

It's time for wage earner relief-End the Payroll Tax

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Current prospects of ending the income tax [seem unrealistic](#). However, cutting one part of the income tax, the payroll tax, would be a good place to start. Not only is it the most regressive tax, in that the rate on low-wage earners is the same as on high-wage earners, but it also hinders resolution in the labor market.

A detailed 2022 [study](#) in *Econometrica* concluded:

“Most notably, we documented that 50–70% of the changes in the U.S. wage structure between 1980 and 2016 are accounted for by the relative wage declines of worker groups specialized in routine tasks in industries experiencing rapid automation.”

Data showed that the most vulnerable in the workforce—the unskilled—had gained the least.

Thus, we benefit from lower production costs, but new technology raises concerns about the substitution effect, which could lead to job eliminations. What can be done to enhance the quantity of labor demanded in the private sector?

Resistance to considering ending taxes is no surprise. Dominant policymaking marches full steam ahead with government operations. Yet common sense calls for acknowledgment of what people are increasingly discovering through alternative media: an emergent, quasi-criminal, organized capture of our government. Expropriations, obtained through taxation and Treasury borrowing, enable this unpopular, wasteful behavior, including crony profit-making and even worse. The curtailment of funding sources offers a way out, whatever its negative impact on the immediate fiscal outlook.

Not that deficits don't matter; it seems that only financially reckless debt levels can awaken the need for reform. After all, the cost of debt is borne not only by future generations but also by the present diversion of funds away from capital investment into government securities, which reduces current productivity and standards of living.

The Austrian-led marginalist revolution at the end of the classical period provides insight into the problem.

The specter of a [\\$36.7 trillion](#) federal debt was behind the insurgent DOGE phenomenon, as biased and limited in scope as it is. Hence, cutting any source of funds helps raise awareness of the imprudent use of funds. Besides, reducing taxes means no loss to the country when the funds are redirected to earners. Both the 1964 [Kennedy](#) and the 1981 and 1986 Reagan (supply-side) tax reductions were explicitly enacted to enhance economic growth, even though statistical confirmation is hindered by the dominant positive trend in GDP growth during those years.

Here, the effects of the payroll tax on wages come to the fore. Can we raise employment by reducing or ending the payroll tax?

Payment of this tax is split equally between the employer and the employee. For employers, the hiring cost for a worker is the wage plus this tax; after all, the employer has the same expense regardless of who receives the payment, the employee or the government.

Just as with minimum wage laws, unemployment results if the work fails to remunerate the employer a return above costs. Any job that does not return gains sufficient to justify the wage plus this surcharge is never made available, even to willing job seekers.

For employers, the payment for a worker is the wage plus this tax; after all, the employer has the same expense regardless of who receives the payment, the employee or the government. In general, enterprises seek over time to maintain a minimum return after costs, aligning with supply and demand in the labor market. An end to the employer's half of the payroll tax would lower employer labor costs, thereby improving labor's competitiveness with capital. The amount of labor demanded would rise, thereby raising employment and the wage rate. In other words, after markets adjust, the gain from relieving this employer contribution increases the demand for labor.

Murray Rothbard definitively clarified this phenomenon in his ground-breaking tax-imputation discussion in chapter 4 of [Power and Market](#):

“A tax on wages is an income tax that cannot be shifted away from the wage earner. There is no one to shift it to, especially not the employer, who always tends to earn a uniform interest rate. In fact, there are *indirect* taxes on wages which are shifted to the *wage earner* in the form of lower wage incomes. An example is that part of social security, or of unemployment compensation premiums, *levied on the employer*. Most employees believe that they completely escape this part of the tax, which the employer pays. They are wholly mistaken. The employer, as we have

seen, *cannot* shift the tax forward to the consumer. In fact, since the tax is levied in proportion to wages paid, the tax is shifted backward *wholly* on the wage earners themselves. The employer's part is simply a collected tax levied at the expense of a reduction of the net wages of the employees.”

It follows that wage rates would rise as the quantity of labor demanded increases when employers' labor costs are lowered.

Under the Federal Insurance Contributions Act (FICA), the current employer contribution rate is 7.65% of wages. Social Security claims 6.2%, and Medicare claims 1.45%. Employees are assessed an equal amount for a total of 15.3%, which is \$1.7 trillion (of \$5.1 trillion in Treasury revenues)—both employee and employer contributions lower wages and employment.

The Bureau of Labor Statistics' current civilian unemployment rate for March 2025 is 4.2%. However, this is adjusted by the labor force participation rate, which excludes those not actively seeking employment. In 2000, the participation rate was 67.1%, and by February 2025, it had decreased to 62.4%. [Real hourly wage gains](#) have hardly increased over the past four decades. They increased to \$19.24 in 1923 (in 1923 constant dollars) from \$17.48 in 1979. With higher wages, participation rates would improve. The consequent increase in income from increasing labor participation should raise aggregate supply while lessening inflation.

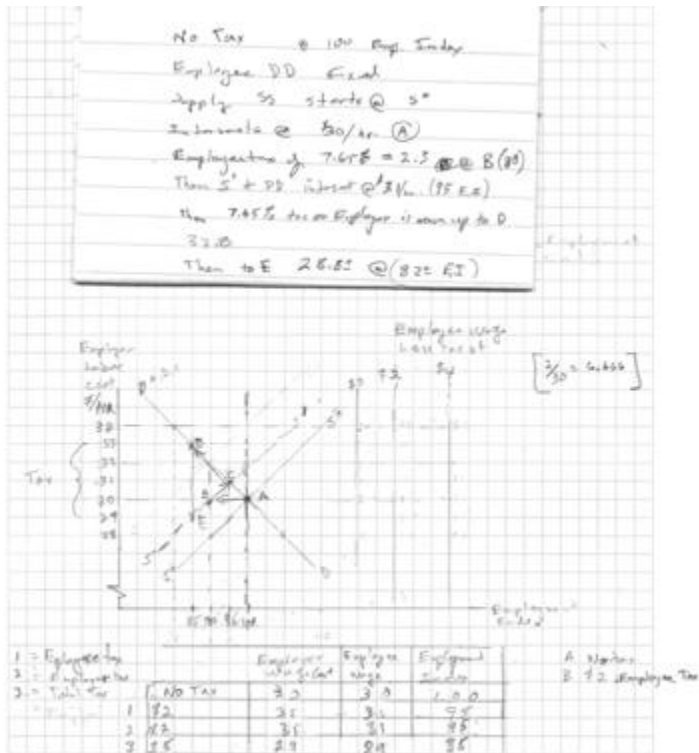
In a period when the potential for capital, such as AI and automation, to replace labor is increasing, there exists the opportunity to remove the payroll tax, an impediment to higher wages and full employment.

Moreover, as demonstrated under both the Kennedy and Reagan (supply-side) tax reductions, contrary to Keynesian theory, the consequent increase in income from increasing labor participation raises aggregate supply, lessening inflation and enhancing economic growth.

While bringing attention to the evident need for innovative reform of Social Security and Medicare, rescinding the payroll tax would not require eliminating these programs. The funding link is merely a formality, with no need to link the Treasury's sources of funds with their uses, as all revenue is fungible.

Importantly, costs of the bulk of federal regulatory and criminal law enforcement are constitutionally the proper domain of the states. And, defunding the apparatus that collaborates in an increasingly evident spendthrift, aberrant American [foreign policy](#), posing as the constabulary of world order, should be on the table.

Bottom line: The direct curtailment of the payroll tax would enhance labor competitiveness against new technological replacement and raise recently stagnating take-home pay for workers.



Tax	Employee Wage	Employer Wage	Employment
No tax	30	30	100
\$2 Employee tax	31	31	95
\$2 Employer tax	31	31	95
<b>\$4 Total Tax</b>	<b>29</b>	<b>29</b>	<b>85</b>