



Written by [R. Cort Kirkwood](#) on October 10, 2011

## Half of Population Lives in Subsidized Households

Nearly half the American population lives in households that receive a payment from the federal government. That's the latest alarming news from the Wall Street Journal's Sara Murray (left), who tracks the federal subsidy programs for the newspaper.



[According to](#) Murray, the number has steadily increased the last few years, and to some degree coincides with another datum: About [half of Americans pay](#) zero income tax.

Murray obtained the data from the [Census Bureau](#).

### The Numbers

In the first quarter of 2010, [Murray reported](#) last week, 48.5 percent of the population lived in households that collect taxpayer largesse. That number increased from 44.4 percent in 2008.

[Reported Murray](#), "Means-tested programs, designed to help the needy, accounted for the largest share of recipients last year." As well:

Some 34.2% of Americans lived in a household that received benefits such as food stamps, subsidized housing, cash welfare or Medicaid (the federal-state health care program for the poor).

Another 14.5% lived in homes where someone was on Medicare (the health care program for the elderly). Nearly 16% lived in households receiving Social Security.

In September, [Murray reported](#) more disturbing data: The number of Americans collecting a benefit increased 14 percent in three decades: "As recently as the early 1980s, about 30% of Americans lived in households in which an individual was receiving Social Security, subsidized housing, jobless benefits or other government-provided benefits."

By the third quarter of 2008, 44% were, according to the most recent Census Bureau data.

That number has undoubtedly gone up, as the recession has hammered incomes. Some 41.3 million people were on food stamps as of June 2010, for instance, up 45% from June 2008. With unemployment high and federal jobless benefits now available for up to 99 weeks, 9.7 million unemployed workers were receiving checks in late August 2010, more than twice as many as the 4.2 million in August 2008.

As well, [she reported](#), government payments to individuals have jumped nearly 80 percent in the last decade:

Payments to individuals — a budget category that includes all federal benefit programs plus retirement benefits for federal workers — will cost \$2.4 trillion this year, up 79%, adjusted for inflation, from a decade earlier when the economy was stronger. That represents 64.3% of all federal outlays, the highest percentage in the 70 years the government has been measuring it. The figure was 46.7% in 1990 and 26.2% in 1960.



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## Half Pay No Taxes

The number of those receiving benefits, [Murray reported](#), correlates with the number of those who do not pay income taxes. That number, nearly 50 percent, surfaced weeks ago. In 2009, the numbers show, 47 percent of Americans did not pay federal income tax.

[Reported the Associated Press](#), “In recent years, credits for low- and middle-income families have grown so much that a family of four making as much as \$50,000 will owe no federal income tax for 2009, as long as there are two children younger than 17, according to a separate analysis by the consulting firm Deloitte Tax.”

The result is a tax system that exempts almost half the country from paying for programs that benefit everyone, including national defense, public safety, infrastructure and education. It is a system in which the top 10 percent of earners — households making an average of \$366,400 in 2006 — paid about 73 percent of the income taxes collected by the federal government.

The bottom 40 percent, on average, make a profit from the federal income tax, meaning they get more money in tax credits than they would otherwise owe in taxes. For those people, the government sends them a payment.

## What It Means

[The Heritage Foundation’s Curits Dubay called](#) the growing number of Americans who pay no income tax “dangerous” because a diminishing share of productive citizens shoulder the burden for the growing share of non-contributors to federal revenue.

“Passing the point at which less than half of all tax filers pay income taxes is dangerous because beyond that threshold a majority of tax filers — and therefore approximately a majority of voters — could vote themselves an increasing share of government benefits at no cost to themselves,” [he wrote](#) for Heritage at tax time in 2010.

In fact, when the U.S. passes that point, a shrinking minority of tax filers will be financing almost all government spending. In this situation, politicians have even less incentive to restrain government spending because more votes could be won by increasing spending than lost by increasing the burden on the remaining taxpayers. That is a deadly recipe for never-ending increases in government spending that will inevitably lead to a fiscal implosion when there are no longer enough productive taxpayers to pay the bill for the expanding welfare state.

Dubay also noted that the complex maze of credits in the income tax code is now a boon to people who don’t pay taxes. That is because the people who don’t pay taxes also receive payments from the federal government because of the tax credits they claim. And those “taxpayers” can earn up to \$64,000 per family.

[Wrote Dubay](#), “Not only does the bottom 50 percent of tax filers pay almost no taxes, but many actually receive income through the tax code because of refundable credits.”

A refundable credit can not only cancel all of a tax filer’s tax liability, but also give the tax filer a check for the difference if the value of the credit exceeds the tax filer’s income tax liability. Thus, for families that receive refundable credits, Tax Day has become payday.

For instance, after the Bush tax cuts, the hypothetical family of four has a tax liability of \$13, but if they reduced their income by just \$85 to \$44,915, they would become nonpayers and receive a cash payment from the federal government because of the refundable [child tax credit](#).



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And the child tax credit, Dubai wrote, isn't the only one. Other include the [Earned Income Tax Credit](#) and [Making Work Pay tax credit](#). "In 2010," [Dubay wrote](#), "these three refundable credits will redistribute more than \$114 billion to the families that claim them: \$52 billion through the ETIC, \$32 billion through Making Work Pay, and \$30 billion through the child tax credit.

The net result of these tax credits is that the bottom 40 percent of filers "have negative effective income tax rates," [Dubay wrote](#). Families earning \$64,000 annually don't just avoid all income taxes. They get a cash bonanza from the government thanks to the tax credits.

[Dubay also noted](#) that "credits are growing each year," which means American families are "increasingly dependent on the tax code, and therefore on the government, for a substantial portion of their income."

For those that receive the cash payments, growing dependence on the tax code for their income will reduce their individual initiative to achieve because they will be able to sustain a satisfactory standard of living without exerting any additional effort. Growing dependence also reduces the incentive for top performers to work harder and earn more because they will need to pay increasingly higher tax rates to fund the growing dependency of those that earn less. If these conditions continue, the effects will stifle the economy, slow growth, and ultimately lead to a lower standard of living.



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