From the office of Texas Workforce Commission
Chairman Tom Pauken

Opinion/Editorial

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The Obama Jobs Plan Jeopardizes Social Security Funding

By Tom Pauken

Social Security has been a political football for a long time. That makes any serious effort to reform the system, and preserve its long-term viability, all the more difficult.

Ironically, the centerpiece of President Obama's recently announced jobs program would cut payroll taxes – the principal funding source for the Social Security Trust Fund – without immediately making up for those lost revenues through other revenue streams. Normally, the employer and employee pay an equal share – 6.2 percent of income up to $106,200. This provided $544.8 billion in funding for Social Security in 2010. Last year, President Obama persuaded Congress to pass a 2 percentage point employee payroll tax cut for 2011. Thus, there will be $112 billion less in revenues to go into paying for Social Security benefits, according to Congressional Budget Office estimates. That will require finding other funding sources to make up the difference.

President Obama's latest jobs bill calls for a much bigger cut in payroll taxes for next year. Under this legislation, the employer tax rate would drop from 4.2 percent to 3.1 percent through 2012. Employers would see their share of the payroll tax also cut to 3.1 percent on the first $5 million of their payroll. Any increase in wages (up to $50 million), from either new hires or raises, would be entirely exempt from the payroll tax. The total cost of the cuts is projected to be $240 billion, which would result in a 36 percent reduction in Social Security tax funding in 2012.

Such a significant reduction in designated payroll tax funding of Social Security will impact the long-term ability of the trust fund to make good on promised payments to seniors unless there is an alternative funding mechanism dedicated to make up for the shortfall caused by lowering payroll taxes. Considering that the Social Security Trust Fund is going to run out of money sometime in the future under current projections, the Obama jobs initiative will speed up that process by taking substantial, existing funding out of Social Security with no real plan to pay for it. This simply "punts" the problem of paying for it down to the 12-member Congressional Super Committee.

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The President and his advisors are rightly concerned about the negative impact the employer portion of the payroll tax has on job creation. Combine the 6.2 percent payroll tax on employers with the 35 percent corporate income tax, and it results in the U.S. having the most onerous corporate tax system in the world. Nonetheless, since the payroll tax cuts in Obama's proposed legislation are temporary, they are unlikely to affect businesses making long-term decisions like hiring new workers.

Getting rid of all, or part, of this job-killing corporate tax system is a worthy goal in order to get our private sector moving again and put people back to work. But, you have to make up for the lost revenue at a time in which our federal government is running massive budget deficits in excess of a trillion dollars a year.

A much better approach to getting the American economy moving again without further jeopardizing the solvency of our Social Security system would be to change the way we tax business to a revenue-neutral, consumption tax along the lines advocated by Austin businessman David Hartman. Under the Hartman Plan, the corporate income tax would be replaced with an 8 percent border-adjusted, business consumption tax. All goods and services coming into the U.S. would be taxed at that level while all U.S.-based companies exporting overseas would receive a tax credit, or tax abatement, of a comparable amount on their business consumption tax. The amount of revenue it would generate not only would make up for the revenue previously provided by the corporate income tax, it also would provide enough money to fund Social Security from any loss of revenues due to a cut in payroll taxes. This new tax system would be structured so that a portion of the revenue stream goes directly to the Social Security Trust Fund to pay for the lost revenues from a payroll tax cut. As the economy starts growing again – and more people are put back to work under this new taxing system – there will be more revenues available to make the Social Security Trust Fund sound again.

With this change in the way we tax American-based businesses, we will level the trading field with our competitors, start growing our private sector again, bring jobs home to America, and help preserve the solvency of the Social Security system.

This is a real economic stimulus program which doesn't steal funding from our social security system.

Tom Pauken is Chairman of the Texas Workforce Commission and author of Bringing America Home.

Media Contact: Lisa Givens (512) 463-8556