

See revised 4/2/26

Why We Should End the Payroll Tax

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Having just experienced another income tax deadline, it's time to call for tax reform.

The following discusses why ending the payroll tax seems appropriate. While it ranks as the more regressive of income taxes, in that the rate on low-wage earners is the same as on high-wage earners, any involuntary taxation leads down the wrong path. But more than that, this tax unnecessarily disrupts the labor market at a time when the market is increasingly subject to labor-replacing technology, and when a foreign-policy-induced cost-of-living increase especially impacts the ability of low-income workers to make ends meet.

Resistance to considering ending taxes is no surprise. Dominant policymakers march full steam ahead with government operations regardless of the fiscal outlook. 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.

While some of the cost of debt is borne by future generations, the present diversion of funds from capital investment into government securities reduces current productivity and living standards. But deficits should be a signal to improve productivity and recognize the waste in the Federal budget.

Not that deficits don't matter; it seems that only financially reckless debt levels can prompt the need for reform. The curtailment of both funding sources offers a way out.

The specter of the now [\\$39.1 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 retained by their earners. Both the 1964 [Kennedy](#) and the 1981 and 1986 Reagan (supply-side) tax reductions were explicitly enacted to enhance economic growth.

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

See revised 4/2/26

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, even with increased productivity from new technology.

The Austrian-led marginalist revolution at the end of the classical period offers insight into the problem. Markets are balanced not by total quantities but by diminishing marginal utility and rates of substitution. Thus, significant job displacement due to AI and automation can be mitigated by increasing the quantity of labor demanded in the private sector.

Here, the effects of the payroll tax on wages come to the fore.

Last year, under the Federal Insurance Contributions Act (FICA), the employer contribution rate was 7.65% of wages. Social Security claims 6.2%, and Medicare claims 1.45%. Employees were assessed an equal share, totaling 15.3% (\$1.8 trillion of \$5.4 trillion in Treasury tax revenues), and both employee and employer contributions reduce wages and employment.

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 product fails to remunerate the employer returns above costs. Any job that does not yield sufficient gains to justify the wage plus this surcharge is never made available, even to willing job seekers.

Overall, enterprises seek to maintain returns after costs, conforming to supply and demand in the labor market. Ending the employer's half of the payroll tax would lower employers' 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 labor demand.

Murray Rothbard clarified this phenomenon definitively in his ground-breaking tax-imputation discussion in chapter 4 of [Power and Market](#), demonstrating that this two-part tax operates as a whole to reduce employee earnings:

“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

See revised 4/2/26

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.

The Bureau of Labor Statistics' current civilian unemployment rate for March 2026 is 4.3%. However, this is adjusted downward by the labor force participation rate, which excludes those not actively seeking employment. In 2000, the participation rate was 67.1%; since decreased to 61.9%.

Private-sector real wage gains in key employment sectors have remained low since the turn of the century. The payroll tax is an ongoing impediment to higher wages and full employment. With lower taxes and higher wages, participation rates would improve.

Furthermore, the bulk of federal regulatory and law enforcement is constitutionally the proper domain of the states. Funds for the American foreign posture posing as the constabulary of world order should be on the table. Defunding the crony apparatus that collaborates in increasingly evident spendthrift and aberrant programs is overdue.

In brief, the direct curtailment of the payroll tax would raise wages, enhance labor competitiveness, and foster more productive activity while initiating the process of reducing funding for overly intrusive and injudicious congressional and executive-branch federal outlays and squandered spending.