

**American Samoa's
Economic Future
And
The Cannery Industry**

American Samoa's Economic Future And The Cannery Industry

Prepared for:

Department of Commerce

American Samoa Government

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February 22, 2008

Dear Citizens and Friends of American Samoa:

I am pleased to present to you a copy of our study report, *American Samoa's Economic Future and the Cannery Industry*. This report is important because it gives us a strong sense of what could happen in the future if American Samoa were to lose our largest industry, the tuna canneries. Our report tells us about the options for rebuilding, recovery and strengthening our economy for the future. It builds on the work of the American Samoa Economic Advisory Commission and the US Department of the Interior Office of Insular Affairs report entitled, *A Private Sector Assessment for American Samoa*, as well as other important works related to American Samoa's economic development.

Too often studies of this nature end up gathering dust on our shelves. However, this will not be the case with this work. This study has already been put to effective use before its publication. The US Congress directed the US Department of Labor to conduct a study of the impacts of increases in the minimum wage on American Samoa. The cannery economic impacts from this study report were incorporated into the US Department of Labor minimum wage impact study.

This is especially important because recent increases in the minimum wage may be the greatest threat to our cannery industry. Furthermore, the US Congress in reconsidering minimum wage increases for American Samoa may rely very heavily on the US Department of Labor report.

I want to thank everyone involved in the preparation of this work, including Chamber of Commerce president, Mr. David Robinson, and many other members of American Samoa's business community. Congressman Faleomavaega contributed generously of his time and expertise. I thank our legislative leadership, Senate President Lolo Moliga, and Speaker of the House Savali Talavou Ale, for their contributions to this effort as well as Office of Insular Affairs officials, Director Nikolao Pula and local representative Lydia Faleafine-Nomura.

I also want to thank our Department of Commerce Director Faleseu Eliu Paopao and Deputy Director Lelei Peau for their leadership in this effort particularly regarding project design, funding and study oversight. Finally, we thank our consulting team on this project. Malcolm McPhee directed the project and Dick Conway was responsible for the economic modeling and impact analysis. Lewis Woman was responsible for working with the private sector and its contributions to the project.

Sincerely,

TOGIOLA T.A. TULAFONO

Governor of American Samoa

Introduction

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

Cannery Industry Instability

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

Federal Revenue Instability

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

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

The following will be undertaken in this study:

Economic Impacts of a Decline in Cannery Operations –This will include construction of an input-output model of how American Samoa's economy operates. It will demonstrate how

employment, income and businesses would be affected by serious reductions in cannery operations in American Samoa.

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

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

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

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

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

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

Summary of Conclusions and Recommendations

American Samoa's Economy

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

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

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

Cannery Industry Decline Impacts

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

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

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

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

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

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

The Long Term Economic Recovery and Development Plan

Economic Development Constraints - Aside from the natural development constraints of size and isolation about which little can be done, there are constraints over which government and the people have some control. The private sector in general expresses concern about the government's receptivity to entrepreneurship, business operations and development in general. Among the issues of concern are access to land, lack of private sector participation, education and training, the minimum wage, federal tax incentives, higher tax rates for foreign firms, high

business tax rates in general, and other basic elements of American Samoa's business climate. In addition there are concerns about the need for continued local control over immigration, the need for achieving higher education standards, and the influence of the federal government on American Samoa's economy.

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

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

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

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

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

Economic Development Recommendations

Private Sector Recommendations

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

Pursue Specific Private Sector Economic Development Opportunities -

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

American Samoa Government Recommendations

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

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

Continue Development of a Private-Public Sector Governor’s Economic Advisory Council -

The American Samoa Government should continue efforts to establish more effective working relationships with the private sector pertaining to development priorities, government operations and programs, education and training, private sector development opportunities, tax laws, immigration laws, business licensing laws, procurement practices, and general business climate matters.

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

- Make education improvements at all levels that are so essential to productivity and income gains especially as almost all modern developments employ technological advances to an increasing extent. American Samoa will have to rely increasingly on improvements in human capital and other forms of social capital. Pursue continued improvements in aligning educational programs with workforce needs using existing programs. The American Samoa Government should undertake a variety of improvements in the procedures for starting and operating a business in the territory.
- Cooperate with Samoa and other Pacific nations in production or market sharing.

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

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

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

Federal Government Recommendations

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

Establish the Form this Federal Role Could Take – Examples include an enhanced Office of Insular Affairs in the Department of the Interior; a restructured Pacific Basin Development Council; or a restructured Interagency Group for Insular Affairs. Others might include a

legislatively authorized office attached to the White House, some form of Regional Commission (e.g., Appalachian Regional Commission), or an organization specifically designed for this purpose.

Establish the Agenda and Work Program for this Federal Effort -

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

Chapter 1

Economic Impacts of a Decline in Cannery Operations

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

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

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

American Samoa Input-Output Table

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

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

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

the economy resulting from a given change in economic activity, such as an increase in tuna cannery exports or federal government expenditures.

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

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

American Samoa Economy, 1977

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

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

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

	Gross Domestic Product	Percent of Total
Personal consumption expenditures	32,470	56.7
Private investment	3592	6.3
American Samoa government expenditures¹	17,712	30.9
Federal government expenditures	664	1.2
Exports	183	.3
Imports	1146	2.0
Gross Domestic Product	57,291	100.0

¹Expenditures funded by local taxes and charges.

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

Personal consumption expenditures amounted to \$35.1 million, representing 71.5 percent of GDP. Per dollar of GDP, American Samoans spent more on consumer goods and services than other households in the United States, but the difference was not appreciable. Due to the weak performance of the economy in the mid-1970s, which limited new business opportunities, private investment was a lowly \$2.8 million or 5.7 percent of GDP.

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

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

Table 2
American Samoa Employment and Labor Income, 1977

	Employment	Labor Income (mils. \$)	Average Labor Income (\$)
Fish processing	1,410	4.6	3,260
Other industries	2,780	5.3	1,910
Government¹	3,920	18.7	4,770
Gross Domestic Product	8,110	28.6	3,530

¹Includes 300 employees in federal government.

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

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

Table 3
American Samoa Employment, 1977

	Employment	Percent of Total
Agriculture and fishing¹	110	1.4
Construction	260	3.2
Fish processing	1,410	17.4
Other manufacturing	100	1.2
Wholesale and retail trade	860	10.6
Transportation and communications	830	10.2
Finance, insurance, and real estate	60	0.7
Eating and drinking places	110	1.4
Other services	450	5.5
American Samoa government²	3,620	44.6
Federal government	300	3.7
Total employment	8,110	100.0

¹Employment classified by the Standard Industrial Classification code.

²Includes government authorities.

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

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

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

Calculations with the 1977 input-output model also showed that the tuna canneries were a major growth force during the decade. Taking into account the multiplier effect, fish processing was

responsible for approximately two-fifths of the jobs created in American Samoa between 1970 and 1980. While these jobs were undoubtedly welcomed, the growing dependence on fish processing increased the economy's sensitivity to fluctuations in cannery production.

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

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

	Fish Processing	Federal Grants and Expenditures
Agriculture and fishing¹	1,410	2,570
Construction	770	1,320
Fish processing	2,180	3,890
Total Employment	2,180	3,890
Percent of total employment¹	26.9	48.0
Implied employment multiplier	1.55	1.51

¹Percent of total American Samoa employment.

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

Economic Growth, 1975-2005

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

Table 5
American Samoa Employment, 1975-2005

	1975	Percent of Total	2005	Percent of Total	Change 1975-05	Percent of Total
Basic employment	3,879	49.2	8,428	48.6	4,549	48.1
Fish processing	1,300	16.5	4,546	26.2	3,246	34.3
Government¹	2,179	27.7	3,282	18.9	1,103	11.7
Other	400	5.1	600	3.5	200	2.1
Non-basic employment	3,999	50.8	8,916	51.4	4,917	51.9
Total employment	7,878	100.0	17,344	100.0	9,466	100.0

¹American Samoa government and authorities supported by federal grants.

Figure 1
American Samoa Employment, 1975-2005



*Fishing processing and government employment supported by federal grants.

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

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

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

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

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

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

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

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

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

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

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

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

The pattern of migration in American Samoa, which has persisted for at least three decades, is unusual to say the least. It is as if American Samoa has a revolving door, with relatively large numbers of people exiting and entering the territory at the same time.

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

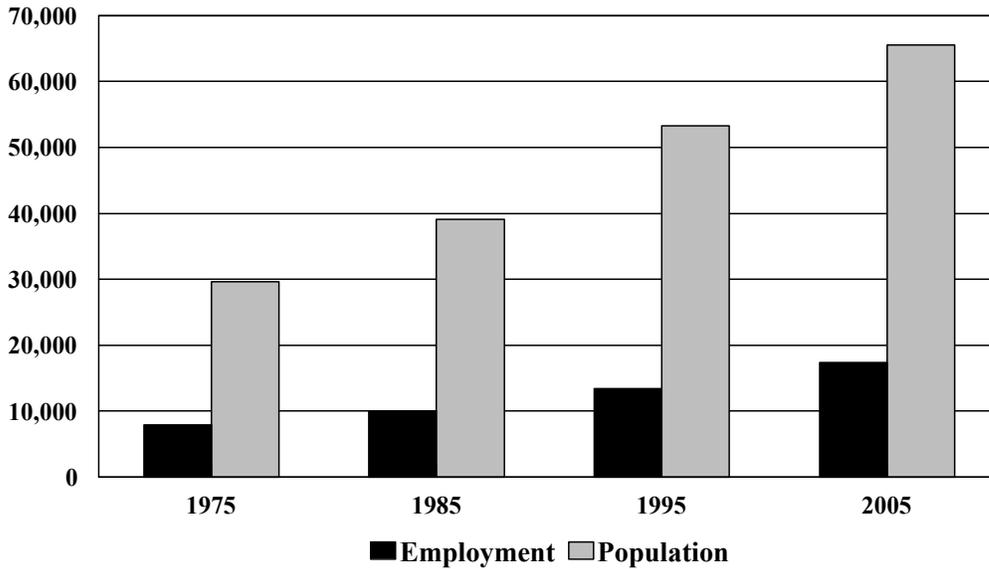
At the same time, foreign workers, mostly from independent Samoa, have come to American Samoa in search of higher pay. Even jobs in the canneries, considered second rate to government jobs by many American Samoans, offer wage rates two or three times the wage rates in independent Samoa. Currently, 80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

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

	1975	1985	1995	2005	Change 1975- 05	Annual Growth Rate (percent)
Employment	7,878	10,056	13,455	17,344	9,466	2.7
Population	29,660	39,100	53,300	65,500	35,840	2.7
Employment rate¹	0.266	0.257	0.252	0.265	0.264	---

¹Employment-population ratio.

Figure 2
American Samoa Employment and Population, 1975-2005



American Samoa Economy, 2002

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

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

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

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

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

Personal consumption expenditures in the territory totaled \$331.5 million. Consumer spending accounted for 68.9 percent of GDP, just below the U.S. share (70.2 percent). Private investment, which totaled \$43.7 million, was relatively low (9.1 percent of GDP) compared to the United States (15.1 percent). On the other hand, the relative level of investment was much higher than it was in 1977 (5.6 percent of GDP). American Samoa government expenditures supported by local taxes and charges totaled \$62.4 million or 13.0 percent of GDP, slightly above the national share for state and local government spending (12.2 percent).

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

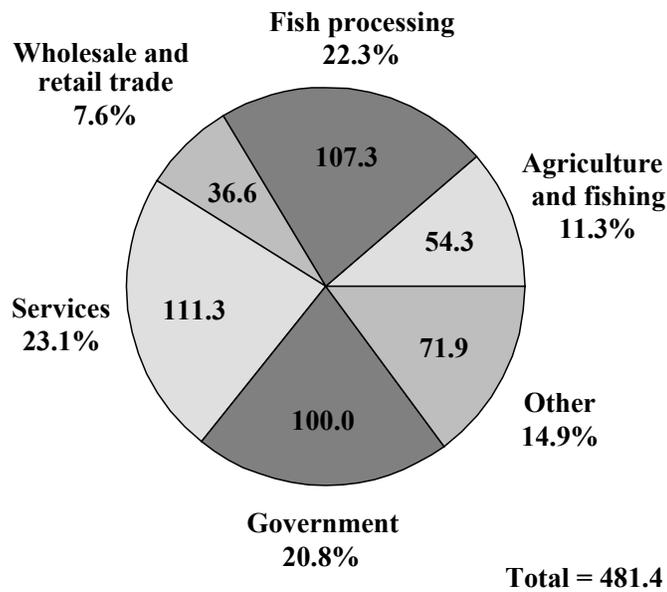
Table 7
American Samoa Gross Domestic Product, 2002
(Millions of dollars)

	Gross Domestic Product	Percent of Total	U.S. Percent of Total
Personal consumption expenditures	331.5	68.9	70.2
Private investment	43.7	9.1	15.1
American Samoa government expenditures¹	62.4	13.0	12.2 ²
Federal government expenditures	126.8	26.3	6.5
Exports	449.0	93.3	9.6
Imports	-532.0	-110.5	-13.7
Gross Domestic Product	481.4	100.0	100.0

¹Expenditures funded by local taxes and charges.

²State and local government expenditures

Figure 3
American Samoa Value Added, 2002
Millions of Dollars



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

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

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

Table 8
American Samoa Employment and Labor Income, 2002

	Employment	Percent of Total	Labor Income (mil. \$)	Percent of Total	Average Labor Income (\$)
Agriculture, fishing, and mining¹	520	2.9	12.2	4.3	23,462
Construction	598	3.4	9.6	3.4	16,054
Fish processing	5,538	31.1	49.4	17.3	8,920
Other manufacturing	56	0.3	0.3	0.1	5,357
Wholesale trade	352	2.0	3.9	1.4	11,080
Retail trade	1,854	10.4	17.5	6.1	9,439
Transportation and warehousing	786	4.4	6.3	2.2	8,015
Information	294	1.7	4.4	1.5	14,966
Financial activities	327	1.8	6.4	2.2	19,572
Professional and business services	900	5.1	18.2	6.4	20,222
Educational and healthcare services	766	4.3	15.6	5.5	20,366
Accommodation	44	0.2	0.3	0.1	6,818
Food services and drinking places	571	3.2	4.2	1.5	7,356
Other services	351	2.0	3.9	1.4	11,111
Government authorities	496	2.8	9.3	3.3	18,750
American Samoa government	4,187	23.5	79.2	27.7	18,916
Federal government	158	0.9	6.9	2.4	43,671
Agriculture for self-consumption	---	---	38.0	38.0	---
Total	17,798	100.0	285.6	100.0	13,912 ²

¹Employment classified by the North American Industrial Classification System.

²Excludes imputed value of proprietors' income from agriculture and fishing for self-consumption.

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

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

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

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

Did real GDP per worker increase during this time period? GDP per worker is calculated by dividing total GDP by total employment (wage and salary employees and proprietors). Climbing at a 6.2 percent annual rate, nominal-dollar GDP per worker increased from \$6,054 in 1977 to \$27,048 in 2002. Making use of the U.S. GDP deflator and recognizing the territory's slightly higher inflation rate, the estimated American Samoa GDP deflator increased at a 3.8 percent annual rate. This indicates that real GDP per worker rose at a 2.3 percent rate, in line with the growth of real per capita income, as one might expect.

Impact of Fish Processing and the Federal Government

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

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

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

Table 9
Fish Processing Impact on American Samoa Economy, 2002

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

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

In 1977, with 1,410 employees, the fish processing industry accounted for a total of 2,180 jobs in the American Samoa economy, according to the 1977 input-output study. This represented 26.9

percent of total employment. The implied employment multiplier was 1.55. In light of the various problems associated with constructing input-output tables and estimating multipliers, the difference between the 1977 and 2002 multipliers should not be considered statistically significant.

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

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

Table 10
Federal Government Impact on American Samoa Economy, 2002

	Federal Government Economic Impact	Percent of American Samoa
DIRECT IMPACT		
Federal grants and expenditures (mils. \$)	126.8	100.0
Employment¹	2,915	16.4
Labor income (mils. \$)	59.2	20.7
TOTAL IMPACT		
Output (mils. \$)	164.8	17.7
Employment	6,615	37.2
Proprietors	393	37.1
Wage and salary employment	6,222	37.2
Agriculture, fishing, and mining	95	33.9
Construction	184	32.7
Manufacturing	38	0.7
Wholesale and retail trade	786	39.8
Transportation and warehousing	222	36.5
Financial activities	124	41.6
Services and government authorities	1,449	46.4
Government	3,325	76.5
Labor income (mils. \$)	114.5	40.1
Implied employment multiplier	2.27	---

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

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

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

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

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

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

The only other significant source of jobs is transfer payments, which consist largely of government retirement and disability payments. In 2002, transfer payments amounted to \$39.5 million and indirectly generated 1,605 jobs or 9.0 percent of American Samoa employment.

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

Prospects for the American Samoa Economy

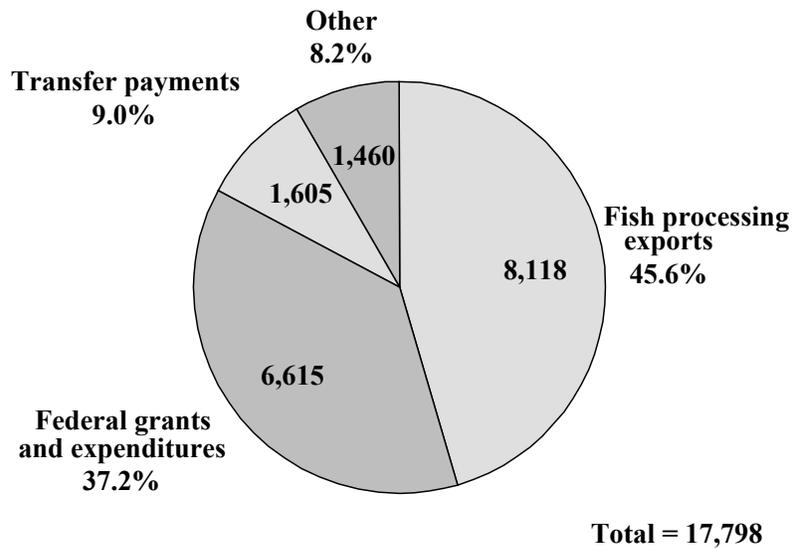
The American Samoa economy faces an uncertain future. Much depends upon decisions made by the federal government with regard to the minimum wage, restrictions on foreign labor, and financial support. Even if the federal government continues its current level of financial aid, a rising minimum wage could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

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

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

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

Figure 4
American Samoa Employment
by Source, 2002



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

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

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

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

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

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

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

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

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

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

The low scenario is a disaster for the American Samoa economy. In this case, the federal government begins the process of annually raising the minimum wage in 50-cent increments until it reaches the minimum wage established for the states. Fearing the worst, the canneries begin to trim operations almost immediately, causing the economy to go flat between 2005 and

2010. The economy starts to fall precipitously when the fish processing industry closes shop for good in 2010, but the full impact is not immediately felt. There are several reasons why the economy's response to the cannery shutdown takes time, perhaps as long as five years, to fully play out: various spending buffers (e.g., increased private and public spending from savings); job sharing (cutting hours but not employment); and the delayed reaction between employment loss and out-migration. In the end, however, the economic losses are massive. Compared to the baseline scenario, the economy has 7,700 fewer jobs in 2015. In other words, the closure of the canneries causes American Samoa to lose more than two out of every five jobs.

Conclusion

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

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

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

Chapter 2

American Samoa's History, Culture, and Economy

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

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

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

Samoan History

About 1500 B.C., people (probably from Southeast Asia) arrived in the Samoan Islands, after having navigated the Pacific Ocean in rafts.² This astonishing achievement occurred at approximately the time of the Trojan War or the Exodus in Western history. Little is known about these people who were or were to become the Polynesians and who would populate the

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

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

islands of the Central and Eastern Pacific from Hawaii to New Zealand and Samoa to Easter Island. It was not until 1973 that Samoan prehistory was dated back this far. In that year some pieces of clay pottery were discovered during a dredging project near Mulifanua in independent Samoa. These pottery shards were made from clay found in the same area. Radiocarbon dating revealed that the pottery was made in about 1200 B.C. Another interesting aspect of this find was that pottery making was never known to be a part of Samoan culture. In fact there was no word for pottery in the Samoan language. This Lapita form of pottery is found throughout the Western Pacific, from New Guinea to Samoa. It is named after an area in New Caledonia where the pottery was first discovered.

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

Samoan Culture

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

Samoans have adhered to the fundamental elements of their language and culture to an extent unprecedented in most parts of the world. This adherence to Samoan language and culture is not just ceremonial. The Samoan people, particularly in their own lands, strive to retain as much of their communal or *aiga* (family) land and *matai* (chief) systems as possible. In this report the term "*matai* system" shall refer to American Samoa's extended family and land tenure systems as well.

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

These family units represent quite close-knit groups with intense local pride and a close community of interest. It is common for a Samoan, when asked to give a family name for

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

identification, to give the name of his *matai* who may or may not be his or her biological father. In traditional Samoan society and to a large extent in American and independent Samoa today, people continue to view themselves as integral parts of the Samoan family, leadership and land system. This, of course, is changing as Samoans deal with the influences of Western society on their culture. In addition, the traditional leadership role of *matais* is changing. This is especially the case in U.S. society where their roles are becoming increasingly inapplicable in a Western context and where there are no communal lands to administer.

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

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

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

American Samoa and the United States

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

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

ancestry from the alienation of their lands and the destruction of the Samoan way of life and language and to encourage business enterprise among persons of Samoan ancestry.

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

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

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

Critique of American Samoan Aspirations for the Future

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

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

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

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

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

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

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

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

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

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

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

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

American Samoan Attitudes toward Economic Development

Earlier in a discussion of American Samoa's aspirations for the future, concern was expressed about the role of American Samoans in that future. Reference was made to modernity threatening

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

Table 14
Birthplace of American Samoa’s Population, 2000

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 17
Issues with which American Samoa Public Disagrees

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

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

Table 18
Issues with which American Samoa Public Agrees

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

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

Chapter 3

Short Term Response to Precipitous Cannery Industry Decline

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

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

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

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

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

American Samoa's Dependence on Federal Expenditures

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

disaster, American Samoa will look to the federal government for, at least, temporary recovery assistance. It is necessary to consider this in context.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 22 demonstrates that per capita federal expenditures in American Samoa have increased fairly steadily this decade, after some federal revenue instability in the 1990's. This has helped close the earlier referenced gap between American Samoa and the US in per capita federal expenditures. However, American Samoa's General Operations grant and CIP grant have not gone up in many, many years, despite inflation and increases in population.

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

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

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

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

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

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

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

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

US Welfare Programs in American Samoa

American Samoa will probably never reach parity with the States because of its lack of participation or eligibility in some of the biggest federal program. The most prominent among them are the Unemployment Compensation Program determined in the Federal Unemployment Tax Act and the Supplemental Security Income program. The lack of a federal unemployment

compensation program is especially difficult for American Samoa in serious economic downturns. In the US it not only offers temporary unemployment benefit periods, the US Congress often funds extended payments for unusually protracted recessions.

However, most social welfare programs available in the 50 States and the District of Columbia are also available in the territories in some form or under selected conditions.⁶ They are of two basic forms. One makes direct payments to individuals and the others are joint or cooperative federal-state programs. For the latter programs, states and sometimes localities have a role in the design, administration, and often financing of benefits and services. For the territories to participate in the joint federal-state programs, federal law must make them eligible, but the territory's government must act to meet selected conditions for federal assistance.

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

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

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

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

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

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

1 – Less than \$500

NA – Not Applicable because of ineligibility or not participating

UA – Data Unavailable

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

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

Supplemental Security Income

The Social Security Amendments of 1972 (Public Law 92–603) ended matching grant programs to the 50 States and the District of Columbia for assistance to needy adults who were aged, blind, or disabled and replaced them with Supplemental Security Income (SSI). The new SSI Program provided a federal entitlement program of cash payments for individuals in these groups.

However, SSI was not extended to Puerto Rico, Guam, American Samoa and the Virgin Islands. The old grant programs for the needy aged, blind, and disabled authorized under four separate titles of the Social Security Act 3 continue in those areas. The territories determine benefit amounts. In contrast, the regular SSI Program has federally determined benefits (though States may supplement them). SSI also is fully federally financed. SSI is available in the Northern Marianas.

Nutrition Assistance Block Grant for American Samoa

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

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

Public Assistance Programs

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

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

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

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

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

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

Chapter 4

Long Term Response to Cannery Industry Decline

American Samoa's Position in the US Economic System

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

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

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

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

It is said that these poorest counties in the US are generally sparsely populated areas and isolated from larger faster growing metropolitan areas. In general the smaller and more isolated, the poorer they are and the lower their growth rates. It is said also that small size translates to

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

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

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

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

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

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

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

to do the best we are able to stretch American Samoa's resources to their most productive potential.

Approaches to Economic Growth and Development

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

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

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

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

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

¹⁰ Kevin Kelly. *Paul Romer: The Economics of Ideas* (<http://www.versaggi.net/e-commerce/articles/romer-econideas.htm>)

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

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

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

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

Romer summarizes: “Every generation has perceived the limits to growth that finite resources and undesirable side effects would pose if no new recipes or ideas were discovered. And every generation has underestimated the potential for finding new recipes and ideas. We consistently fail to grasp how many ideas remain to be discovered.”

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

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

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

¹² Ibid. pp. 4.

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

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

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

The Evolution of American Samoa's Private Sector

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

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

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

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

As recently as the 1980's, there were still large gaps in the goods and services provided by the private sector. Shopping was often a hit and miss affair, and many things were simply not available. Twenty years ago, there was no modern movie theater, no fast food chains, no daily

newspaper, a single radio station, no cable television or private television channels (and no same-day TV programming at all), bare produce sections in the stores, no big box store, and a limited selection of building materials and consumer goods.

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

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

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

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

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

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

Chapter 5

Private Sector Role in American Samoa's Future Development

The Private Sector Survey

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

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

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

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

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

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

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

Cannery Industry Views on its Future

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

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

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

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

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

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

Private Sector Views on the Cannery Industry

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

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

The same dynamic applies to a wide range of public services and facilities. The presence and needs of the canneries has directly justified the development of high capacity infrastructure,

which many companies and residents enjoy the benefits of. With the canneries to support, it has been possible and necessary to improve the commercial harbor, the petroleum farm, ASPA's electrical and water systems, telecommunication systems, and environmental systems.

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

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

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

Others simply note that the canneries presence and growth has stifled other forms of economic development. For example, some visitor industry leaders believe Pago Pago Harbor with its dramatic beauty and calm waters could be a huge tourist draw. However, as long as the canneries are still operating there, the Harbor's appeal will be neutralized for tourism purposes. The legacy of pollution they will leave behind when they depart might make it difficult to capitalize on the Harbor's tourism potential.

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

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

It is not surprising that an industry as prominent as the canneries has become a major target for criticism and dissatisfaction. For example, many business leaders resent the way the canneries sometimes use their influence to push their agenda at the political level, and businesspeople wish

the canneries would change some of their business practices. For example, it is hard on the community-at-large and local companies when the canneries furlough their workforce with little advance notice.

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

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

Private Sector Views of Cannery Industry Future

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

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

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

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

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

Effects on Business Survival - Although some business leaders do not believe they will be able to stay in business as a result of the impact of cannery closures, most companies expect to adjust, adapt and survive. They have guarded unspecific optimism that it will work out for their businesses and for American Samoa’s economy. Local companies are more committed to adjusting and adapting than off-island companies. Off-island companies are understandably more willing to contemplate withdrawing from the American Samoa market if it shrinks too much. One local businessperson spoke for many others when he said, “our company will survive, but it will be smaller and we will look at doing business differently to be viable.” Significantly, both commercial banks (as well as the government-owned Development Bank) expressed a firm commitment to stay and be part of the solution, not the problem. “We will not cut (our losses) and run,” one commercial bank official said, and the other bank said much the same thing in different words. Both commercial banks noted that their long history and involvement in the

Pacific Islands gave them the perspective and tools to weather the economic storm that might hit American Samoa. Banks would, however, obviously take steps that will make it more difficult to borrow money (e.g., raising the credit bar higher). Many business people believe at least one bank has already tightened its lending criteria to limit its exposure.

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

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

Private Sector Views on Cannery Closure Impacts

Most respondents believe that the role played by the government, both territorial and federal, will have a huge impact on the transition to a post-cannery era. However, businesspeople suggested no specifics as to what form of assistance would be most welcome for a smooth and successful transition.

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

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

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

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

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

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

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

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

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

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

Business leaders note that migration debates will also take place in the households of American Samoans who have not become unemployed but are discouraged by the lack of economic opportunity that might follow cannery reductions or closures and which may last for many years. For example, some parents told us that they are urging their children living off-island to stay there and get an education and work experience because there are no jobs in their fields in

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

American Samoa. That advice is being given now; imagine how much more common such advice will be at a time of widespread unemployment.

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

Private Sector Perspectives on Future Economic Development Directions

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

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

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

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

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

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

¹⁸ An example of one idea that did not fit into one of those five categories was off-shore banking, but that is not considered a realistic idea by the consultants. Other suggestions that were disregarded included forestry (not feasible

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

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

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

Private Sector Economic Development Constraints

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

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

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

or environmentally appropriate) and hosting a U.S. Navy base (probably not feasible given American Samoa's small size and non-strategic location).

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

1. Physical infrastructure
 - a. American Samoa lacks an international fiber optic cable link. This limits the quality and quantity of low-cost telecom, internet, etc. The government and private parties are working to bring a fiber optic cable to American Samoa in 2008, but that will require a major capital investment.
 - b. Major roads are congested and some are in poor condition.
 - c. There is a general lack of reliability (e.g., internet service, electrical service). This means that operations might be compromised, or the expense of redundancy might be necessary.
2. Social infrastructure and business environment
 - a. Land tenure system makes securing land cumbersome and unpredictable.
 - b. Limited access to capital, and higher borrowing costs, compared to other locales.
 - c. Regulatory environment is stricter than other locales, yet government is often behind on taking care of basic public services (e.g., condemnation of derelict buildings, installation of traffic control, etc.)
 - d. Limited air links, expansion of which is problematic due to U.S. cabotage laws, which prevent foreign carriers from flying between two U.S. airports).
 - e. Health care services below U.S. standards. High levels of health problems (e.g., diabetes, high blood pressure).
3. Concerns of business community regarding business climate
 - a. Playing field may be tilted by political considerations.
 - b. Difficulty obtaining a business licenses in a timely manner.
 - c. High taxes, duties and fees.
 - d. Higher tax scheme for foreign corporations.
 - e. No title insurance and limited financial infrastructure.
 - f. Federal government indifference.
 - g. Loss of historic federal advantages (e.g., Section 936, special minimum wage provisions and declining importance of duty-free access to the U.S.).
 - h. Perceived lack of urgency or interest amongst local population as it relates to business development.
 - i. Negative publicity from Daewoosa and other corruption issues.
4. Human capital
 - a. Limited local labor pool.
 - b. Lack of immigration security for foreign labor.
 - c. Wages that are higher than what must be paid in competing locations, yet wages that are so low that they lead to a “brain drain” in many areas (e.g., nurses, teachers, and other skilled workers).
 - d. Limited number of CPAs or equivalent.
 - e. American Samoa students have lowest scores in United States in national assessment tests. Problem affects efficacy of Community College, which must enroll almost all

- new students in developmental classes. Low ASVAB test scores prevent many school leavers from achieving their desire of enlisting in U.S. armed forces.
- f. Low levels of higher education attainment.
5. Geography
- a. Long distance to markets and sources of supply, compounded by not being located near major transpacific shipping lanes.
 - b. Remoteness makes for expensive shipping.
 - c. Remoteness and small size contributes to expensive electricity.
 - d. Remoteness and small size makes for expensive telecommunications (and lack of redundancy).
 - e. Limited sea and air transportation.
 - f. Subject to hurricanes.
6. Natural resources
- a. Limited land mass and developable land.
 - b. Limited arable land.
 - c. Few and small beaches.
 - d. Few world class dive or surf spots.

Private Sector Economic Development Opportunities

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

Advantages

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

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

2. Social infrastructure and business environment
 - a. Security and stability of being part of the United States family.
 - i. Presence of FBI, FAA, TSA and U.S. Postal System.
 - ii. Part of U.S. court system and U.S. banking system.
 - iii. USDA food inspectors.
 - iv. USEPA drinking water standards and other environmental standards apply.
 - v. Participation in federal grant programs, including those promoting development in rural areas, undeveloped areas, and amongst minority populations.
 - vi. Stable base of federal financial support.
 - vii. Represented in the U.S. House of Representatives by a locally elected Delegate.
 - viii. Goodwill in the Pentagon and Congress from Samoans' service in U.S. military.
 - ix. Free enterprise capitalism.
 - x. US Essential Air Service law applies.
 - xi. Federal telecommunications regulation and subsidies.
 - xii. National Park of American Samoa.
 - xiii. Fagatele Bay National Marine Sanctuary.
3. U.S. style tax code
4. U.S. trade advantages
 - a. Headnote 3(a) tariff protection, Jones Act, Nicholson Act.
 - b. "Made in America" labeling.
5. Long history of success with tuna processing
 - a. Support for large-scale industrial operations.
6. ASG business incentives.
 - a. Tax exemptions possible (local control over taxation).
 - b. Job training assistance available.
 - c. Small business counseling and other forms of assistance.
 - d. No property tax.
7. Intact society/culture.
8. Lower wages relative to the US and other industrialized places.
9. Close ties to USA, including military services.
10. Friendly and welcoming people.
11. Human capital
 - a. Skilled personnel and management at canneries and elsewhere.
 - b. Unskilled labor pool.
 - c. Access to wider labor pool through immigration. (Local control over immigration).
 - d. English speaking population.
 - e. U.S.-based education system.
12. South Pacific location

- a. Proximity to fishing grounds.
- b. Located between United States and Australasia.

13. Natural resources

- a. Deep and protected harbor.
- b. Ocean resources.
- c. Plentiful fresh water.
- d. Natural beauty/low pollution.
- e. A few areas with good diving, surfing, fishing, etc.

New Economic Foundations for American Samoa

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Specific Economic Development Opportunities

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

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

Manufacturing - Just as some call center operators need a U.S.-based location to satisfy corporate strategy or legal concerns, the same is true for some manufacturers. For example, some military items must be produced on American soil, and trade laws (e.g., anti-dumping listees, countervailing duties, Headnote 3(a), the Jones Act) provide significant advantages for certain types of manufacturing to locate on American soil.²³ Since the average manufacturing wage in the U.S. is many times higher than in American Samoa, a competitive advantage exists in American Samoa's favor for such operations.²⁴

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

²³ Two examples include barge building and military procurement. A large number of double-hulled barges for the US market have to be built to comply with the new rules. Under the Jones Act, the keels must be laid in the USA (American Samoa included). All the shipyards in the USA that can build these barges are backed up with long waiting lists. The barges could be built in American Samoa at the Ronald Reagan Marine Railway, using pre-cut steel. The topside work can be done in Samoa to make the business proposition even more favorable. In military procurement, many things the military buys must be produced in the USA (including American Samoa). Processed albacore is an example. Plus the military is obligated to give work to properly credentialed minority contractors and veteran contractors. A local company could conceivably be credentialed as both military and veteran and thus gain a distinct advantage in seeking federal contracts, military and non-military.

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

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

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

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

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

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

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

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

Chapter 6

American Samoa Government Role in Economic Development

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

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

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

This perception is extensively documented in the 2006 report published by the Department of Interior: "A Private Sector Assessment for American Samoa".²⁵ According to the assessment, which was based on interviews with private sector leaders, there are several areas in which policy changes are needed to improve the business climate:

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

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

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

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

Other changes – Among them are improved postal and courier service (e.g., a street address system), utility rate restructuring, telecommunications privatization, request a federal cabotage waiver, improved healthcare, improved roads, business-minded modifications to local laws (e.g., creating a bankruptcy statute, adopting laws protecting intellectual property, adopting a Uniform

²⁵ Jocelyn L.M. Doane and Sara E. Gray. *A Private Sector Assessment for American Samoa*. US Department of the Interior, Island Fellows Program. Washington DC: August 2006.
(<http://www.doi.gov/oia/reports/IslandFellows2006PSAASDBCfinalaedites.pdf>)

Commercial Code, improving access to federal court system, creation of a legal search system). Also important were making commercial land more easily available, greater development bank funding, and an improved climate for insurers.

Private Sector Views on the American Samoa Government

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

On the one hand, the private sector wants government to do more, such as build more infrastructure, facilitate new industries, control immigration, improve job training and general education, increase access to land for commercial purposes, and address social problems. On the other hand, they want government to also do less, as in less regulation, less red tape, fewer public sector employees, less spending, less fees and taxes, and other issues for which governments the world over decry. As suggested earlier there is much merit here. However, as indicated earlier, Government has more to concern itself with than simply meeting the needs of business. It does tax and regulate. Hence, the earlier reference to a natural tension between the public and private sectors.

Under military and then civilian rule, the American Samoa Government has maintained strong control over life in the territory for over a 100 years. Whether overseen by naval officers, appointed governors or elected governors, the government has been ever mindful of its mandate to protect the Samoan way of life.

Though there has been an increase in respect for the private sector in the past few decades, the American Samoa community still holds fast to deep-seated feelings that government, along with traditional cultural leaders and the churches are the institutions that hold natural authority in the hierarchy of Samoan society.²⁶

Doing business in American Samoa requires patience, persistence, and cultural and political sensitivity. The successful private sector companies in American Samoa devote a great deal of time and effort to tasks that are far more simple and straightforward elsewhere (e.g., obtaining business license renewals, land leases, building permits, payments for services rendered, etc.).

In some cases, the success of a company can be primarily attributed to their ability to get things done with ASG more easily than their competitors. This is not untypical of small communities, but American Samoa will find it difficult to meet its economic development goals when businesses must devote extra-ordinary resources to non-productive activities.

²⁶ Some businesspeople point to Samoa as an example of how a private sector economic blossoming has resulted from a conscious effort of the Samoan government to become more transparent, more accountable, and more business-friendly, while retaining a strong protectionist interest in the Samoan way of life.

The government has long been attuned to the needs of the tuna industry and many times it has risen to the challenges necessary to keep the industry strong and growing in the territory. From building infrastructure to modifying immigration laws, ASG has responded to the cannery needs.

Should the canneries scale down or close, ASG will have to learn to respond to a different set of needs as it pursues the community's desire for a more diverse economic future. In many instances, the government has shown itself sensitive to the private sectors needs. Over the past year, for example, Governor Togiola Tulafono has moved forward on some of the economic development recommendations made by the American Samoa Chamber of Commerce (e.g., creation of a private sector-driven Visitor's Bureau, business tax reform, etc.).²⁷

In addition, Governor Togiola has publicly led the Chamber-endorsed effort to get American Samoa connected to the rest of the world with a sub-marine fiber optic cable. Such a cable is a prerequisite to the development of a call center industry. It is the potential catalyst for a host of economic development opportunities for American Samoa.

Collaboration Key to American Samoa's Development Potential

It is unlikely that the government or the private sector will have much success transforming the American Samoa economy without working closely together.

In larger, more mature economies than American Samoa, the private sector can make things happen without a coordinated public-private program. Conversely, there are places where the government can make things happen by unilateral action.

But American Samoa is probably too small and resources are too limited for large-scale success to be achieved unless the government and the private sector collaborate on strategy and coordinate their activities.

An excellent example of the value of collaboration and coordination is the ongoing discussions about creating a call center industry in American Samoa. A private sector company out of Hawaii is eager to create such an industry in American Samoa, but it has requirements that can only be satisfied by the government.

Some of those requirements involve physical infrastructure (e.g., fiber optic cable) and some involve social infrastructure (e.g., a guest worker program, general education and job training in the local schools, tax incentives, and land leases).

The government can't provide the call centers and commercial contracts, but it can provide much of the infrastructure. Conversely, the Hawaii investors can't provide the entire infrastructure, but

²⁷ Other Chamber of Commerce recommendations include reforming immigration to make it less difficult for expatriate business people to maintain their legal immigrant status, guest worker programs to help the canneries fill vacancies, efforts by the government to make it easier for businesses to gain access to land suitable for commercial purposes, privatizing various government operations, and strengthening commercial ties with Samoa.

it can provide the jobs. If the government and the call centers work together, an industry just might be conceived, birthed, nurtured and grow to be a healthy entity.

The same dynamic applies to agriculture, fisheries, manufacturing, tourism, or most any other sector. It is not going to be enough for the private sector to be anxious and ready to proceed. It is not going to be enough for the government to be anxious and raring to proceed.

For a new venture to have a reasonable chance to succeed, the government and the private sector must play complementary and coordinated roles. It is not the government's role to create the jobs, nor is it the private sector's role to create the infrastructure.²⁸

The importance of a business-friendly social infrastructure to economic development has been recently highlighted by the World Bank. According to the Bank, a nation's "intangible capital" can be many times more valuable than its produced capital (e.g., physical infrastructure) or natural resources capital.²⁹

Moreover, in countries with few natural resources, such as American Samoa, the importance of intangible capital is amplified in comparison to countries that can rely on the value of their natural resources.

The most valuable forms of intangible capital, according to the bank, are human capital (e.g., schooling, workplace skills, health and wellbeing) and the quality of formal and informal institutions (e.g., rule of law, government transparency, clear property rights, predictability, trust among people, effective government, efficient judicial system, and other markers of civil society).

Objective data reveals American Samoa's low levels of human capital (e.g., low educational achievement and attainment, high rates of chronic disease), but there are no reliable measures of the quality of the territory's formal and informal institutions. However, private sector members have identified many such markers as areas where they are frustrated with the American Samoa Government.

Notwithstanding these frustrations, the interviews with private sector leaders conducted in 2007 revealed that business leaders hope that government officials will exercise confidence-inspiring and effective leadership through the dark days of a cannery closure period and the transition to a diversified, post-cannery era. Few businesspeople offered specifics as to exactly what they expected of the government. One thing did stand out, however, and that was the need for clear

²⁸ Infrastructure refers to not only capital improvements, but also human capital and social infrastructure, which are all essential components of a business environment.

²⁹ See The International Bank for Reconstruction and Development/The World Bank. *Where is the Wealth of Nations?* Washington DC: 2006. (<http://siteresources.worldbank.org/INTEEI/214578-1110886258964/20748034/All.pdf>)

communication between the private sector and the government (executive and legislative), as well as helpful communication with the general public and all affected parties. Private sector leaders expect government leaders to minimize the negative impacts of cannery reductions or closures by inspiring public confidence in American Samoa's ability to adapt and move forward.

Although there are many obstacles to developing a stronger and more diverse economy in American Samoa, it does not follow that the challenge is impossible or that opportunities are lacking.

Governor Togiola Tulafono has recognized the advantages of strong public-private ties by forming an Economic Advisory Council in late 2007, comprised of leading members of the government and the private sector.

Chapter 7

Federal Role in American Samoa's Economic Development

Federal Economic Development Programs and Policies

Over the years, the US federal government has devised programs to assist small, low income or low growth areas in economic development. Most of these programs have been applied to the US territories as well. There were a few programs in the 1930's which were more responsive to the Great Depression in general. In addition, the State of Mississippi experimented with industrial development revenue bonds in the 1930's. The first modern rural economic development program was enacted in 1961. It was the US Area Redevelopment Administration. It became the Economic Development Administration (EDA) in 1965.

American Samoa is familiar with these programs and has benefited greatly from the US Economic Development Administration which has been active in the territory since the 1960's. Its programs were instrumental in American Samoa's modern development especially in establishing a local economic development agency, financing the Rainmaker Hotel, the industrial park, and many other public works, development and planning projects. EDA programs have remained much the same since 1965, but there have been many improvements especially in the requirement for the preparation of Comprehensive Economic Development Strategies for communities and jurisdictions.

In addition American Samoa has benefited from the Community Development Block Grant program of the U.S. Department of Housing and Urban Development (HUD). HUD annually allocates seven million dollars of CDBG funds to the US territories in proportion to the populations of the eligible territories. The program is administered by HUD's Field Offices in Puerto Rico and Hawaii. The CDBG insular areas program provides grants for economic development, housing rehabilitation, public facilities rehab, construction or installation for the benefit of low to moderate income persons, or to aid in the prevention of slums. The HUD idea of designing a special program for the territories is not the federal norm. In general, US territories have to find ways to fit into the requirements of these large and often complex federal programs.

The US Department of Agriculture has several private sector community based economic development programs. They include guaranteed business loans, rural enterprise grants, economic development loans and grants, and community support facilities grants and loans.

Of course, the US Department of the Interior, Office of Insular Affairs is responsible for ensuring that the responsibilities of the Secretary of the Interior regarding the territories and freely associated states of the United States are carried out. This includes serving as a focal point for the coordination of the development and implementation of policies pertaining to the territories and providing financial oversight to ensure that federal funds provided to the

territories are used consistent with their authorized purposes. This is spelled out in the executive order establishing OIA in 1995.³⁰

This executive order called attention to the meagerness of the resources dedicated by the federal government to the development of the US territories or the insular areas. The staff dedicated to the Office of Insular Affairs was 25. Currently, the Department of the Interior has administrative responsibility for coordinating federal policy in the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, and oversight of federal programs and funds in the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

OIA sponsors private sector-led economic development programs and conferences in or for the territories. There have been three such conferences to date, along with three trade missions. The first conference in 2003 was held in Washington D.C. with an attendance of about 550 people. The second conference in 2004 was in Los Angeles with over 1000 attendees. The third conference in Honolulu held in 2006 and limited to 500 people actually had over 700 participants. The first Business Opportunities Mission went to Guam, Saipan and Palau. The second went to the U.S. Virgin Islands, and the third was to American Samoa. OIA also sponsors fellowship research programs which have dealt with general business climate conditions in the territories and background information for the business opportunities conferences. OIA also funds technical assistance grants for a variety of development purposes. OIA serves as liaison to the Congress, the four territorial and three freely associated state governments, other federal agencies, the media and the public.

OIA in recent years has been more active than it has ever been in private sector development programs. While short term results for such programs are often difficult to evaluate, such programs do enhance networking and contacts with the private sector and encourage territorial governments to prepare the requisite conditions for meeting the needs of investors and economic location information.

Federal Role in Territorial Development

There is one serious economic development deficiency that OIA, the territories, other federal agencies and the Congress have not been able to deal with very effectively. That is the problem of adverse influences on the territories of federal legislation, policies and programs. The problem has included US trade and investment policies which have erased some territorial economic advantages in favor of vastly larger and lower cost developing countries. More recently, the US Congress has legislated to remove federal corporate tax incentives and raise extraordinarily the minimum wage in American Samoa and the CNMI.

³⁰ Secretary of Interior Order No. 3191 - Subject: Abolishment of the Office of Territorial and International Affairs and Establishment of an Office of Insular Affairs. August 4, 1995.

This problem has been referenced for decades in studies of the territories. In 1985 the US GAO reported on issues affecting US territorial development. It concluded the following.

A US Policy for the Territories U.S. policy should be more clearly defined, particularly for economic development and treatment of territories under federal laws and programs. GAO found the issues involving federal territorial relations, such as appropriate levels of representation, treatment under federal laws and programs, and economic and social development strategies, are becoming increasingly complex with no simple or ready-made solutions.

Increased Territorial Self-reliance - The United States has helped to finance and build schools, hospitals, housing, roads, utilities, and other infrastructure and provided health, educational, and other social services which have enhanced the well-being of territorial residents. Notwithstanding these efforts, most of the territories have made little progress toward becoming economically self-reliant and remain highly dependent on federal assistance. Most of the territories face many indigenous constraints --such as geographic isolation from U.S. and world markets, limited natural and manpower resources, small land areas, limited infrastructure to support development and attract investment, and large public sectors-- which make economic self-reliance an unlikely prospect for the foreseeable future.

Consideration of the Territories in US Trade Policy - GAO found that there is no federal policy which details how the territories should be treated in formulating and extending laws and programs. Territory officials identified instances when federal policies, laws, and programs have constrained economic and social development because they were inconsistently applied, insensitive to unique territorial circumstances and needs, or inappropriate for local conditions. Examples cited included the Caribbean Basin Initiative provisions affecting the rum industry and the tuna industry in the Virgin Islands and American Samoa, respectively.

Territorial Advocacy at the Federal Level - Many territory officials also criticize the institutional capacity of the Department of Interior to meet their needs. For example, they believe Interior does not have sufficient influence to represent them in the budget agencies. Within Interior, there is some disagreement on its role vis-à-vis the territories in terms of federal oversight, program and policy coordination, and territory advocacy.

A High Level Federal Interagency Group for the Territories - Many support the concept of a high-level interagency group to handle policy-related matters and address major territorial concerns. Establishment of a formal interagency policy group authorized to address major policy matters in a comprehensive fashion or a legislatively authorized office attached to the White House, might provide the representative focal point wanted by many territorial leaders.

Interior supports GAO's conclusion that its role as a direct authority over territorial government has diminished, and that its role is primarily as a provider of technical assistance and territory advocate.

³¹ US Government Accountability Office. *Issues Affecting US Territorial and Insular Policy*. NSIAD-85-44. Washington DC: February 7, 1985.

The Governor of American Samoa (at the time) supported the idea of developing a long-term economic development and financial assistance agreement. He also recommended establishment of an organization within the Office of the President or a separate organization to handle territorial affairs.

GAO believes policymakers in Congress and the executive branch are likely to face greater pressure from the territories to establish a policy framework which addresses these issues. However, they believe better federal policy coordination is needed to systematically address development needs when formulating individual agency policies.

In 1994 GAO was even more forceful about federal policy toward the insular areas.

“Although federal funding supports actions designed to enhance economic development in the insular areas, the federal government has not articulated a clear policy about the goals it wants to achieve in the areas and does not always coordinate activities among agencies. We endorse the creation of an interagency committee charged with, among other things, (1) defining U.S. goals and objectives in the insular areas and developing an overall insular area strategy to guide federal activity toward achieving its goals, including supporting economic development and self-sufficiency and (2) establishing a mechanism to coordinate federal activity, including consolidating data on economic development expenditures in the insular areas.”

“US policy overall is to support the economic development of the insular areas. However, the U.S. government has no specific objectives for its development programs; no clear overall strategy to achieve its goals; and no formal mechanism for coordinating the activities of the numerous federal agencies with programs in the islands. While the Department of Commerce reported that U.S. direct federal expenditures or obligations in the insular areas included in our review totaled about \$1.5 billion in fiscal year 1992, the U.S. government has no consolidated data on federal spending on economic development in the insular areas. The Secretary of the Interior has proposed establishing an interagency committee that would coordinate federal policy and activities. We believe an interagency group focusing on policy, strategy, and U.S. government coordination could play an important role in helping to improve economic conditions in the insular areas and U.S. government management of resources provided to the areas.”³²

The GAO appears to have got it right on almost all counts. While economic, political and social conditions undoubtedly have improved over the period, concern remains about federal policy and the territories. GAO issued a report in 2006 documenting how the territories are being adversely affected by federal actions concerning federal taxes and trade. It refers specifically to the loss of the possessions tax credits Under IRS Section 936, international trade and investment agreements reducing tariffs or quotas on apparel and tuna canneries, and most recently dramatic increases in the US minimum wage in American Samoa. There is no doubt that the interests of American Samoa and the other territories were sacrificed at every turn regarding these issues. This is not to say that territorial representatives did not do everything humanly and practically

³² US Government Accountability Office. *US Insular Areas Development Strategy and Better Coordination Among US Agencies Needed*. GAO/NSIAD-94-62. Washington DC: 1994 (pp 1and 6).

possible to mitigate the effects of these actions. They may just have been overpowered politically. Nevertheless, the issue of involving the voice of the territories in such negotiations is still unresolved. OIA may have been right that “there is no federal policy which details how the territories should be treated in formulating and extending laws and programs.” There is an Interagency Group for Insular Affairs, but it does not yet appear to have the authority envisioned by GAO as “authorized to address major policy matters in a comprehensive fashion or a legislatively authorized office attached to the White House.”

In 2006 and 2007 GAO seemed to take a new tack in focusing more on fiscal issues rather than economic development issues.³³ GAO continued in its view that the U.S. insular areas of American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands, face long-standing economic, fiscal, and financial accountability challenges. The economic challenges stem from dependence on a few key industries, scarce natural resources, small domestic markets, limited infrastructure, shortages of skilled labor, and reliance on federal grants to fund basic services. To help diversify and strengthen their economies, OIA sponsors conferences and missions to the areas to attract U.S. businesses; however, there has been little formal evaluation of these efforts.

This GAO report recommended that the Secretary of the Interior direct the Deputy Assistant Secretary for Insular Affairs to:

- Increase coordination activities with officials from other federal grant-making agencies on issues of common concern relating to the insular area governments, such as late single audit reports, high-risk grant designations, and deficiencies in financial management systems and practices.
- Conduct formal periodic evaluation of OIA’s conferences and business opportunities missions, assessing their impact on creating private sector jobs and increasing insular area income.
- Develop a framework for OIA employees to use in conducting site visits to help ensure objectives are achieved, to assure that relevant information is shared with the responsible officials, and to allow more efficient and effective monitoring of issues.
- Develop and implement procedures for formal evaluations of progress made by the insular areas to resolve accountability findings and set a time frame for achieving clean audit opinions.
- The GAO, at least in this report, focuses primarily on administrative matters rather than the substantive economic development issues it has stressed over the last few decades.

³³ US Government Accountability Office. *US Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*. GAO-07-119. Washington DC: December 12, 2006.

The GAO has studied this matter over the years, and the US Department of the Interior has generally agreed with the overall need. In fact OIA has made some progress in mobilizing federal coordination and cooperation especially in economic development. However, it is no easy task.

As recently as 2002 the American Samoa Economic Advisory Commission published its report.³⁴ The following is a summary of the Commission's recommendations concerning the federal government.

1. The Commission recommends the United States Government and American Samoa governments allocate and maintain the necessary resources to develop a systematic method to record, track, and analyze data related to GDP and other economic indicators in order to properly measure and guide the American Samoa's economic growth. There has been considerable progress on this.
2. In fact, it recommends that both the United States Government and the American Samoa Government assume the role of facilitating and promoting economic development by creating a favorable economic environment that encourages entrepreneurial activities in the territory.
3. The Commission urges the Department of the Interior be more resourceful and to devote more resources to coordinating federal policy for American Samoa. At a minimum OIA could add perspective to the discussions and debate. But it can do more by becoming an advocate for American Samoa within the Federal government.
4. It is important for the Interior Department to assist the territory in keeping track of, and finding applications for technological advances. In addition, it can also help to monitor global trends that greatly impact the territory such as transportation, telecommunications, and trade.
5. The federal government not only has a legal and moral obligation to assist the territory but also possesses the power to create economic opportunities for American Samoa in ways she cannot do on their own. Many of the economic challenges the territory continues to struggle with are situations that the federal government either created or influenced (tax and trade issues, international trade agreements, minimum wage, air transport, matching requirements, etc.)
6. American Samoa should be afforded better economic treatment and opportunities than the most favored trading and political partners of the United States.
7. The Commission recommends that the United States Government and the American Samoa Government organize and fund a Public – Private Working group.

³⁴ American Samoa Economic Advisory Commission. *Transforming the Economy of American Samoa: Volume III, Appendices*. US Department of the Interior Office of Insular Affairs, Washington DC: 2002

8. The Commission recommends that a Federal-Territorial Task Force consisting of the United States Government, American Samoa government, and members of the American Samoa business community be established and funded.
9. The Commission believes the United States Government should support American Samoa's efforts to forge or strengthen strategic economic alliances with her Pacific Island neighbors.
10. The US Department of State should regularly consult with the American Samoa Government when international policies, treaties, and agreements affecting the territory are being developed or negotiated.
11. The United States Government and the American Samoa Government should work together to address such issues as extending the territory's exclusive fishing rights for "alia" boats owned by local fisherman and favorable terms in the various international fishing agreements that are being negotiated.
12. The Commission encourages the United States Government to take a more active role in assisting the Territory with identifying and securing financial capital.

Finally, the US Congress in 2006 in considering the extension of federal corporate tax incentives for the canneries required a study of a Congressional policy for American Samoa.

"The two-year credit allowed by the provision is intended to provide additional time for the development of a comprehensive, long-term economic policy toward American Samoa. It is expected that in developing a long-term policy, non-tax policy alternatives should be carefully considered. It is expected that long-term policy toward the possessions should take into account the unique circumstances in each possession."³⁵

OIA and ASG have made considerable progress on a number of these matters over the years as has been indicated. However, there has been little effective progress on the primary issue of cooperation and coordination on federal policies, programs, and statutes that require close coordination with the territories.

The fact of the matter is that American Samoa's worsening cannery industry problems are due in large part to issues that were not adequately considered by the federal government as to their potential impacts on American Samoa. Those issues are removal of the federal corporate tax incentive for the territories, dramatically escalating the minimum wage in American Samoa, and phasing out tariffs on canned tuna in various international trade agreements. For these reasons, it is necessary to revisit this issue of federal-territorial coordination, cooperation and consultations.

³⁵ U.S. House and Senate Joint Committee on Taxation. *Technical Explanation of H.R. 6408, Tax Relief and Healthcare Act of 2006*, December 7, 2006.

Establish a Formal Federal Role in Territorial Development - It is recommended that a formal federal role in territorial development be established in view of the massive influence of the federal government on American Samoa's economic development. This is needed to guide in the formulation, application and implementation of federal laws, policies and programs affecting the US territories. The U.S. government has no specific objectives for its territorial development programs; no clear overall strategy to achieve its goals; and no formal mechanism for coordinating the activities of the numerous federal agencies with programs in the territories.

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

Establish the Agenda and Work Program for this Federal Effort -

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

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***Appendix A* -Input-Output Model Technical Report/ American Samoa Input-Output Table**

Introduction

The 2002 American Samoa input-output table, which is the methodological centerpiece of this study, serves two purposes. First, through a systematic accounting of transactions among industries, government, households, and other sectors of final demand (investment, exports, and imports), the input-output table describes the structure of the American Samoa economy. As a set of accounts, the input-output table provides important measures of economic activity, such as Gross Domestic Product. Second, the input-output data provide the factual basis for estimating output, income, and employment multipliers. Used in economic impact analyses, multipliers estimate the total change in production, labor earnings, and jobs in the economy resulting from a given change in economic activity, such as an increase in tuna cannery exports or federal government grants and expenditures.

The rest of this appendix, which is divided into four major parts, describes the input-output table and how it is used in this study. The first two parts discuss input-output definitions and conventions and the construction of the input-output table. The third section describes the 2002 American Samoa input-output table. Also discussed in this part are the adjusted direct coefficients table and the adjusted inverse coefficients table, which constitute the input-output model. The input-output table (Table A-2), the adjusted direct coefficients table (Table A-3), and the adjusted inverse coefficients table (Table A-4) are found at the end of the appendix. The final section illustrates how the input-output model is used to estimate the impact of the fish processing industry on American Samoa employment.

Definitions and Conventions

Base Year

The input-output table is estimated for calendar year 2002. This year is selected because it is the latest year for which there is complete information on the American Samoa economy. To some readers, an input-output table for 2002 may seem outdated. With respect to the levels of activity in the American Samoa economy, this is certainly true. But the age of the table should be judged in light of the use to which it is put. For applications that make use of the input-output coefficients, such as impact analysis, the 2002 estimates should remain useful for a number of years, since evidence with other input-output tables indicates that these coefficients are relatively stable over time (Conway, 1977, and Conway, 1980).

Sectors

The American Samoa input-output table identifies fifteen industrial groups (agriculture, fishing, and mining; construction; fish processing; other manufacturing; wholesale trade; retail trade; transportation and warehousing; information; financial activities; professional and business services; educational and healthcare services; accommodation; food services and drinking places;

other services; and other government authorities). In addition, there are six components of final demand (personal consumption expenditures; private investment; American Samoa government expenditures; other federal government expenditures; visitor expenditures; and other exports). Finally, there are three final payment sectors (labor income, which is divided into wage and salary disbursements, proprietors' income, and other labor income; other value added; and imports).

Four government authorities are included as part of the industrial sector: American Samoa Telecommunications, which is part of information; Lyndon B. Johnson Hospital, which is part of educational and healthcare services; American Samoa Power Authority, which is part of other government authorities; and American Samoa Community College, which is also part of other government authorities.

Following are brief definitions of the input-output sectors. The North American Industrial Classification System (NAICS) code is shown in parentheses for each industry:

1. Agriculture, fishing, and mining (11, 21). Value of products for commercial sales and the imputed value of products for self-consumption.
2. Construction (23). Value of new construction put in place and maintenance and repair. Output covers private and public construction by local and non-local contractors.
3. Fish processing (3117). Value of sales.
4. Other manufacturing (other 31, 32-33). Value of sales.
5. Wholesale trade (42). Value of the difference between wholesale sales and the cost of goods purchased for resale (i.e., the value of the wholesale margin).
6. Retail trade (44-45). Value of the difference between retail sales and the cost of goods purchased for resale (i.e., the value of the retail sales margin).
7. Transportation and warehousing (48-49). Value of revenue.
8. Information (51). Value of revenue.
9. Financial activities (52-53). Value of operating revenue less interest expenses for financial institutions. Value of premiums received less value of benefits paid for insurance companies. Value of revenue from selling, renting, and managing property for real estate establishments.
10. Professional and business services (54-56). Value of revenue.
11. Educational and healthcare services (other 61, 62). Value of revenue.
12. Accommodation (721). Value of revenue.

13. Food and drinking places (722). Value of revenue.
14. Other services (71, 81). Value of revenue.
15. Other authorities (22, part 61). Value of revenue.
16. Personal consumption expenditures. Value of goods and services purchased for personal use.
17. Private investment. Value of private capital expenditures for housing, nonresidential structures, software, and equipment. Also included is the value of the change in private inventories.
18. American Samoa government expenditures. Value of operating and capital expenditures by the American Samoa government, including expenditures funded by federal government grants.
19. Other federal government expenditures. Value of operating and capital expenditures by the U.S. federal government, including grants to the government authorities.
20. Visitor expenditures. Value of expenditures by tourists, business travelers, and other visitors.
21. Other exports. Value of exported goods and services.
22. Labor income. Value of wage and salary disbursements, proprietors' income, and other labor income.
23. Other value added. Value of rent, net interest payments, indirect business taxes, capital consumption allowance, and profits.
24. Imports. Value of imported goods and services.

Transactions on Current and Capital Account

Transactions in the input-output table cover expenditures on both current and capital account. However, the transactions among industries are on current account only. Viewing them from the standpoint of purchases, these transactions represent the annual operating expenses of industry.

The purchases of capital goods by the private sector are shown in the investment column of final demand. They include the value of the additions to housing, plant, software, and equipment that are charged to fixed asset accounts. In the accounting of current production costs, only the annual capital consumption allowance (the current depreciation charge for the services of capital) is considered to be a purchased input. The capital consumption allowance is shown as part of other value added.

Producers' Prices

Input-output transactions are valued at producers' prices. Each transaction represents the revenue earned by the producer and not the cost incurred by the purchaser. To arrive at purchasers' prices, it would be necessary to add the value of trade and transportation margins to producers' prices.

According to input-output accounting conventions, the costs of distributing a commodity are shown as direct sales of services from trade (wholesale trade and retail trade) and transportation services (trucking and warehousing, water transportation, air transportation, and miscellaneous transportation services) to the sector purchasing the commodity. For example, in the American Samoa input-output table, the large purchase by households from retail trade is the mark-up earned by retail establishments acting as intermediaries between producers and consumers.

As a consequence of the producers' price convention, input-output tables do not literally trace the flows to and from the trade industry. If the buying and reselling of commodities by trade establishments were shown, one would lose the valuable information on the linkages between producers and consumers, since virtually all commodities would then flow from a single source, namely trade.

Construction of the Input-Output Table

Sectoring Plan

The initial step in building the American Samoa input-output table entails drawing up a sectoring plan. Choosing the number of sectors for the table entails an assessment of the trade-off between the usefulness of a more disaggregated table and the availability and reliability of detailed input-output information. The sectoring plan also attempts to highlight the important basic activities in the American Samoa economy, such as fish processing.

Control Totals, Labor Income, and Employment

Control totals refer to the total expenditures and sales of each industry (e.g., the total input and output of fish processing). Control totals also include the total value of each final demand sector (e.g., total personal consumption expenditures) and the total value of each final payments sector (e.g., total value added). The quality of the input-output table depends in large part upon the accuracy of the control total estimates. With the exception of agriculture, fishing, and mining and other government authorities, the control totals for each industry, final demand sector, and final payments sector were obtained directly from two published sources: *2002 Economic Census of Island Areas: American Samoa* and "Annual Nominal and Constant Dollar Estimates of Gross Domestic Product in American Samoa, 1999 to 2005" (Rubin, 2007).

A reliable input-output model also requires accurate estimates of income and employment by sector. The economic census provided estimates of wages and salaries, payroll employment, and proprietors for most of the industries. Other related information came from the agricultural and population censuses and the annual statistical yearbooks. Payroll and employment data were in turn used to develop estimates of labor income and value added by sector.

Intersectoral Transactions

Some input-output tables, such as the Washington input-output table (Bourque and Conway, 1977) have relied upon surveys of industry and government to obtain information on the transactions among the sectors of the economy. The American Samoa input-output table benefited greatly from information regarding the distribution of industry sales published in the 2002 economic census. The input-output table also made use of other published data, knowledge of the markets for particular goods and services, and U.S. input-output data.

On occasion, there were contradictory estimates of particular intersectoral transactions, necessitating a search for additional information. In a few instances, a reconciliation of conflicting information was not possible, and the estimates were made judgmentally.

Accuracy

There is no way of knowing for sure the degree of accuracy of the American Samoa input-output table. Nevertheless, since the table is largely constructed from data published in the economic census and the Gross Domestic Product (GDP) accounts, which appear to be reasonably accurate, the quality of the input-output estimates is deemed sufficient for the purpose of this study.

One test of the validity of the data published in the economic census and the GDP accounts is their ability to fit compatibly within the two-way accounting system of the input-output table. For example, is the estimate of total exports derived from the sales data reported in the economic census in line with the estimate of total exports reported in the GDP accounts? In general, the input-output table was able to fully incorporate the data from these two sources of information without creating any substantial problem in ultimately balancing the input-output table.

Of course, there is always room for improving the input-output estimates. The next study would benefit from a more comprehensive survey of businesses, government, and households to obtain more detailed information on sales and purchases. Such an effort would require a substantial investment of time and money. In the meantime, users of the current input-output table should keep in mind its potential shortcomings.

American Samoa Input-Output Table

Input-Output Table

As previously noted, the American Samoa input-output table for 2002 is shown in Table A-2 at the end of this appendix. Also called the transactions table, the input-output table shows the purchases and sales of private and public sectors in the American Samoa economy. Transactions are measured in millions of dollars.

Sectors listed across the top of the table are purchasers of inputs. Sectors listed down the left-hand side of the table are sellers of output. Numbers down a column are the 2002 purchases of inputs from the sectors named at the left that are required to produce the output of the sector named at the top. Conversely, numbers across a row are the sales from the sector named at the

left to the sectors named at the top. According to input-output accounting conventions, total purchases (input) equals total sales (output) for each industrial sector.

Table A-2 also shows employment (wage and salary employment and proprietors) by sector. Although employment is not part of the input-output table, it is an important variable in the input-output model.

As shown in the input-output table, transactions occur among industries, the final demand sectors, and the final payments sectors of the American Samoa economy. More specifically, industries sell their products to other local industries and the sectors of final demand (consumption expenditures, investment, government expenditures, visitor expenditures, and other exports). Industries purchase their inputs to production from other local industries and the final payments sectors (labor income, other value added, and imports).

As an example, consider the transactions of the fish processing industry. In 2002, its total output (and thus its total input) was \$503.4 million, most of which was exported (\$438.3 million). To meet its input requirements, the fish processing industry made purchases amounting to \$0.7 million from construction for maintenance and repair and \$1.6 million from information primarily for telecommunications services. Including a \$60.4 million intra-industry transaction, total purchases from American Samoa businesses came to \$90.9 million. The industry paid \$48.2 million in wages and salaries to its 5,538 employees and \$305.2 million for imported goods and services, mostly tuna. Valued added in fish processing amounted to \$107.3 million.

In addition to showing detailed industry sales and purchases, the input-output table has an estimate of American Samoa Gross Domestic Product (GDP), which can be calculated in two ways:

$$\text{GDP} = C + I + G + X - M$$

or

$$\text{GDP} = \text{VA}$$

where

C = personal consumption expenditures

I = private investment

G = American Samoa and other federal government expenditures

X = visitor expenditures and other exports

M = imports

VA = total value added for all sectors

According to the input-output table, GDP or total value added in 2002 was \$481.4 million:

$$\text{GDP} = 331.5 + 43.7 + 150.3 + 38.9 + 4.3 + 444.7 - 532.0 = 481.4$$

$$\text{GDP} = \text{VA} = 481.4$$

This is the estimate of GDP reported in the American Samoa Gross Domestic Product accounts.

Adjusted Direct Coefficients Table

Table A-3 is the adjusted direct coefficients table. Each direct coefficient is the direct input required from the sector named at the left by the sector named at the top as a fraction of the purchasing sector's total input (output). The direct coefficient for the purchase of maintenance and repair by fish processing is 0.00139, which is calculated by dividing \$0.7 million by \$503.4 million.

The direct coefficients, along with the other coefficients shown in Table A-3 (e.g., the employment coefficients, which measure jobs required in an industry per million dollars of output) make up the parameters of the input-output model.

The direct coefficients of three sectors have been adjusted in an attempt to provide more precise calculations of the impacts estimated in this study:

1. Agriculture, fishing, and mining. Agricultural output includes the imputed value of production for self-consumption, which presumably would be unaffected by a change in the market economy, such as the shutdown of a tuna cannery. Thus, in order to avoid overestimating the indirect impacts on agriculture, agricultural production for self-consumption should be removed from the input-output table prior to calculating the direct coefficients.

Effectively eliminating this activity from consideration in economic impacts entails reducing agricultural output and input, agricultural proprietors' income, and agricultural sales to households by \$38.0 million, the imputed value of agricultural production for self-consumption. Thus, the adjusted direct coefficient for the purchase of wholesale trade services by agriculture, fishing, and mining is 0.01154 ($=0.3/[64.0-38.0]$), while the adjusted labor income direct coefficient is 0.46923 ($=[50.2-38.0]/[64.0-38.0]$). The adjusted employment coefficient is 20.000 ($=520/[64.0-38.0]$).

2. Fish processing. Of the \$49.4 million in wages and salaries and other labor income earned by employees in the fish processing industry, an estimated \$9.0 million were remitted to places outside of American Samoa. This implies that the input-output model must show that, while labor income in fish processing is still \$49.4 million, the \$9.0 million for remittances has no indirect impact on the local economy.

This is accomplished in the following way: while leaving the labor income coefficient (labor income in millions of dollars per job) unchanged, reduce fish processing labor income by \$9.0 million before calculating the adjusted labor income direct coefficient (labor income per dollar of output). The labor

income coefficient is 0.00892 ($=49.4/5538$), in which the \$49.4 million in labor income includes the \$9.0 million in remittances. The adjusted labor income direct coefficient is 0.08025 ($=[49.4-9.0]/503.4$), which incorporates the deduction for remittances. The fish processing employment coefficient is 11.001 ($=5538/503.4$).

3. Consumption and government expenditures. Calculation of the adjusted direct coefficients for the consumer/government sector (the last column of the adjusted direct coefficients table) involves two considerations: the incorporation of the government sector into the input-output model; and the choice of the income variable for the coefficients' divisor.

Input-output models typically treat households like an industry, thereby incorporating the impact on the economy of labor earnings and consumer spending. This is termed a Type II input-output model.

A Type III model, which yields somewhat higher multipliers, also includes local government as an endogenous sector. This inclusion is warranted to the extent that government is supported by locally generated revenues, such as taxes and fees. The American Samoa input-output model combines consumer spending with that part of American Samoa government expenditures supported by local taxes and fees. In 2002, it is estimated that 41.5 percent of government expenditures were supported by locally generated revenue. The remaining part was financed by federal government funds.

With regard to the second consideration, various income divisors have been used to determine the direct coefficients in the consumer or consumer/government sector of an input-output model, among them total value added, personal income, and total labor income. In this study, the divisor is total labor income plus transfer payments. This concept of income presumes that transfer payments (principally, government payments for retirement and disability), like proprietors' income from agricultural production for self-consumption, are unaffected by changes in the economy. This choice for the income divisor has two beneficial features for this analysis. It permits one to estimate the impact of transfer payments on the American Samoa economy without double-counting. It also results in middle-range estimates of multipliers. Using labor income as the income divisor would result in higher multipliers, while using personal income would result in lower multipliers.

The income divisor for the consumer/government sector is further modified to take into account the exclusion of agricultural production for self-consumption and remittances by fish processing workers from the input-output model, as shown below.

The adjustments to the direct coefficients for the consumer/government sector are illustrated with the coefficient for agriculture, fishing, and mining.

The estimated coefficient is 0.06942 ($=\frac{57.1-38.0+0.2}{285.6+39.4-38.0-9.0}$), where \$57.1 million is the total value of household expenditures for agricultural and fish products, \$38.0 million is the imputed value of agricultural products for self-consumption, \$0.2 million is the part of American Samoa government purchases for agricultural and fish products supported by local taxes and fees, \$285.6 million is total labor income, \$39.4 million is total transfer payments, as reported in the Gross Domestic Product accounts, and \$9.0 million is fish processing industry remittances.

The input-output model also requires employment and labor income coefficients for the government sector. The employment coefficient is defined with respect to the above income divisor. The employment coefficient is 6.234 ($=\frac{1733}{285.6+39.4-38.0-9.0}$). The labor income coefficient is the average earnings of government workers in 2002. The estimate is 0.01893 ($=\frac{32.8}{1733}$). In both calculations, 1,733 is the estimated number of American Samoa government employees supported by local revenue.

The adjustments to the direct coefficients are made for two reasons. First, the adjustments are required to eliminate double-counting. Second, the adjustments permit one to break down the American Samoa economy into its basic components (i.e., activities that bring money into the economy and support jobs through the multiplier or re-spending process): fish processing; visitor expenditures; other exports; American Samoa government supported by federal funds; private investment; transfer payments; and other federal government expenditures. In other words, with this formulation of the input-output model, one can assign all output, employment, labor income, and value added in the American Samoa economy to one of these sources. As a result, it is possible to express the relative importance of each basic activity to the economy.

Adjusted Inverse Coefficients Table

Table A-4 is the table of adjusted inverse coefficients. Derived from the adjusted direct coefficients, the adjusted inverse coefficients represent the core of the American Samoa input-output model.

The adjusted inverse coefficients show the value of output in dollars from the sector named at the left required directly and indirectly to support a dollar of output delivered from the sector named at the top. For example, to support a dollar of fish processing output, the retail trade inverse coefficient of 0.03225 indicates that about 3.2 cents of output is required directly and indirectly from retail trade. The adjusted direct coefficients table shows that the direct requirement by fish processing from retail trade is approximately 0.3 cents (0.00258). This implies that the indirect requirement from retail trade amounts to 2.9 ($=3.2-0.3$) cents. Much of the indirect impact on retail trade stems from the spending of fish processing employee wages and salaries for consumer goods and services.

The inverse coefficients table is therefore a table of output multipliers, representing the repercussions on the output of each industrial sector from changes in the output of a given sector. The labor income row of the inverse coefficients table gives the labor income multiplier for each

sector. Employment multipliers are derived from the output multipliers and corresponding labor coefficients, as shown in the following illustration.

Fish Processing Output and Employment Impact

A central issue in this study is the importance of the fish processing industry to the American Samoa economy. One measure of its importance is the number of jobs in American Samoa directly and indirectly supported by the tuna canneries. Table A-1 shows the calculations of the output and employment impacts of fish processing exports. Note that each of the numbers in the calculation can be found in the input-output table (Table A-2), the adjusted direct coefficients table (Table A-3), or the adjusted inverse coefficients table (Table A-4).

In 2002, tuna cannery exports amounted to \$438.3 million, which represented 87.1 percent of total fish processing output (\$503.4 million). An estimated 4,822 (=5538[438.3/503.4]) workers earning \$43.0 (=4822[0.00892]) million in labor income were required to produce the exports. In the terminology of impact analysis, these numbers are called the direct impact.

Table A-1
Fish Processing Output and Employment Impact, 2002
Based on Exports of \$438.3 Million

	Inverse Coefficients	Output Impact ¹ (mils. \$)	Employment Coefficients	Employment Impact
Agriculture, fishing, and mining	0.01316	5.77	20.00	115
Construction	0.00713	3.13	13.53	42
Fish processing	1.13883	499.15	11.00	5,491
Other manufacturing	0.00026	0.11	112.00	13
Wholesale trade	0.00716	3.14	28.39	89
Retail trade	0.03225	14.14	37.23	526
Transportation and warehousing	0.01345	5.89	50.71	299
Information	0.01310	5.74	15.72	90
Financial activities	0.02418	10.60	8.77	93
Professional and business services	0.04489	19.68	14.42	284
Educational and healthcare services	0.01267	5.56	24.79	138
Accommodation	0.00006	0.03	44.00	1
Food services and drinking places	0.01154	5.06	28.13	142
Other services	0.01478	6.48	19.18	124
Government authorities	0.04223	18.51	9.71	180
Labor income/Government employment²	0.17947	78.66	6.23	490
Total		602.97 ³		8,118

¹The output impact is calculated as the product of the corresponding inverse coefficient and the value of fish processing exports, which is \$438.3 million.

²The output impact is the estimated labor income generated in the American Samoa economy by the fish processing industry. The employment impact is the number of American Samoa government jobs supported by the industry. The government job impact is based on the labor income impact.

³The total output impact excludes labor income.

The next step in the analysis is to estimate the total output impact, taking into account the multiplier effect. The fish processing adjusted inverse coefficients from Table A-4 are given in the first column of Table A-1. These output multipliers are each multiplied by the value of tuna cannery exports to obtain the direct and indirect impact on the output of the industries named at the left. Thus, tuna cannery exports indirectly generated \$5.8 ($=0.01316[438.3]$) million of output in agriculture, fishing, and mining, where 0.01316 is the corresponding adjusted inverse coefficient. The total impact on fish processing output was \$499.2 ($=1.13883[438.3]$) million, which represented nearly all of the industry's output in 2002. The impact of fish processing exports on the total industrial output of the American Samoa economy amounted to \$603.0 million.

The employment impact on a given industry is simply the output impact multiplied by the industry's employment coefficient. On average 20.00 workers (wage and salary employees and proprietors) were required to produce one million dollars of agricultural, fishing, and mining output in 2002. Thus, the fish processing industry indirectly supported 115 ($=20.00[5.77]$) jobs in agriculture, fishing, and mining. As shown in Table A-1, the greatest job impact outside of fish processing occurred in retail trade, where 526 ($=37.23[14.14]$) jobs were indirectly supported by the canneries. Altogether, the fish processing industry accounted for an estimated 8,118 jobs, which represented 45.6 percent ($=8118/17798$) of total American Samoa employment.

The output multiplier implied by this analysis is the total output generated in the economy per dollar of fish processing exports. Thus, the output multiplier is 1.38 ($=603.0/438.3$). The employment multiplier is the total employment supported in the economy per export job in the tuna canneries. The implied employment multiplier is 1.68 ($=8118/4822$).

According to the 1977 American Samoa input-output study, the fish processing employment multiplier was 1.55. Thus, it appears that the multiplier has risen over time, but this is not necessarily the case. The 2002 and 1977 input-output models have slightly different specifications. In particular, the 2002 model has been reformulated in two ways that has affected the size of its multipliers. The denominator used to calculate the direct coefficients in the consumer/government sector is now labor income plus transfer payments (not just labor income, as in the 1977 model), which effectively reduces the size of the multipliers. On the other hand, the inclusion of the part of government expenditures supported by local appropriations as an endogenous variable in the 2002 input-output model has the effect of raising the multipliers. In general, the difference between the 1977 and 2002 employment multipliers for the fish processing industry, whether real or due to the reformulation of the model, is not large enough to be considered significant. It certainly has no bearing on the general conclusions drawn from the input-output analysis conducted for this study.

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Table A-2
American Samoa Input/Output Table, 2002
(Millions of dollars)

	1	2	3	4	5	6
	Agriculture, fishing, and mining	Construction	Fish processing	Other manufacturing	Wholesale trade	Retail trade
1 Agriculture, fishing, and mining (11, 21)	0.5	0.0	0.0	0.0	0.0	0.0
2 Construction (23)	0.1	0.1	0.7	0.0	0.0	0.2
3 Fish processing (3117)	0.0	0.0	60.4	0.0	0.0	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.0	0.0
5 Wholesale trade (42)	0.3	1.1	0.8	0.0	0.1	0.3
6 Retail trade (44-45)	0.1	1.8	1.3	0.0	0.0	0.2
7 Transportation and warehousing (48-49)	0.1	0.4	2.1	0.0	1.1	0.6
8 Information (51)	0.1	0.5	1.6	0.0	0.2	0.6
9 Financial activities (52-53)	0.1	0.9	0.7	0.0	0.9	1.8
10 Professional and business services (54-56)	0.1	11.1	8.4	0.0	3.0	5.4
11 Educational and healthcare services (other 61,62)	0.0	0.0	0.0	0.0	0.0	0.1
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.0	0.0
13 Food services and drinking places (722)	0.0	0.0	0.0	0.0	0.0	0.0
14 Other services (71, 81)	0.1	1.3	3.0	0.0	0.1	0.4
15 Government authorities (22, part 61)	0.2	0.2	11.9	0.0	0.2	2.6
16 Total intermediate input	1.7	17.4	90.9	0.0	5.6	12.2
17 Value added	54.3	12.3	107.3	0.4	5.5	31.1
18 Labor income	50.2	9.6	49.4	0.3	3.9	17.5
Wage and salary disbursements	3.2	8.5	48.2	0.1	3.6	14.6
Proprietors' income	46.8	0.9	0.0	0.2	0.2	2.5
Other labor income	0.2	0.2	1.2	0.0	0.1	0.4
22 Other value added	4.1	2.7	57.9	0.1	1.6	13.6
23 Imports	8.0	14.5	305.2	0.1	1.3	6.5
24 Total input	64.0	44.2	503.4	0.5	12.4	49.8
Employment	520	598	5538	56	352	1854
Wage and salary employees	280	563	5538	12	345	1628
Proprietors	240	35	0	44	7	226

Table A-2 (continued)
American Samoa Input/Output Table, 2002
(Millions of dollars)

	7	8	9	10	11	12
	Transportation and warehousing	Information	Financial activities	Professional and business services	Educational and healthcare services	Accommodation
1 Agriculture, fishing, and mining (11, 21)	0.0	0.0	0.0	0.0	0.2	0.0
2 Construction (23)	0.0	0.1	0.5	0.1	0.2	0.0
3 Fish processing (3117)	0.0	0.0	0.0	0.0	0.0	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.0	0.0
5 Wholesale trade (42)	0.1	0.1	0.1	0.4	0.4	0.0
6 Retail trade (44-45)	0.1	0.0	0.1	0.2	0.1	0.1
7 Transportation and warehousing (48-49)	2.5	0.1	0.0	0.4	0.3	0.0
8 Information (51)	0.3	1.6	0.3	1.3	0.2	0.0
9 Financial activities (52-53)	0.5	0.3	1.0	1.4	1.0	0.0
10 Professional and business services (54-56)	1.9	0.4	0.5	1.5	1.5	0.0
11 Educational and healthcare services (other 61, 62)	0.0	0.0	0.1	0.2	0.2	0.0
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.0	0.0
13 Food services and drinking places (722)	0.0	0.0	0.0	0.0	0.3	0.1
14 Other services (71, 81)	0.2	0.2	0.8	0.5	0.3	0.0
15 Government authorities (22, part 61)	0.2	0.3	0.6	0.8	0.6	0.1
16 Total intermediate input	5.8	3.1	4.0	6.8	5.3	0.3
17 Value added	9.2	8.7	23.5	36.8	17.0	0.5
18 Labor income	6.3	4.4	6.4	18.2	15.6	0.3
Wage and salary disbursements	4.2	3.9	4.9	12.4	13.8	0.1
Proprietors' income	2.0	0.2	1.4	5.5	1.1	0.2
Other labor income	0.1	0.3	0.1	0.3	0.7	0.0
22 Other value added	2.9	4.3	17.1	18.6	1.4	0.2
23 Imports	0.5	6.9	9.8	18.8	8.6	0.2
24 Total input	15.5	18.7	37.3	62.4	30.9	1.0
Employment	786	294	327	900	766	44
Wage and salary employees	608	290	298	806	739	26
Proprietors	178	4	29	94	27	18

Table A-2 (continued)
American Samoa Input/Output Table, 2002

(Millions of dollars)

	13	14	15	16	17	18
	Food services and drinking places	Other services	Government authorities	Total intermediate demand	Personal consumption expenditures	Private investment
1 Agriculture, fishing, and mining (11, 21)	0.5	0.0	0.1	1.3	57.1	0.0
2 Construction (23)	0.1	0.0	0.2	2.3	1.1	24.0
3 Fish processing (3117)	0.1	0.0	0.0	60.5	2.5	0.0
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.0	0.4	0.0
5 Wholesale trade (42)	0.8	0.4	0.5	5.4	4.3	1.2
6 Retail trade (44-45)	0.1	0.1	0.1	4.3	43.7	0.6
7 Transportation and warehousing (48-49)	0.2	1.2	0.8	9.8	4.7	0.1
8 Information (51)	0.2	0.3	0.5	7.7	7.2	0.0
9 Financial activities (52-53)	0.8	0.8	1.0	11.2	24.4	0.4
10 Professional and business services (54-56)	0.9	0.4	0.5	35.6	18.2	0.0
11 Educational and healthcare services (other 61, 62)	0.0	0.1	0.2	0.9	16.2	0.0
12 Accommodation (721)	0.0	0.0	0.0	0.0	0.1	0.0
13 Food services and drinking places (722)	1.0	0.0	0.0	1.4	16.7	0.0
14 Other services (71, 81)	0.1	0.2	0.4	7.6	7.2	0.0
15 Government authorities (22, part 61)	0.2	0.1	1.9	19.9	10.7	0.0
16 Total intermediate input	5.0	3.6	6.2	167.9	214.5	26.3
17 Value added	7.0	8.6	20.5	342.7	38.7	0.0
18 Labor income	4.2	3.9	9.3	199.5	0.0	0.0
Wage and salary disbursements	3.5	2.7	8.4	132.1	0.0	0.0
Proprietors' income	0.6	1.1	0.0	62.7	0.0	0.0
Other labor income	0.1	0.1	0.9	4.7	0.0	0.0
22 Other value added	2.8	4.7	11.2	143.2	38.7	0.0
23 Imports	8.3	6.1	24.4	419.2	78.3	17.4
24 Total input	20.3	18.3	51.1	929.8	331.5	43.7
Employment	571	351	496	13453	0	0
Wage and salary employees	510	255	496	12394	0	0
Proprietors	61	96	0	1059	0	0

Table A-2 (continued)
American Samoa Input/Output Table, 2002

(Millions of dollars)

	19 American Samoa government expenditures	20 Other federal government expenditures	21 Visitor expenditures	22 Other exports	23 Total final demand	24 Total output
1 Agriculture, fishing, and mining (11,21)	0.5	0.0	0.1	5.0	62.7	64.0
2 Construction (23)	14.8	2.0	0.0	0.0	41.9	44.2
3 Fish processing (3117)	2.1	0.0	0.0	438.3	442.9	503.4
4 Other manufacturing (other 31, 32-33)	0.0	0.0	0.0	0.1	0.5	0.5
5 Wholesale trade (42)	0.5	1.0	0.0	0.0	7.0	12.4
6 Retail trade (44-45)	0.3	0.5	0.2	0.2	45.5	49.8
7 Transportation and warehousing (48-49)	0.5	0.2	0.1	0.1	5.7	15.5
8 Information (51)	3.2	0.6	0.0	0.0	11.0	18.7
9 Financial activities (52-53)	1.3	0.0	0.0	0.0	26.1	37.3
10 Professional and business services (54-56)	7.1	0.5	0.0	1.0	26.8	62.4
11 Educational and healthcare services (other 61, 62)	6.0	7.8	0.0	0.0	30.0	30.9
12 Accommodation (721)	0.0	0.0	0.9	0.0	1.0	1.0
13 Food services and drinking places (722)	0.2	0.0	2.0	0.0	18.9	20.3
14 Other services (71, 81)	3.4	0.0	0.1	0.0	10.7	18.3
15 Government authorities (22, part 61)	11.7	8.8	0.0	0.0	31.2	51.1
16 Total intermediate Input	51.6	21.4	3.4	444.7	761.9	929.8
17 Value added	92.4	7.6	0.0	0.0	138.7	481.4
18 Labor income	79.2	6.9	0.0	0.0	86.1	285.6
Wage and salary disbursements	75.9	6.0	0.0	0.0	81.9	214.0
Proprietors' income	0.0	0.0	0.0	0.0	0.0	62.7
Other labor income	3.3	0.9	0.0	0.0	4.2	8.9
22 Other value added	13.2	0.7	0.0	0.0	52.6	195.8
23 Imports	6.3	9.9	0.9	0.0	112.8	532.0
24 Total input	150.3	38.9	4.3	444.7	1013.4	1943.2
Employment	4187	158	0	0	4345	17798
Wage and salary employees	4187	158	0	0	4345	16739
Proprietors	0	0	0	0	0	1059

Table A-3
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	1	2	3	4	5	6
	Agriculture, fishing, and mining	Construction	Fish processing	Other manufacturing	Wholesale trade	Retail trade
1 Agriculture, fishing, and mining (11,21)	0.01923	0.00000	0.00000	0.00000	0.00000	0.00000
2 Construction (23)	0.00385	0.00226	0.00139	0.00000	0.00000	0.00402
3 Fish processing (3117)	0.00000	0.00000	0.11998	0.00000	0.00000	0.00000
4 Other manufacturing (other 31,32-33)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
5 Wholesale trade (42)	0.01154	0.02489	0.00159	0.00000	0.00806	0.00602
6 Retail trade (44-45)	0.00385	0.04072	0.00258	0.00000	0.00000	0.00402
7 Transportation and warehousing (48-49)	0.00385	0.00905	0.00417	0.00000	0.08871	0.01205
8 Information (51)	0.00385	0.01131	0.00318	0.00000	0.01613	0.01205
9 Financial activities (52-53)	0.00385	0.02036	0.00139	0.00000	0.07258	0.03614
10 Professional and business services (54-56)	0.00385	0.25113	0.01669	0.00000	0.24194	0.10843
11 Educational and healthcare services (other 61,62)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00201
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
13 Food services and drinking places (722)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
14 Other services (71,81)	0.00385	0.02941	0.00596	0.00000	0.00806	0.00803
15 Government authorities (22,part 61)	0.00769	0.00452	0.02364	0.00000	0.01613	0.05221
16 Labor income	0.46923	0.21719	0.08025	0.60000	0.31452	0.35141
Employment coefficient (jobs./\$ mils.)	20.000	13.529	11.001	112.000	28.387	37.229
Wage and salary employment coefficient (jobs/\$ mils.)	10.769	12.738	11.001	24.000	27.823	32.691
Proprietors coefficient (jobs/\$ mils.)	9.231	0.792	0.000	88.000	0.565	4.538
Labor income coefficient (\$ mils./job)	0.02346	0.01605	0.00892	0.00536	0.01108	0.00944

Table A-3 (continued)
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	7 Transportation and warehousing	8 Information	9 Financial activities	10 Professional and business services	11 Educational and healthcare services	12 Accommodation
1 Agriculture, fishing, and mining (11,21)	0.00000	0.00000	0.00000	0.00000	0.00647	0.00000
2 Construction (23)	0.00000	0.00535	0.01340	0.00160	0.00647	0.00000
3 Fish processing (3117)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
4 Other manufacturing (other 31,32-33)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
5 Wholesale trade (42)	0.00645	0.00535	0.00268	0.00641	0.01294	0.00000
6 Retail trade (44-45)	0.00645	0.00000	0.00268	0.00321	0.00324	0.10000
7 Transportation and warehousing (48-49)	0.16129	0.00535	0.00000	0.00641	0.00971	0.00000
8 Information (51)	0.01935	0.08556	0.00804	0.02083	0.00647	0.00000
9 Financial activities (52-53)	0.03226	0.01604	0.02681	0.02244	0.03236	0.00000
10 Professional and business services (54-56)	0.12258	0.02139	0.01340	0.02404	0.04854	0.00000
11 Educational and healthcare services (other 61,62)	0.00000	0.00000	0.00268	0.00321	0.00647	0.00000
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
13 Food services and drinking places (722)	0.00000	0.00000	0.00000	0.00000	0.00971	0.10000
14 Other services (71,81)	0.01290	0.01070	0.02145	0.00801	0.00971	0.00000
15 Government authorities (22,part 61)	0.01290	0.01604	0.01609	0.01282	0.01942	0.10000
16 Labor income	0.40645	0.23529	0.17158	0.29167	0.50485	0.30000
Employment coefficient (jobs/\$ mils.)	50.710	15.722	8.767	14.423	24.790	44.000
Wage and salary employment coefficient (jobs/\$ mils.)	39.226	15.508	7.989	12.917	23.916	26.000
Proprietors coefficient (jobs/\$ mils.)	11.484	0.214	0.777	1.506	0.874	18.000
Labor income coefficient (\$ mils./job)	0.00802	0.01497	0.01957	0.02022	0.02037	0.00682

Table A-3 (continued)
American Samoa Input/Output Table, 2002

Adjusted Direct Coefficients

	13	14	15	16
	Food services and drinking places	Other services	Government authorities	Consumption and government expenditures
1 Agriculture, fishing, and mining (11,21)	0.02463	0.00000	0.00196	0.06942
2 Construction (23)	0.00493	0.00000	0.00391	0.02554
3 Fish processing (3117)	0.00493	0.00000	0.00000	0.01187
4 Other manufacturing (other 31 ,32-33)	0.00000	0.00000	0.00000	0.00144
5 Wholesale trade (42)	0.03941	0.02186	0.00978	0.01619
6 Retail trade (44-45)	0.00493	0.00546	0.00196	0.15755
7 Transportation and warehousing (48-49)	0.00985	0.06557	0.01566	0.01763
8 Information (51)	0.00985	0.01639	0.00978	0.03058
9 Financial activities (52-53)	0.03941	0.04372	0.01957	0.08957
10 Professional and business services (54-56)	0.04433	0.02186	0.00978	0.07590
11 Educational and healthcare services (other 61 ,62)	0.00000	0.00546	0.00391	0.06727
12 Accommodation (721)	0.00000	0.00000	0.00000	0.00036
13 Food services and drinking places (722)	0.04926	0.00000	0.00000	0.06043
14 Other services (71,81)	0.00493	0.01093	0.00783	0.03094
15 Government authorities (22,part 61)	0.00985	0.00546	0.03718	0.05576
16 Labor income	0.20690	0.21311	0.18200	0.11799
Employment coefficient (jobs/\$ mils.)	28.128	19.180	9.706	6.234
Wage and salary employment coefficient (jobs/\$ mils.)	25.123	13.934	9.706	6.234
Proprietors coefficient (jobs/\$ mils.)	3.005	5.246	0.000	0.000
Labor income coefficient (\$ mils./job)	0.00736	0.01111	0.01875	0.01893

Table A-4

American Samoa Input/Output Table, 2002

Adjusted Inverse Matrix

	1	2	3	4	5	6
	Agriculture, fishing, and mining	Construction	Fish processing	Other manufacturing	Wholesale trade	Retail trade
1 Agriculture, fishing, and mining (11,21)	1.07760	0.04109	0.01316	0.07023	0.05531	0.04990
2 Construction (23)	0.02760	1.02014	0.00713	0.02845	0.02424	0.02532
3 Fish processing (3117)	0.01100	0.00779	1.13883	0.01332	0.01048	0.00944
4 Other manufacturing (other 31,32-33)	0.00114	0.00081	0.00026	1.00138	0.00109	0.00098
5 Wholesale trade (42)	0.03264	0.04281	0.00716	0.02460	1.03095	0.02562
6 Retail trade (44-45)	0.13256	0.13322	0.03225	0.15545	0.12431	1.11520
7 Transportation and warehousing (48-49)	0.03380	0.03875	0.01345	0.03280	0.13665	0.04161
8 Information (51)	0.04017	0.04594	0.01310	0.04234	0.06094	0.04778
9 Financial activities (52-53)	0.09651	0.09784	0.02418	0.10950	0.17318	0.12105
10 Professional and business services (54-56)	0.10913	0.34462	0.04489	0.12027	0.36244	0.20451
11 Educational and healthcare services (other 61,62)	0.05511	0.04024	0.01267	0.06662	0.05369	0.05003
12 Accommodation (721)	0.00029	0.00020	0.00006	0.00035	0.00027	0.00025
13 Food services and drinking places (722)	0.05107	0.03618	0.01154	0.06186	0.04868	0.04386
14 Other services (71,81)	0.03645	0.05649	0.01478	0.03852	0.04463	0.03850
15 Government authorities (22,part 61)	0.06879	0.05485	0.04223	0.07238	0.08108	0.10892
16 Labor income	0.79409	0.56232	0.17947	0.96198	0.75676	0.68164

Table A-4 (continued)
American Samoa Input/Output Table, 2002

Adjusted Inverse Matrix

	7	8	9	10	11	12
	Transportation and warehousing	Information	Financial services	Professional and business services	Educational and healthcare services	Accommodation
1 Agriculture, fishing, and mining (11,21)	0.06575	0.03327	0.02371	0.03815	0.07262	0.04895
2 Construction (23)	0.02777	0.01974	0.02362	0.01767	0.03399	0.02026
3 Fish processing (3117)	0.01246	0.00630	0.00449	0.00723	0.01251	0.00933
4 Other manufacturing (other 31,32-33)	0.00129	0.00065	0.00047	0.00075	0.00129	0.00091
5 Wholesale trade (42)	0.03279	0.01849	0.01239	0.02075	0.03798	0.02241
6 Retail trade (44-45)	0.15398	0.07412	0.05595	0.08795	0.14951	0.20337
7 Transportation and warehousing (48-49)	1.22738	0.02491	0.01411	0.02775	0.04610	0.02740
8 Information (51)	0.06975	1.11530	0.02479	0.04744	0.04976	0.03233
9 Financial activities (52-53)	0.14853	0.07249	1.06742	0.08547	0.14080	0.08352
10 Professional and business services (54-56)	0.26844	0.08625	0.06116	1.09537	0.17230	0.09916
11 Educational and healthcare services (other 61,62)	0.06315	0.03182	0.02549	0.03965	1.06927	0.04447
12 Accommodation (721)	0.00032	0.00016	0.00012	0.00019	0.00032	1.00023
13 Food services and drinking places (722)	0.05788	0.02927	0.02086	0.03359	0.06813	0.14578
14 Other services (71,81)	0.05459	0.03128	0.03629	0.03051	0.04817	0.02817
15 Government authorities (22,part 61)	0.08785	0.05361	0.04261	0.05441	0.09054	0.15873
16 Labor income	0.89989	0.45508	0.32394	0.52179	0.89946	0.63122

Table A-4 (continued)
American Samoa Input/Output Table, 2002
Adjusted Inverse Matrix

	13	14	15	16
	Food services and drinking places	Other services	Government authorities	Consumption and government expenditures
1 Agriculture, fishing, and mining (11,21)	0.06048	0.03408	0.02800	0.11705
2 Construction (23)	0.02002	0.01477	0.01503	0.04742
3 Fish processing (3117)	0.01234	0.00645	0.00491	0.02220
4 Other manufacturing (other 31,32-33)	0.00067	0.00067	0.00051	0.00231
5 Wholesale trade (42)	0.05530	0.03557	0.02015	0.04100
6 Retail trade (44-45)	0.08143	0.08174	0.05987	0.25908
7 Transportation and warehousing (48-49)	0.03464	0.09849	0.03380	0.05466
8 Information (51)	0.03551	0.04250	0.02833	0.07057
9 Financial activities (52-53)	0.10238	0.10507	0.06424	0.18250
10 Professional and business services (54-56)	0.12301	0.09977	0.06274	0.20045
11 Educational and health care services (other 61,62)	0.03274	0.03817	0.02884	0.11104
12 Accommodation (721)	0.00017	0.00017	0.00013	0.00058
13 Food services and drinking places (722)	1.08179	0.03002	0.02285	0.10310
14 Other services (71,81)	0.02675	1.03290	0.02382	0.06420
15 Government authorities (22,part 61)	0.04952	0.04458	1.06695	0.12063
16 Labor income	0.46611	0.46593	0.35463	1.60329

Appendix B-Private Sector Survey Background

Interviews were conducted with approximately 60 businesspeople and other knowledgeable people in May, June and September 2007. With a very few exceptions, the interviews were conducted in person.

Most interviewees were provided a letter explaining the purpose of the research and report. The letter is included below. Approximately 14 interviewees were asked an identical series of questions, many of them open-ended. The questions are included below, as well as a compilation of the results. The “results” are not statistically valid since the methodology employed was designed to elicit open-ended conversation and did not conform to quantitative research protocols.

Most of the other interviews focused on one or more specific aspect of the report’s scope and a formal survey instrument was therefore not used. Formal presentations were made to the Chamber of Commerce twice (6/5/07 and 9/20/07), Rotary Club (5/18/07) and members of the general public (9/26/07). In addition to the interviews and presentations, the report was the topic of an even larger number of informal conversations with American Samoa residents and observers that took place during the eight weeks the consulting team spent in American Samoa in 2007.

Numerous newspaper stories about the project were published in the three American Samoa newspapers, and the project was highlighted on the radio (KHJ) and television (411 show, early June). The public meeting on September 26 was promoted with newspaper and radio advertisements.

Summary of Interviewees for Cannery Analysis

Name of Person Interviewed	Position of Person at time of interview	Was Survey Answered (# of Employees)
Carlos Sanchez	Fishing boat owner, former cannery senior management	No
John Suisala	General Manager, Polynesian Shipping	Yes (13)
David Robinson	President, Chamber of Commerce. President, Panamex Pacific	Yes (14)
Ben Solaita	General Manager, Southwest Marine	Yes (30)
Isabel Hudson	Area Representative, Hamburg Sud. Proprietress, Le Falepule and Le Moana o Sina	No. Discussion focused on shipping.
John Newton	Call Center consultant (InfoTech)	No. Discussion focused on call center industry.
Sione Kava	Manager, American Samoa Petroleum Cooperative	No. Discussion focused on petroleum.

Gary Ayre	CEO, Amerika Samoa Bank	No. Discussion focused on banking environment.
Utu Abe Malae	CEO, Development Bank of American Samoa	No. Discussion focused on banking environment and role of DBAS.
Chuck Warren	CFO, GHC Reid. Chairman, AS Medical Center Authority Board of Directors	No. Discussion focused on health care costs.
Alex Galeai (now deceased)	Owner, Alamai Samoa and Checkers	Yes (>50)
Edmung Helg	Owner, Lavalava Samoa	Yes (12)
Robin Annesley	Publisher, Samoa News. Member, Territorial Planning Commission. Chairwoman, American Samoa Development Corporation.	Yes (24)
Sepp Steffany	Owner, Sepp's Paint, Sepp's Furniture, Pacific Marketing	Yes (>100)
Brian Glass	Manager, Bank of Hawaii (AS branch)	Yes (34)
Fofu Sunia	Historian	No.
Xavier Faletoi	Owner, Fax Cargo service	No. Discussion focused on air shipping.
Robert Uhrle	Toa Communications	No.
Fagafaga Daniel Langkilde	Manager, Malama TV	Yes (7)
Dave Haleck	Principal, Haleck Enterprises	Yes (>300)
Vince Haleck	Principal, Haleck Enterprises	Yes (see above)
Eni Faleomavaega	U.S. Congressman	No.
Jens Jensen	Manager, Polynesian Line	No. Discussion focused on shipping.
Patricia Tindall	CEO, LBJ Tropical Medical Center	No. Discussion focused on health care costs.
President Lolo Moliga	American Samoa Senate	No.
Speaker Savali Talavou Ale	American Samoa House of Representatives	No.
I'u Joe Pereira	American Samoa Legislature	No.
Honorable John Ward, III	Judge, American Samoa Family Court	No. Discussion focused on social impact of unemployment.
Larry Fuss	Owner, South Seas Broadcasting	Yes (7)
Olivia Reid	Principal, GHC Reid	Yes (135)
Michael Reid	Principal, GHC Reid	Yes (see above)
Lealaifuaneva Reid	Principal, GHC Reid	Yes (see above)
Roy Hall	Attorney	No.
Herman Gebauer	Former manager, Samoa Packing	No. Discussion focused on cannery workforce.

Tasi Tuiteleapaga	Governor's Legal Counsel	No.
Terry Conden	Port Engineer	No. Discussion focused on ship building.
Andra Samoa	CEO, ASPA	No. Discussion focused on public utilities.
Michael Keyser	Legal Counsel, ASPA	No. Discussion focused on public utilities.
Governor Togiola Tulafono		No.
Vai Filiga	Chief Statistician, Department of Commerce	No.
Dr. Papalii Failautusi Avegalio	Pacific Business Center, University of Hawaii	No. Discussion focused on workforce study.
Dr. Luciana Minerbi	Pacific Business Center. American Samoa Workforce Study	No. Discussion focused on workforce study.
Dr. Robert Doktor	Pacific Business Center. American Samoa Workforce Study	No. Discussion focused on workforce study.
Mark Hunsaker	Principal, proposed call center/InfoTech. CPA with Bowen, Hunsaker, Hirai.	No. Discussion focused on proposed call center industry.
Barry Rose	President, Blue Sky	Yes (65)
Barry Forsgren	Principal, Forsgren businesses	No.
Susan Jackson	DelMonte/StarKist Samoa	No.
Willem Martins	Samoa Packing	No.
Tom Drabble	Owner, Sadies and Rubbles and Transpac	No. Discussion focused on tourism.
Dean Hudson	Manager, Fletcher Construction	No.
Pete Gurr	Farmer. Deputy Director of Department of Agriculture.	No.
Afoa Lutu	Attorney	No.
Jason Thomas	Manager, NPI Insurance. Chamber of Commerce Board member.	No.
Tolani Teleso	Businessman	No.
Lydia Faleafine	Field Representative, U.S. Department of Interior.	No.
Sam Vaouli	Recruiter, U.S. Army	No. Discussion focused on youth aspirations and capabilities.
Sili Sataua	Former senior government official	No.
Paul Ratterman	Owner, Samoa Pacific Shipping	No. Discussion focused on shipping.
Dan King	Accountant. Chamber of Commerce Board member.	No.

Survey Instrument

Company Profile

How many employees?

What % of your business is directly cannery-related?

How many years in business?

Market Share?

Nationality of employees (roughly)

1. Have you given much thought to the impact the canneries leaving will have on your business, your family, and American Samoa? (Yes, a lot of thought. No, just a little thought. No, not at all).
2. Are you concerned that the canneries will leave and affect your business? (Yes, very worried. No, not really very worried. No, not worried).
3. Has the possibility of the canneries leaving affected your business decisions the last year? (E.g., did not undertake expansion, held off on investment, changed direction of company).
4. Do you think the canneries will still be operating in American Samoa at the end of 2008; at the end of 2009? (Yes, no).
5. If the canneries both closed, what do you think would be the impact on your business (express in percentages, where applicable)?
 - a. Revenues
 - b. Profits
 - c. Employment (if down, will employees stay in AS or leave, and if leaving, where will they go?)
 - d. Future status (would your business survive? Would you retool in some way?)
 - e. Ability to repay your loans or leases?
6. How will goods and services and prices that people have come to expect from your company be affected if the canneries closed?
7. Do you experience notable changes in your business when the canneries have temporary closures?
8. Are there programs or policies that you think will help your business and community to cope with the departure of the canneries?
9. What sort of industries or directions do you think might be successful in helping the A.S. economy get stronger and more diversified?
10. Do you look forward at all to the canneries leaving? If so, why?

Compiled Results

The 14 survey respondents represented about 900 employees, or about 15% of the non-cannery private sector.

Eight of the 13 (61%) said they had given a lot of thought to the canneries leaving. Two (15%) said they had only given a little thought to the prospect of the canneries leaving. The other three had given some thought to the canneries leaving (more than a little, less than a lot).

Nine of the 13 (69%) said they were very worried about the canneries leaving. The other four were a little worried or concerned, but not overly so.

Only two of the 13 respondents reported that the prospect of a cannery reduction/closure had not affected their business decisions in the past year. The other eleven (85%) said they had held back on investments or initiatives or hiring or expansions due to their concerns about the canneries' future. A few indicated they had pro-actively sought to diversify or adjust their business lines.

As to whether respondents thought the canneries would still be operating in American Samoa at the end of 2008, 12 of the 13 expect the canneries to be still operating at that time. But as to whether the respondents thought the canneries would still be operating in American Samoa at the end of 2009, the number of respondents who expressed a firm belief that the canneries would still be operating dropped from 12 to five. Several respondents expressed their belief that the canneries would depart if the newly-amended minimum wage law was not modified, but would likely remain if the law were amended again to keep wages from rising too fast.

The estimates as to how much revenues companies would lose if the canneries closed varied widely, from a low of 3% to a high of 75%. On a weighted average basis (weighted by size of work force), the estimated percentage decrease was 20%.

Twelve of the 13 respondents indicated their businesses would survive the impact of a cannery closing, though they all anticipated significant changes in their businesses, including downsizing, price increases, and reduction of business lines.

Letter of Introduction

May 15, 2007

Dear Friend,

A government-sponsored study is now underway to determine the economic impact on American Samoa of a closure of the tuna canneries.

The canneries have not announced any plans for closing, but the American Samoa Government has commissioned the study to help it prepare for the future.

The study is being conducted by Malcolm McPhee and Associates. It is being supervised by the ASG Department of Commerce. It is being paid for with a Technical Assistance grant from the U.S. Department of Interior. The final report will be complete by the end of 2007.

The study will include four parts:

1. A computer simulation model of American Samoa's economy which will allow government officials to estimate the effects of changes in the economy. For example, the model would show the effects on income, jobs, and other economic measures that would most likely result from closure of the canneries.
2. A narrative report on the impacts foreseen by individuals representing families, companies, organizations and government agencies.
3. A narrative report with ideas for policies, programs, legislation, and actions that could be used to minimize the pain of the canneries departure.
4. A narrative report with ideas for how the American Samoa economy can become more diversified and healthy, especially in a post-cannery era.

The computer model is being prepared by an economics expert from the University of Washington who has done similar work in American Samoa, Saipan and elsewhere.

The narrative report will be prepared by Malcolm McPhee and Lewis Wolman and will be based in large part on original research being conducted from May to October, 2007.

The research team will be meeting with a wide variety of people in American Samoa and elsewhere to gather information and ideas that will help make the narrative reports (items 2-4 above) as accurate and useful as possible.

Your cooperation is truly appreciated and will contribute to forging the tools American Samoa will need to rise to the formidable challenge that closure of the canneries will pose for the territory, its companies and its people.

Thank you,

Malcolm McPhee and Associates