THE WALL STREET JOURNAL.
WSJ.com

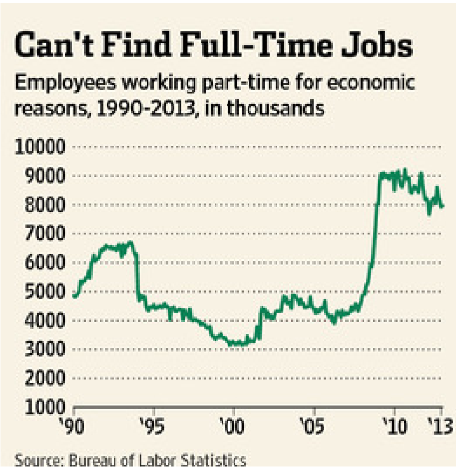
REVIEW & OUTLOOK | Updated February 22, 2013, 6:25 p.m. ET

ObamaCare and the '29ers'

How the new mandates are already reducing full-time employment.

Here's a trend you'll be reading more about: part-time "job sharing," not only within firms but across *different* businesses.

It's already happening across the country at fast-food restaurants, as employers try to avoid being punished by the Affordable Care Act. In some cases we've heard about, a local McDonalds has hired employees to operate the cash register or flip burgers for 20 hours a week and then the workers head to the nearby Burger King or Wendy's to log another 20 hours. Other employees take the opposite shifts.



Welcome to the strange new world of small-business hiring under ObamaCare. The law requires firms with 50 or more "full-time equivalent workers" to offer health plans to employees who work more than 30 hours a week. (The law says "equivalent" because two 15 hour a week workers equal one full-time worker.) Employers that pass the 50-employee threshold and don't offer insurance face a $2,000 penalty for each uncovered worker beyond 30 employees. So by hiring the 50th worker, the firm pays a penalty on the previous 20 as well.

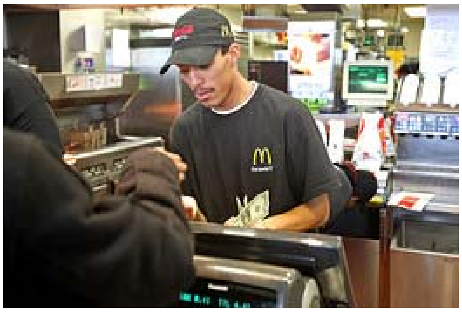
These employment cliffs are especially perverse economic incentives. Thousands of employers will face a $40,000 penalty if they dare expand and hire a 50th worker. The law is effectively a $2,000 tax on each additional hire after that, so to move to 60 workers costs $60,000.

A 2011 Hudson Institute study estimates that this insurance mandate will cost the franchise industry $6.4 billion and put 3.2 million jobs "at risk." The insurance mandate is so onerous for small firms that Stephen Caldeira, president of the International Franchise Association, predicts that "Many stores will have to cut worker hours out of necessity. It could be the difference between staying in business or going out of business." The franchise association says the average fast-food restaurant has profits of only about $50,000 to $100,000 and a margin of about 3.5%.

Because other federal employment regulations also kick in when a firm crosses the 50 worker threshold, employers are starting to cap payrolls at 49 full-time workers. These firms have come to be known as "49ers." Businesses that hire young and lower-skilled workers are also starting to put a ceiling on the work week of below 30 hours. These firms are the new "29ers." Part-time workers don't have to be offered insurance under ObamaCare.

The mandate to offer health insurance doesn't take effect until 2014, but the "measurement period" used by the feds to determine a firm's average number of full-time employees started last month. So the cutbacks and employment dodges are underway.

The savings from restricting hours worked can be enormous. If a company with 50 employees hires a new worker for $12 an hour for 29 hours a week, there is no health insurance requirement. But suppose that worker moves to 30 hours a week. This triggers the $2,000 federal penalty. So to get 50 more hours of work a year from that employee, the extra cost to the employer rises to about $52 an hour—the $12 salary and the ObamaCare tax of what works out to be $40 an hour.


Bloomberg

Moving to 33 hours a week costs the employer about $10 an hour more in ObamaCare tax. Look for fewer 30-35 hour-a-week jobs. The law that was sold as a way to help business and workers is thus yanking a few more rungs from the ladder of economic upward mobility.

Many franchisees of Burger King, McDonalds, Red Lobster, KFC, Dunkin' Donuts and Taco Bell have started to cut back on full-time employment, though many are terrified to talk on the record. Activist groups have organized boycotts against Darden Restaurants, which owns Olive Garden and Red Lobster, for daring to publicly criticize ObamaCare. It's safer to quietly dodge the new costs and avoid becoming a political target.

But the damage won't be limited to franchisees or restaurants. A 2012 survey of employers by the Mercer consulting firm found that 67% of retail and wholesale firms that don't offer insurance coverage today "are more inclined to change their workforce strategy so that fewer employees meet that [30 hour a week] threshold." This week Nigel Travis, the CEO of Dunkin' Donuts, asked Congress to change the health law's definition of full-time to 40 hours a week from 30 hours so worker hours won't have to be cut.

The timing of all this couldn't be worse. Involuntary part-time U.S. employment is already near a record high. The latest Department of Labor employment survey counts roughly eight million Americans who want a full-time job but are stuck in a part-time holding pattern. That number is down only 520,000 since January 2010 and it is 309,000 *higher* than last March. (See the nearby chart.) And now comes ObamaCare to increase the incentive for employers to hire only part-time workers.

Democrats who thought they were doing workers a favor by mandating health coverage can't seem to understand that it doesn't help workers to give them health care if they can't get a full-time job that pays the rest of their bills.

A version of this article appeared February 23, 2013, on page A12 in the U.S. edition of The Wall Street Journal, with the headline: ObamaCare and the '29ers'.