

American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) Minimum Wage Rate Status (February 2010)

Background: Public Law 110-28, passed in May 2007, raised the Federal minimum wage rate from \$5.15 to \$5.85 an hour. The rate was to increase to \$6.55 in 2008 and \$7.25 in 2009. The law extended, for the first time, Federal minimum wage rules to American Samoa and the CNMI. It stipulated that minimum wage rates in the two territories increase 50 cents every year until they reach the national minimum wage rate of \$7.25. This would occur in American Samoa in 2014 and the CNMI in 2015.

Wage Rates: Prior to PL 110-28, the CNMI independently set a universal minimum wage rate applicable to all industries and employers. With the raises mandated by PL 110-28, the minimum wage rate in the CNMI was \$4.55 an hour in May 2009 after the annual increase. Before PL 110-28, a special committee of the U.S. Department of Labor (DOL) set minimum wage rates in **American Samoa** by industry. In the most recent DOL count of industries, there were 16 classifications, including fish processing which has dominated American Samoa's economy since the 1950s. The minimum wage rate for fish processing was \$4.76 in May 2009, following the year's 50 cents increase.

Recent Developments: Rising labor cost resulting from the minimum wage increases has been a concern to political and business leaders, especially in American Samoa where one of the two canneries closed last September. With the closure, American Samoa lost over 2,100 direct jobs, 12.3 percent of the territory's total payroll of 17,050. Adding indirect job losses, the total loss would be greater than 12.4 percent. The second cannery has hinted in the media that it may follow suit. If it does, American Samoa will have lost over one-third of its payroll employment. Again, adding secondary effects, the total loss would easily exceed one-third. In the CNMI, garment factories closed not so much because of rising labor costs as much as competition from low-cost mass producers. Still, the imposition of Federal minimum wage on the two territories has caused concern. An effort to slow the adverse impact on business is to postpone the May 2010 increase until September 2010. Meanwhile, the GAO will have presented its report to the Congress on its finding on the impact of the Federal minimum wage increases before then.

Arguments for & Against Federal Minimum Wage Rules: There are strong arguments on both sides of the minimum wage increases. Proponents argue that minimum wage increases raise the standards of living of recipients and their communities. Extending national norms to the territories is one way to integrate them into the nation's economic system and acknowledge that the value of labor in the territories ought to be priced in the same manner as in the rest of the system. According to this point of view, the overall economic impact tends to be positive and, in the long run, economies and labor markets adjust to minimum wage rules, as experience has shown in Guam and the U.S. Virgin Islands. Opponents argue that higher labor costs kill jobs, especially jobs that young and unskilled workers need to enter the labor market. Also, job losses lead to tax losses and the provision of public service, some critical such as power and water. This argument resonates particularly with the leaders of American Samoa where there is no economic activity on the horizon to replace the total economic and financial value of the canneries.