



Obama's plans may raise cost of hiring by more than \$5 per hour

By [Sean Higgins](#)

January 20, 2015

If President Obama has his way, it will soon become more expensive, by more than \$5 an hour, to hire minimum wage workers.

That's the combined cost of adding the president's proposals for a higher minimum wage, more paid sick leave and the health coverage mandate of the Affordable Care Act, popularly known as Obamacare, to the bottom line for employers. Free-market economists say spiking labor costs that much will push businesses to hire fewer workers.

Obama has called for raising the federal minimum wage to \$10.10 an hour, an increase of \$2.85 cents from its current rate of \$7.25. That increase that would also result in employers paying more 22 cents more an hour in payroll taxes.

Most minimum wage workers do not have health coverage, and Obamacare will also hit employers who don't provide coverage with a \$2,080 per worker penalty. An analysis by Investor's Business Daily on Friday calculated that will equate to "about \$3,420 in wages for a profit-making employer paying a combined 39.2 percent state and federal tax rate." That works out to \$1.69 per hour, assuming a 40-hour work week. The 39.2 percent figure is the nonpartisan Tax Policy Center's estimate of the average corporate tax rate in America, which is the highest in the world.

Finally, the administration has called for adding up to seven days of paid sick leave annually, which IBD estimates would cost employers another 30 cents per hour. Along with the other proposals, that works out to an additional labor cost of \$5.06 an hour.

That will have an impact on employers, said [IBD analyst Jed Graham](#): "Heaping on mandate after mandate without paying heed to the growing demands that government is putting on low-wage employers comes with a risk that workers will be priced out of some of those jobs."

Aside from Obamacare, the \$5 an hour figure is based on the administration's policy wish list, not policies already set to be enacted. With Congress now under GOP control, few expect that Obama's minimum wage and paid leave proposals would be adopted without significant compromise by the administration. Obama is set to lay out that vision in Tuesday's State of the Union address.

There are other costs that employers will inevitably face as a result of administration policies but that are difficult to quantify because the new rules haven't been completed. The Labor Department is expected, for example, to release new regulations this spring intended to make businesses pay workers [more overtime](#). Currently, an employer can exempt a worker from being eligible from overtime if the employee makes more than \$23,000 annually. The administration has not said what it thinks the new level should be, though a recent Huffington Post story said officials appear to be looking at \$42,000. A person being paid the current minimum wage gets \$15,080 annually. That would rise to \$21,000 under Obama's \$10.10 an hour proposal.

Daniel Mitchell, senior fellow at the free market Cato Institute, agrees with the \$5 an hour analysis, calling it "pretty straightforward." Mitchell adds that the cost could go even higher once all other factors are included.

"Everything the Obama administration is doing in this regard almost seems designed to make it far more expensive for companies to hire low-wage workers," said Mitchell. "The inevitable consequence is that fewer will be hired."

Ironically, Mitchell notes, the administration is also calling for expanding the Earned Income Tax Credit, which gives low-wage workers tax benefits, to people without children. That turns his proposals for low-wage workers into "giving with one hand and taking away with the other," he says.

Michael Saltsman, research fellow at the conservative Employment Policies Institute, says the correlation between a high minimum wage and lower employment can be seen in places like San Francisco, which currently has a \$11.05 an hour minimum wage and is set to raise it to \$15 an hour by 2018. The city also has a paid sick leave mandate for employers. "For a few years now, the effective minimum wage for someone who is an entry-level worker (in the Bay area) has been about \$13 an hour," Saltsman said.

A study last year by the [Brookings Institute](#) put the unemployment rate in San Francisco at 21 percent for people aged 16-19 and a whopping 57.7 percent for people aged 20-24.