



New Overtime Rule Threatens Job Creators

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If you are a salaried employee making \$23,600 or less, you get overtime pay if you work more than 40 hours per week. Now, the federal government is implementing a new rule to increase that threshold to \$47,500 per year—making more workers eligible for overtime pay. The so-called “overtime rule” is expected to be finalized this week.

This is a good thing, right?

The federal government certainly thinks so. The overtime rule is being promoted as a way to increase wages. “I think the overtime rule could have the capacity to help millions of workers get back into the middle class,” Labor Secretary Tom Perez says. His agency claims the new regulation will benefit about 5 million employees and increase overall wages by as much as \$1.3 billion.

Not so fast. Requiring employers to pay more employees overtime means job creators are forced to absorb higher labor costs, resulting in cost-cutting elsewhere. This would lead them to reduce job opportunities and benefit packages, as well as cut back on promotions to avoid paying more for overtime.

The Mercatus Center also found that “employers will be forced to move some employees from salaries to hourly pay,” so that hours worked can be tracked more easily. This makes it more difficult for these employees to climb the career ladder, since working longer hours is one way to rise up the ranks. If employers are forced to monitor every single hour worked to manage higher labor costs, then it prevents employees from going the extra mile.

According to the Small Business Administration, the overtime rule will increase labor costs by more than \$500 million in the first year of implementation alone—meaning thousands of dollars in new payroll costs per business. The American Action Forum (AAF) concluded this comes out to roughly \$2.5 billion in direct employer costs over ten years. For low-margin businesses, it could be the final regulatory straw that breaks the camel’s back.

In fact, AAF research found that any increase in overall wages—again, the government’s estimate is over \$1 billion—would be completely offset by lower productivity and direct compliance costs. That’s a far cry from “help[ing] millions of workers get back into the middle class.”