to the local government. The Report also identified that:

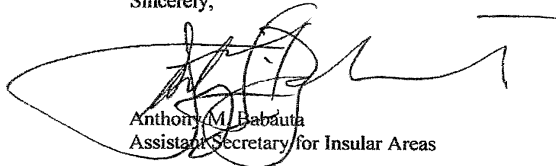
“[M]any employers reported having taken cost-cutting actions, such as freezing hiring and cutting worker benefits, since the increases began. Employers also reported planning actions such as leaving American Samoa or closing by the end of 2010. More employers attributed their actions to the minimum wage increases than to other factors.”

Regarding public support in American Samoa, the Report identified that “[I]n discussion groups, workers generally said that their support for the wage increases had dwindled because of concerns about issues such as the cannery closure, job insecurity, and loss of benefits.” In the CNMI, the Report identified that factors other than minimum wage issues, such as immigration changes and living standards, have a greater impact on the economy.

Developing solutions to assist the U.S. territories of American Samoa and the CNMI and the other insular areas for which OIA has responsibilities continues to prove challenging. OIA is meeting with other Federal agencies, leaders of the respective insular areas, nongovernmental organizations and members of the public to help find solutions to challenges that are sometimes inadvertently exacerbated by the application of U.S. domestic policies and trade agreements on these remote, resource-poor insular areas.

If you have any questions, please feel free to communicate with me directly at (202) 208-4709, or with Nikolao Pula, Director of the Office of Insular Affairs, at (202) 208-4736.

Sincerely,



Anthony M. Babauta
Assistant Secretary for Insular Areas

Appendix IX: Comments from the American Samoa Government

Note: A GAO comment supplementing those in the report text appears at the end of this appendix.



TOGIOLA T.A. TULAFONO
Governor

FAOA A. SUNIA
Lieutenant Governor

OFFICE OF THE GOVERNOR
American Samoa

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

Serial: 223

March 10, 2010

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

Subject: Official Response to GAO Draft Report on Minimum Wage Increases (GAO-10-333)

Dear Mr. Gootnick:

Thank you for the opportunity to review your draft report on the impact of the 2007 federal minimum wage increases in American Samoa and the CNMI. Its description of wages, employment, employer actions, inflation adjusted earnings and worker views as required by the American Recovery and Reinvestment Act of 2009, seems to be a fairly accurate depiction of the impacts that have resulted from the minimum wage increases in American Samoa. My comments regarding each of those issues are outlined below:

1. Wages - The GAO's wage impact estimates seem reasonable. However, the report does not address critical conclusions implicit in these wage impacts. One of the primary conclusions of the report is that the average wage in American Samoa will likely double between 2007 and 2016. The devastating effect that this will have on the American Samoa economy, especially in the number of jobs will be lost (and that have been lost thus far), cannot be overstated. Especially when considering of the magnitude of the effects described in the GAO report for the first three minimum wage increases.
2. Employment – The employment impact estimates are also quite reasonable. Likewise however, the report does not address critical conclusions implicit in these employment impacts. After just the first three minimum wage increases, total employment fell 4287 (including the cannery closure) or 22 percent. Our study (*American Samoa's Economic Future and the Cannery Industry, February 2008.*) indicated that the loss of the canneries in 2010 would lead to a total job loss of 7700 by 2015. The GAO job loss estimates suggest that the minimum wage may be causing serious job losses in industries other than the canneries. The GAO estimated job losses of 2287 even before the COS cannery closure. If this holds true and this trend continues as expected, American Samoa could lose of half of its total jobs

See comment 1.

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by 2016. The GAO report anticipates economic decline far more devastating than previously projected.

3. Employer Actions – The GAO data implies or suggests more severe consequences due to future minimum increases. Median or average wages may continue to increase, but the damage done and the cost to the economy in lost jobs will be extensive. When compared to GAO job loss estimates, the number of actual jobs lost in the first three years of the incremental minimum wage increases has been much greater than expected. Employers have confirmed that this trend will continue and that they will continue to cut their operating costs by terminating positions and laying off employees. Large employers (representing 84 percent of private sector workers) have indicated that they plan to close or relocate. These large employers and other smaller companies attribute the necessity of these cost cutting measures largely to increases in the minimum wage. Both canneries stated that the rise in the minimum wage was a significant contributing factor to the closure of the COS cannery.
4. Inflation Adjusted Earnings – It would seem to follow from the above that those who are able to remain employed will have greater real incomes. However, one issue which should be mentioned is that the cost of purchasing imported goods, including the fuel used to generate electricity in the territory, will increase substantially. The export of cannery products has, historically, facilitated and helped defray a portion of the cost to import goods to American Samoa. The shipping needs of the canneries have, in significant part, helped dictate and regulate the shipping schedule and the frequency at which shipping vessels land in American Samoa to off-load imported goods on our shores and take exported goods from our shores. Since the closure of the COS cannery, the number of shipping vessels coming to American Samoa has declined. Increases to the prices of imported goods have already occurred and will likely continue. Should Starkist also close, it is expected that the price of importing goods to American Samoa would quadruple. The attendant increase to the cost of imported goods due to the loss of the COS cannery, and thus the cost of living, should be considered when evaluating any increases to the salaries of those who are able to remain employed despite the minimum wage increases.
5. Worker Views – With the shutdown of COS and the attendant layoffs, workers began questioning the wisdom of raising the minimum wage. Temporary jobs that have been provided through the U.S. Department of Labor's National Emergency Grant related to the recovery and cleanup efforts, made necessary by the earthquake and tsunami of September 29, 2009, have helped those laid off by the COS closure or who lost their job due to other business cutbacks maintain employment. However as these jobs are only temporary in nature, workers realize that they will face tremendous difficulties and great uncertainty when their temporary employment ends.

The only supportable conclusion is that absent a change to the existing incremental minimum wage increases, American Samoa is unavoidably destined for very serious economic difficulties. With the closure of COS and with continuing, significant job losses in the private sector, the revenue streams that fund local government services and programs will likewise continue to see

**Appendix IX: Comments from the American
Samoa Government**

considerable decreases. If losses to private sector jobs continue as projected, decreases to government revenue will necessitate cutbacks to government services and in government employment.

I thank the GAO for this work and will be pleased to provide any further support to this important report.

Sincerely,


Togiola T.A. Tulafono
GOVERNOR

cc: Hon. Faoa A. Sunia, Lt. Governor

The following is GAO's comment on the American Samoa government's letter, dated March 10, 2010.

GAO Comment

1. The American Samoa government developed and cited its own estimates of employment loss based on the information included in our report. It stated that after the first three minimum wage increases, total employment fell by 4,287, or by 22 percent, including losses of 2,287 even before the cannery closure. Our report does not include an estimate of the total number of jobs lost during this time period; however, we were able to replicate the American Samoa government's estimate by applying our finding that employment among large-employer questionnaire respondents decreased 12 percent from June 2008 to June 2009 to our statement that SSA data show 19,060 American Samoa workers in 2008. We did not include this type of estimate because, as noted in the report, although questionnaire responses covered about 72 percent of the American Samoa workforce, they are not necessarily representative of all American Samoa workers and employers. In addition, our questionnaire measured employment by respondents in June of each year, while the SSA data measured the entire year's employment.

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

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



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

March 11, 2010

Mssrs. David Gootnick and Tom McCool
Directors International Affairs and Trade
Government Accountability Office

Subject: Response to CNMI Wages, Employment, Employer Actions, Adjusted Earnings, and Worker Views since Minimum Wage Increases Began Report

Dear Mssrs. Goodnick and McCool:

The CNMI Department of Commerce is pleased with the opportunity to comment on the GAO report #10-333 on the minimum wage increases in the CNMI. Please find our responses as attached.

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

Thank you,

A handwritten signature in black ink, appearing to be "M. J. Ada", enclosed in a hand-drawn oval.

MICHAEL J. ADA
Secretary of Commerce

cc: Governor, CNMI

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

The draft GAO-10-333 intends to describe the CNMI since 2007 with respect to the increase of minimum wage, by evaluating the following: (1) wages, (2) employment, (3) employer action, (4) inflation-adjusted earnings, and (5) worker's view. [pg.15 – Objective, Scope, and Methodology]

We are referencing GAO draft report finding and providing our responses below:

Report finding #1. Wages (p. 2):

GAO draft report states, *“About a third of private sector workers employed by CNMI questionnaire respondents were directly affected by the first minimum wage increase, in July 2007, according to large-employer questionnaire responses. From 2007 through 2009, as a result of the first three wage increase, the median wage rose by about 19 percent in the tourism industry compared with about 18 percent for the rest of the private sector, for workers employed by questionnaire respondents. The gap between the lowest and highest paid workers narrowed by 9 percent. Based on questionnaire responses about workers’ wages as of June 2009, the future minimum wage increases would affect the wages of more than 80 percent of those private sector workers by 2015.”*

See comment 1.

This finding is insufficient and not representative of the overall CNMI work force because of the way the survey was conducted and for several other reasons as listed below:

See comment 1.

1) GAO draft report states, “The questionnaire responses cannot be used to make inferences about all employers and workers in each insular area, particularly in the CNMI. First, because the lists of employers that received the questionnaire were intended to include only those with more than 50 employees, the lists were not representative of all employers¹. Second, we were unable to survey employers that had closed between 2007 and our questionnaire date, including those in the CNMI garment industry. Third, some nonresponse bias may exist in some of the questionnaire responses, since characteristics of questionnaire respondents may differ from those of nonrespondents in ways that affect the responses (e.g. if those that employ a larger number of workers would have provided different responses than those that employ a smaller number). Last, it is possible that some employers’ views of the minimum wage increases may have influenced their responses [pg. 21].”

See comment 2.

2) The report finding failed to indicate that responses from the questionnaires received “...greater coverage among public sector workers” than private sector workers. We question why the report finding did not include employees in the public sector.

See comment 1.

3) The report is both not quantitative and qualitative. This is because the methodology of surveying only large companies employing 50 or more employees is not a representation of the entire CNMI workforce. Furthermore, we question the inference that 33 companies who responded out of the 61 companies surveyed is a valid representation to base an accurate description of wages and employer actions in the CNMI since 2007.

See comment 1.

4) The questionnaire failed to obtain views of smaller businesses or those employing less than 50 employees who may not have the financial resources to cope with the yearly minimum wage increases, or other reported factors, as opposed to the larger companies.

¹ Because our final list of CNMI larger employers was based in part on judgements by government and private sector representatives, the list may have included employers with fewer than 50 workers or mistakenly excluded some large companies.

**Appendix X: Comments from the
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Report finding #2. Employment (p. 9):

GAO draft report states, *“From 2006 through 2008, the total number of people employed fell by about 27 percent, according to CNMI government tax data, largely reflecting garment factories’ closure. Small employers and other private sector officials expressed mixed views about the future minimum wage increases, including concern that they would make it more difficult to attract new industries to the CNMI; however, many expressed concerns about changes to immigration law. Public sector officials said CNMI government employees will be more directly affected by future increases, increasing budget pressures.”*

This report finding above is accurate, and therefore the minimum wage increases every year and the immigration changes will only expedite the plight of small business employers and private sector officials. The report mentioned that several businesses have closed shop, cut back on employee benefits, and have plans to either lay off more employees or shut their doors if the increases continue.

Sometime during the Clinton administration, the minimum wage for the United States was around the \$5.15 mark. Then President Clinton proposed to Congress that the minimum wage be increased to \$6.15 (\$1.00 above the minimum wage) to add value to the workers’ purchasing power. The proposal was to take place over a two-year period. His administration cited economic studies done by the National Economic Council that the minimum wage increase:

- Has no negative impact on employment and can even increase employment
- Will ensure that all workers can participate in the growing economy
- Past increases have helped reduce welfare caseloads
- Will help ensure that parents can raise their children out of welfare

We mentioned the Clinton administration to point out that the yearly increases in minimum wage in the CNMI might actually have a reverse effect of what the Clinton administration proposed. The Clinton proposal was a dollar increase within a two-year span only. Whereas, the CNMI minimum wage increases span over a nine-year period, or a total increase of \$4.20. This yearly increases will have negative impacts on the large and small businesses in the CNMI as evident from the concerns of small business employers and private sector officials as stated in the GAO draft report.

We propose capping the minimum wage at the current rate of \$4.55 to allow an in-depth assessment to be conducted on the effects of the earlier and current minimum wage increases on private and public sectors. We also propose that we let the economy adjust to the \$4.55 mark given the closure of the garment industry and the new immigration law.

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Islands Government**

See comment 3.

Report finding #3. Employer actions (pp.9-10):

GAO draft report states, "CNMI employers responding to our questionnaire reported having taken cost-cutting actions, such as freezing hiring, since the minimum wage increases began. Employers also reported planning to take such actions by the end of 2010, and some attributed their planned actions largely to the minimum wage increases. Employers also noted other factors, such as changes to immigration law and increased shipping and maintenance costs, that contributed to their actions. Based on an analysis of responses from the CNMI employers in the hotel industry, we found that raising room rates to cover higher wage costs may cause a 2.6 to 13.7 percent decline in visits to the CNMI."

This report finding reflects only those larger companies employing 50 or more workers but not the smaller companies employing less than that. Considering smaller companies are more susceptible to minimum wage increases, the negative impact should be greater than what is stated above. Again, we propose capping the increased minimum wage at the current rate of \$4.55 to allow in-depth studies to include the smaller business community and the effects of the earlier and current increases.

See comment 4.

Report finding #4. Inflation-adjusted earnings (p. 10):

GAO draft report states, "CNMI government tax data and consumer price data show that, from 2006 to 2008, inflation-adjusted earnings dropped by about 6 percent, resulting from a rise in median annual earnings of about 12 percent while local prices rose by about 19 percent. Although earnings data do not allow for a direct comparison of average and minimum-wage annual earnings or for tracking the earnings of workers who lost their jobs, we estimate that inflation-adjusted earnings for CNMI minimum wage workers who retained their jobs and full hours rose by about 12 percent from 2006 to 2008."

Even though the draft report estimates that inflation-adjusted earnings for CNMI minimum wage workers who retained their jobs and full hours rose by about 12 percent from 2006 to 2008, it can be construed as more purchasing power for said minimum wage workers without weighing other important factors. The statement is misleading because your draft report also mentioned that local prices of goods and services rose by 19 percent. This one factor will have an impact on the 12 percent increase in inflation-adjusted wages. Furthermore, the report did not include inter-island inflationary conditions.

At the end of the day, the minimum wage earner may have taken home more disposable income, but said income is with little value given the increase in prices of goods and services, among other things.

It would be helpful to the decision makers in the CNMI to include in your draft report the real value in dollar amounts of the minimum wage increases before and after inflation has been factored in.

**Appendix X: Comments from the
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See comment 5.

Report finding #5. Worker views (p.10):

GAO draft report states, *"Workers participating in our discussion groups generally expressed support for the minimum wage increases and cited other factors affecting living standards. Participants observed that although the wage increases had led some employers to reduce benefits for foreign workers, the wage increases had benefited local workers. In addition, participants expressed concern about the implementation of U.S. immigration law."*

We question the sufficiency and the integrity of all the report's statements with respect to views of the discussion groups. The reason is, as stated in your report, "... they [discussion groups] are not designed to provide results generalizable to a larger population or provide statistically representative samples or quantitative estimates. They represent the views only of the participants in our 18 groups, and may or may not be representative of the population of employers and workers may be different from those who participated in our discussion groups. In addition, while we attempted to hold discussion groups with as many groups as our resources allowed, the groups and participants in the groups were not random samples of employers and workers in these insular areas [p.24]."

Conclusion:

If this report (GAO-10-333) is stating that such a minimum wage increase would greatly affect our economy, based on a survey of the larger employers, then one should deduced that a greater exponential impact will fall upon the smaller employers. An evaluation on the number of smaller employers is not even stated. If the number of smaller employers is vast throughout the CNMI, then such a reference should at least be hinted at to show that an impact is eminent and that serious considerations from the federal government should be a top priority; direct federal support on statistics, increase federal financial funding, and other support to help the CNMI brace and cushion itself from the minimum wage increase and also reduction in revenue as a result of both direct and indirect impacts of the U.S. Federalization on CNMI Immigration. We question the methodology of this report. The following statements below by GAO seem to agree that the minimum wage issue coupled with other factors will have a great impact of the CNMI's economy:

1. "Our review had certain limitations in addition to those already noted. In particular, although our approach yielded information on trends in employment, wages, and earnings in both areas, it is difficult to distinguish between the effects of minimum wage increase and other factors, including the global recession in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI. However, we determined that the available data were, apart from these limitations, adequate and sufficiently reliable for the purpose of our review." [pg.5]
2. "Based on questionnaire responses about workers' wages as of June 2009, the future minimum wage increases would affect the wages of more than 80 percent of those private sector workers by 2015." [pg.9]
3. "Based on an analysis of responses from CNMI Employers in the hotel industry, we found that raising room rates to cover higher wage cost may cause a 2.6 to 13.7 percent decline in visits to the CNMI." [pg. 10]

The GAO should ask for more time, considering they acknowledged the time and resources limitation allowable for them to complete this study. The CNMI has a unique and sensitive economy that is slowly

See comment 6.

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

realigning its foundation for a stronger economy. Any premature conclusions or insinuations will be detrimental as supported in the GAO report:

1. "... it seemed likely that the CNMI's existing economic decline would be made worst and that the CNMI population would continue to decline." [pg. 44] (Reporting on January 2008 U.S. DOL 'Impact of Increased Min. Wages...')
2. "Small business owners and managers told us ... difficult for the economy to sustain wage increases while it was experiencing other difficulties ... increased shipping costs, decreased government tax revenues, and decreased demand for goods and services..." [pg.86]
3. Similarly, many larger private sector employers...expressed greater concern about economic effects of U.S. immigration law on the CNMI economy ... more difficult to attract new businesses, such as call centers and new tourism businesses, to the CNMI." [pg.87]

The following are GAO's comments on the CNMI government's letter, dated March 11, 2010.

GAO Comments

1. The CNMI government stated that our summary-level finding regarding CNMI wages is insufficient and not representative of the overall CNMI workforce because of our large-employer questionnaire's coverage. First, it noted that the questionnaire covers employers with 50 or more employees but excludes smaller employers. Because key federal sources of data on the U.S. labor market do not cover these insular areas, we collected our own data on employers through the questionnaire, discussion groups, and other methods such as interviews. Our report appropriately states the limitations of the questionnaire data and repeatedly notes that the data may not be representative of all CNMI workers and employers. In addition, we determined that the most effective and least burdensome method of collecting information from small employers would be to conduct discussion groups targeting these employers. Both the Saipan and Tinian Chambers of Commerce assisted us in inviting small employers to discussion groups in the CNMI, and our report summarizes their views (see app. IV, employment section). Small employers also were invited, among others, to share their views at a public forum we held in the CNMI and to send comments to an e-mail account we established for this purpose. Furthermore, while we use the terms "large employers" and "small employers" in our report for clarity, the U.S. Small Business Administration generally defines small employers as having, depending on the industry and other factors,¹ employees numbering from 500 to 1,500 or fewer. By these definitions, our questionnaire covers many small employers. Second, the CNMI government expressed concern about the questionnaire's response rate, given that 33 out of 61 employers responded to our questionnaire. While we spent considerable effort to obtain as high a response rate as possible, employers were not required to respond, and the response rate reflects the individual decisions of CNMI employers who received the questionnaire about whether to provide information regarding the extent to which minimum wage increases had affected their operations.

¹For some industries, the Small Business Administration uses average annual receipts to determine whether a firm is considered small.

2. The CNMI government incorrectly stated that the report does not include findings related to employees in the public sector. Our findings related to public sector employees are included in multiple sections of appendix IV. In addition, the CNMI government stated that our summary-level finding related to wages should note that the questionnaire included greater coverage of public than private sector employees. We disagree. Our report findings on public and private sector employees combined note that the CNMI government accounted for a higher percentage of workers employed by questionnaire respondents than in the actual CNMI workforce, so the government's responses disproportionately influence our questionnaire results on the public and private sectors combined. However, this limitation is not relevant to findings on public sector workers alone or on private sector workers alone.
3. The CNMI government stated that GAO's findings related to employer actions understate the negative impact of minimum wage increases on small employers. We note that the employer actions section does not address the actions of small employers because they were not covered by the questionnaire; however, findings related to small employers are included in the preceding report section on employment.
4. The CNMI government comments on the inflation-adjusted earnings findings reflect misunderstanding of the analysis presented. The CNMI government commented that the analysis of changes in earnings should, but does not, account for changes in local prices. In fact, the inflation-adjusted earnings data we present account for changes in local prices, using local Consumer Price Index data from the CNMI Department of Commerce. Accordingly, the findings based on the earnings analyses for both average wage earners and minimum wage earners fully account for CNMI price increases.
5. The CNMI government stated that it questions the findings related to worker views based on our discussion groups. As we note in the report's objectives, scope, and methodology section, discussion groups are not designed to provide results generalizable to a larger population or to provide quantitative estimates. However, discussion groups are a qualitative research method capable of adding valuable information that may be difficult or impossible to collect through quantitative methods. Given the relevance of the minimum wage increases to workers, we considered it critical to include their views; however, no existing federal data source provided this information. We believe the discussion groups were an appropriate and worthwhile approach for collecting and including the views of workers.

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6. The CNMI government stated that we should ask for more time to study the effects of minimum wage increases; however, the law does not permit additional time for this report. The American Recovery and Reinvestment Act of 2009 requires that GAO report annually on the impact of past and future minimum wage increases in American Samoa and the CNMI, and the reports are due between March 15 and April 15 of each year.

Appendix XI: GAO Contacts and Staff Acknowledgments

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