

The Washington Times

Obama's overtime-pay regulation does workers more harm than good

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May 18, 2016

Increasing overtime pay — much like boosting the federal minimum wage — sounds like a good idea on paper but, in practice, will be devastating to our nation's job growth and economy.

The Obama administration, following up on a proposal announced last year, made good on their promise to force employers to pay time-and-a-half for overtime hours. In the short term, businesses will boost the salaries for about 4.2 million workers; in the long term, the effects are harrowing.

“In the medium term, employers will offset these costs by re-arranging work schedules so that fewer employees hit 40 hours, by laying off employees who work more than 40 hours, or by pushing such employees to work overtime hours off the books,” Jeffrey Miron at the libertarian CATO Institute explains. “In the longer term, employers will reduce base-level wages so that, even with overtime, total compensation for employees working more than 40 hours is no different than before.”

These sort of unintended economic consequences have already been proved true when it comes to raising the minimum wage.

Last week, after mandatory \$15 hourly minimums were introduced in California and New York, fast-food chain Wendy's announced it would be increasing the number of self-serve kiosks in its stores to offset the higher costs.

Earlier this month, the Wall Street Journal detailed the growing push to increase wages to \$15 an hour was raising tensions among veteran employees who felt they were underpaid compared to their new peers being hired at the higher wages.

For example, in Seattle where city laws require employers to boost the minimum wage to \$15 by 2017, employees who had spent a year or two on the job before reaching that pay level, felt it was unfair newcomers were starting at that amount.

“They felt that they weren't able to get compensated for what they learned,” Catherine Knowles, a district manager overseeing eight Mud Bay Inc. pet-supply stores in Washington state, told the Journal. She told the newspaper she wasn't able to give everybody raises, increasing tensions within her shop.

“I'd love to be able to pay you a dollar more but there are costs,” Ms. Knowles said, adding “we're still in business to make money.”

Some businesses, as reported by the Journal, are making the wage increases for some employees — at the cost of letting others go — or by cutting work hours.

There's no doubt these same economic reverberations are going to happen with increased time-and-a-half pay. Businesses will adjust — either by pushing these jobs off the books and into a regulatory grey area, or by cutting jobs and reducing hours, all of which are more detrimental to the employee.

Republican House Speaker Paul Ryan put it best in a statement issued Wednesday:

“This regulation hurts the very people it alleges to help. Who [does] is hurt most? Students, nonprofit employees, and people starting a new career. By mandating overtime pay at a much higher salary threshold, many small businesses and nonprofits will simply be unable to afford skilled workers and be forced to eliminate salaried positions, complete with benefits, altogether. For the sake of his own political legacy, President Obama is rushing through regulations — like the overtime rule — that will cause people to lose their livelihoods. We are committed to fighting this rule and the many others that would be an absolute disaster for our economy.”

Godspeed.