

Case Study 1 (Hypothetical): Increasing the Hourly Wage for Overtime Hours Worked

Introduction

The “standard” work week for hourly workers is set by law at 40 hours per week, with any hours worked in excess of 40 hours considered “overtime.” Labor associations have been pressuring the government to increase the minimum wage across the board for hourly workers, while many business owners oppose it. The government has proposed “in fairness to both groups” that instead of increasing the minimum hourly wage, all employers should pay time-and-a-half for any hours worked in excess of the standard 40 hour work week for non-salaried employees (hourly workers). By doing so, the government believes hourly workers will benefit and all firms (employers) would equally bear the increased labor costs. [The government anticipates that its revenues will increase as a result of the income tax collected on personal income, which it expects will rise with the increase in the wage rate for overtime hours.] In a recent public interest poll, those surveyed who were mostly hourly workers, expressed support for the new regulation and expressed gratitude to political officials for proposing the reform.

Concerns

The Small Business Association has raised concerns that the new requirement would discourage their members (small firms) from requesting overtime of employees when the need for increased “output” arises because of the requirement to pay a higher wage rate for overtime. They argue that as small businesses they have been able to respond more quickly to requests for additional “output” compared to larger firms that are less agile. But the higher wage rate for overtime would raise their costs considerably and discourage them from increasing production on an “ad hoc” basis when requests arise. They argue that their members may be forced to leave the industry because they are unable to pay overtime. In contrast, Henry Manie, President of the Large Business Forum, stated in response that Forum members support the government’s proposed regulation because “it will benefit employees and lead to a higher standard of living over time.”

A concerned citizens group has weighed in with statistical evidence of the near-term harm that long work days can have on employees, raising both physical and mental health concerns. They also claim that the regulation as currently drafted discriminates between younger and older workers, many with families, because younger workers who are better able to work the longer hours will obtain overtime and be better positioned for advancement over older employees. Workers with families also may have to incur added costs for childcare, for example. A recent newspaper article on health care providers quoted a provider spokesman in support of the regulation as stating that the country’s healthcare system is robust, growing and will step up to meet any increase in the need for services that may result from the regulation. Also included in the article was a quote from a spokesman for the government’s Health Services Ministry that hinted at some concern over increased healthcare costs.

Labor associations are taking an active role in the debate and finding that their membership ranks are growing. The services and retail sectors generally support the measure, anticipating that added income could boost consumer demand for services and retail goods.

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Benefits Assessment

1. Intended Purpose of the Regulation (Box 1)

The purpose of the regulation is to require that all employers pay time-and-a-half the standard wage rate to workers working overtime hours (hours in excess of 40 hours per week).

2. Who are the key stakeholders? (Box 1)

Hourly employees, government, small firms (employers), large firms (employers), the healthcare industry, retail and services establishments, associations.

3. Who are the **intended beneficiaries** and what are the respective **intended benefits**? (Box 2)

The intended beneficiaries are hourly wage earners who will benefit from increased wages for any overtime hours worked once the regulation is enacted.

4. Who are the **actual beneficiaries** and what are the respective **actual benefits**? (Box 3)

Direct Beneficiaries

The government could receive additional revenue once the regulation is implemented and overtime hours are worked by collecting taxes on overtime pay. [This may be offset by tax revenues lost from any firms exiting the industry.]

Larger firms could benefit by gaining a larger share of the market as a result of any smaller firms choosing to leave the industry as a result of the additional labor costs.

Hourly employees could benefit as a result of the increased wages and income.

Indirect Beneficiaries

Government employment could increase in the short-term to enforce and monitor the regulation.

The healthcare industry could gain in revenues as a result of the increased need for their services due to increased health-related problems resulting from overtime worked.

Organizations representing employees could benefit from increased membership (influence, membership fees paid, etc.).

Induced Beneficiaries

The government could benefit from more favorable public perception among hourly wage earners in the short-term.

The services and retail sectors could benefit as a result of increased demand from overtime workers for childcare services, take-out meals, etc.

Employee morale could increase as incomes rise due to overtime pay, benefitting both employee and employer. [This could be offset in the mid-to-longer term as employees experience less leisure time.]

5. Does the regulation provide certain stakeholders a competitive advantage? (Independent Box)

The regulation could provide larger businesses with an advantage if smaller firms are forced to leave the industry due to inability to meet the higher wage rates for overtime labor. It may also provide younger employees with a comparative advantage over older employees, who may be unable to work longer hours due to health concerns related to age or other obligations.

6. Using data from the table below, plot over time for each beneficiary the incurrence of the actual benefits over time. Which stakeholders benefit most in the near term? Mid-term? Long-term? What inferences can be drawn as to which stakeholders are likely to be most actively involved in the debate early on? (Box 4)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average Annual Salary for Hourly Employees (Lebanese Pound)	3,600,000	3,840,000	3,960,000	4,020,000	4,080,000	4,056,000	4,068,000	4,080,000	4,092,000	4,104,000	4,116,000
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Income Tax Revenues	340,425	385,815	408,510	431,205	476,595	510,638	544,680	590,070	635,460	669,503	703,545
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Retail Sales	8,000,000	8,500,000	9,000,000	9,500,000	10,000,000	10,500,000	11,000,000	11,500,000	12,000,000	12,500,000	13,000,000

Cost Assessment

7. Who are the intended **cost bearers**, what are the respective **intended costs** and when are the costs intended to be paid? (Box 5)

The intended cost bearers are all employers, whose labor costs would increase for overtime hours.

8. Who are the **expected/actual cost bearers**, what are the **expected/actual costs** and when are these costs expected to be paid? (Box 6)

Direct Cost Bearers

Government could incur additional costs to monitor and enforce the regulation.

All firms with overtime hours worked would have to pay the higher hourly wage and also bear any added overhead costs. Smaller firms may choose to exit the industry if they lose their agility and believe they cannot compete with larger firms.

Healthcare providers on both the government side (public services) and private (medical, etc.) would have their costs increase as demand for their services increases.

Overtime workers would have less leisure time and possibly higher costs for services such as childcare and other services.

Indirect Cost Bearers

In the short- and medium-term, the government may require additional resources and staffing to process, manage, and redistribute additional tax revenues.

In the medium- and long-term, firms' insurance costs may increase if worker claims increase.

Overtime workers could see added costs related to their longer work hours such as additional meals eaten out, transportation costs, etc.

Induced Cost Bearers

In the short- and medium-term, the government could experience a decrease in favorable public perception by smaller firms that are "forced" to exit the market and by overtime workers with less leisure time.

Firms not offering overtime could see an exit of employees, who choose to work at those firms offering overtime. Firms may also experience a loss in the quality of goods produced, potentially affecting revenues, if worker productivity declines due to worsening work-life balance.

Overtime workers may experience added stress on family life, et. al.

9. What is the ability of any of the cost bearers to shift the costs of the regulation? (Independent Box)

Larger firms may be able to avoid the costs of the regulation by hiring additional temporary or permanent employees to work only the standard 40 hour work-week instead of paying existing employees overtime. Doing so however could raise other costs such as benefits paid to new employees. Larger firms that gain market power as a result of smaller firms leaving the industry may be able to increase their prices while maintaining the level of demand for their produced goods, thereby shifting the added costs of overtime labor to purchasers of their products.

10. Using data from the table below, plot over time for each cost bearer the incurrence of the actual costs over time. Which stakeholders bear the most costs in the near term? Mid-term? Long-term? What inferences can be drawn as to which stakeholders are likely to be most actively involved in the debate early on? (Box 7)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Workplace Injuries	3,336	4,000	4,200	4,300	4,400	4,450	4,470	4,470	4,465	4,460	4,455
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Government Employment	6,500	7,200	7,200	7,000	6,800	6,500	6,500	6,500	6,500	6,500	6,500
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Small Businesses	25	24	23	22	21	20	19	18	17	16	16

Bringing It All Together (Box 8)

Use a table to summarize the size of the benefit to each beneficiary and the size of the costs to each cost bearer. Compare the magnitudes of the total benefits to the total costs. What viewpoint does the analysis support?