

Bernanke Says Extending Some of Bush's Tax Cuts Would Maintain Stimulus

By Scott Lanman and Ryan J. Donmoyer - Jul 23, 2010

Federal Reserve Chairman [Ben S. Bernanke](#) said extending at least some of the tax cuts set to expire this year would help strengthen a U.S. economy still in need of stimulus and urged offsetting the move with increased revenue or lower spending.

“In the short term I would believe that we ought to maintain a reasonable degree of fiscal support, stimulus for the economy,” Bernanke said yesterday under questioning from the House Financial Services Committee’s senior Republican. “There are many ways to do that. This is one way.”

While Democrats want to keep the 2001 and 2003 tax reductions passed during former President [George W. Bush](#)’s administration for families earning as much as \$250,000, Republicans aim to continue the cuts for high-income people as well. Bernanke didn’t endorse either party’s position or recommend a time period for an extension.

“In the longer term, I think we need to be taking steps to reassure the American people and the markets that our fiscal situation is going to be well controlled,” Bernanke said under questioning from Representative [Spencer Bachus](#) of Alabama, the committee’s senior Republican. “That means that if you extend the tax cuts, you need to find other ways to offset them.”

Bernanke aims to bolster the faltering economic recovery while urging lawmakers to reduce federal budget deficits in the medium term, which he defined as the period from 2013 to 2020. His predecessor, [Alan Greenspan](#), last week said lawmakers should allow the tax cuts to expire at the end of 2010, citing a need for the revenue to reduce the budget gap.

Monetary Policy

Bernanke, in the second day of semiannual congressional testimony on monetary policy, said the central bank will act to spur growth should the economy sputter. A top lieutenant, New York Fed President [William Dudley](#), said yesterday that the “road to recovery is turning out to be a bit bumpy.”

The Fed chief reiterated three central bank options for further steps, including giving more information on the Fed’s commitment to low [interest rates](#), reducing the rate paid on banks’ reserves held at the Fed and buying more securities.

“There is an implicit message from various Fed speakers that monetary policy is less useful now than most times,” said [Tom Gallagher](#), senior managing director at International Strategy & Investment Group in Washington. “It is a fair inference that Bernanke thinks it would be good to avoid fiscal restraint rather than have more monetary ease if the outlook for 2011 is poor.”

Stocks Rebound

U.S. stocks rebounded yesterday, with the [Standard & Poor’s 500 Index](#) gaining 2.3 percent to 1,093.67 at the 4 p.m. close of trading in New York. Today, the S&P 500 was little changed at 1,093.27 at 9:43 a.

m. The index fell 1.3 percent on July 21 after Bernanke signaled he needs to see signs of deeper weakness in the economy before pushing the bounds of monetary policy further.

Tax cuts for “the most fortunate 2 or 3 percent of Americans” should be allowed to expire, Treasury Secretary [Timothy F. Geithner](#) told reporters yesterday in Washington. “That will help us begin the process of making a contribution to bringing down our long-term deficits. That’s the sensible approach going forward.”

Budget rules adopted by Congress earlier this year allow lawmakers to extend the middle-income tax cuts without offsetting revenue increases. Keeping the cuts for households earning less than \$250,000 will cost about \$255 billion a year, according to the Joint Committee on Taxation. There are 130 million such households, the Internal Revenue Service estimates.

Marginal Rates

There is no similar budgetary escape hatch that would let Republicans extend the tax cuts for the wealthy. They must find \$55 billion in revenue to make up for the cost of keeping top marginal rates at 35 percent and dividend and capital gains taxes at 15 percent, among other reductions.

Bernanke, 56, a former Princeton University economics professor, didn’t say whether Congress should find a way to offset extending just the middle-income cuts.

“The real pain will be in his suggestion that over the long term they need to be paid for,” said [Clint Stretch](#), managing principal of tax policy for Deloitte Tax LLC and a former congressional attorney.

“That will play very strongly into the hands of those people who want to extend the Bush tax cuts for a year or two and kick the whole issue of deficit reduction down the road.”

Bush Adviser

Appointed a Fed governor by Bush in 2002, Bernanke was named chairman of Bush's Council of Economic Advisers in 2005 and became Fed chief in 2006. Obama, elected in 2008, reappointed Bernanke to a second four-year term that began in February.

“In an ideal world, I agree with him,” House Majority Leader [Steny Hoyer](#), a Maryland Democrat, said in an interview when asked about Bernanke's remarks.

Asked whether the combination of Bernanke and Greenspan's comments would have an impact on the debate, Hoyer said, “It'll have some effect. But with all due respect, Mr. Greenspan didn't share that in '01 when he could have had a real effect, and we wouldn't be in this pickle.”

Greenspan, 84, whose backing of Bush's 2001 tax cuts helped persuade Congress to pass them, said in an interview on Bloomberg Television's “Conversations with [Judy Woodruff](#)” last week that Congress “should follow the law and let them lapse.” Ending the cuts “probably will” slow growth, Greenspan said.

Ohio Senator [George Voinovich](#), a Republican, said Bernanke's comments validate his own views.

“Either you pay for it, or you don't do it,” Voinovich told reporters yesterday. He said he didn't know whether Bernanke's comments would help persuade other senators to see it his way.

Summers Comments

Earlier this week, White House economic adviser [Larry Summers](#) rejected Republican arguments for extending the Bush administration's tax cuts for high-income families. The reductions are a "relatively inefficacious measure for pushing the economy forward," Summers, director of the White House National Economic Council, said in a Bloomberg Television interview.

Bernanke bristled at comments from Representative [David Scott](#), a Georgia Democrat, who said he hasn't seen "aggressiveness" by the Fed to meet its congressional mandate for maximum employment, in addition to the objectives for stable prices and moderate long-term interest rates.

The chairman said the Fed takes "very seriously" its responsibility to reduce high unemployment and has already pushed its stimulus to a record. Congress has the ability to authorize more spending for stimulus, he said.

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