



# Delayed Pacific Islands Minimum-Wage Increase: Why Should You Care?

Insights

10.31.10

President Obama's signature recently put the finishing touch on a delay of previously-scheduled increases in the minimum wage for American Samoa and the Northern Mariana Islands. Why should we care about this quiet action affecting these far-off places? Because it highlights the impact that boosting a minimum wage has in the longer term.

Whenever raising the minimum wage moves back to the forefront, this inevitably renews debate about whether such action does more harm than good. Opponents of the move contend that the resulting increased labor costs cause many employers to, among other things:

- Eliminate or postpone hiring plans;
- Limit any new hiring to segments of the workforce that are not affected by the minimum-wage increase either at all or at least in any material way;
- Layoff existing employees;
- Reduce or eliminate employment benefits, particularly those directly related to wages;
- Shift lower-paying work offshore, or even move entire operations to other countries; and/or
- Pass along increased costs to consumers, including those whom the minimum-wage jump is supposed to help.

Proponents of an increase usually respond that these effects are non-existent or are greatly overstated.

But for the last two years, the governments of American Samoa and the Northern Mariana Islands have fought to fend off what they saw as an approaching disaster that threatened many of these very consequences. Island legislators cautioned that "this legislation will, without a doubt, trigger an economic tsunami that will absolutely wipe out the Territory of American Samoa's economic system," and that, "[w]hile short time economic benefits will be realized, unfortunately, this short lived Utopian state will be followed by a period of drastic economic devastation." The officials' concerns included the possible off-island relocation of tuna canneries and the loss of 1,600 jobs at a major hotel.

The U.S. economy and the economies of most states are of course far larger and are more varied, complex, interconnected, and dynamic than are those of these islands. But this is precisely why the postponement is worth noting: When viewed in a microcosm, the damaging impact of a minimum-wage hike is seen more easily and in starker relief, so much so that many who would otherwise be quick to say that the unfavorable results of such a step can be "absorbed" were convinced otherwise when faced with the real-world details.

Perhaps in the current circumstances this suggests that, at least for the time-being, the prospects for a broader-scale rise in the minimum wage are dim.