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The good, the bad and the ugly

by *Congressman Brad Sherman*

In response to our country's economic crisis, several policy proposals have been discussed - proposals which I refer to as the good, the bad and the ugly.

First, the good. The Federal Reserve Board is going to buy \$600 billion worth of long-term bonds - a monetary policy called quantitative easing. This will reduce long-term interest rates, increase demand and create jobs. China and Germany have condemned this approach because it will also move jobs from those countries to the United States.

Quantitative easing is an effective tool that is reversible. We can expand the money supply now, and then the Federal Reserve Board can reverse its action, selling the bonds when the economy improves. Therefore, this approach involves no permanent increase in the money supply and it does not increase our national debt.

With the unemployment rate at over 9.6 percent, we need to act to bring it down, so the Fed is to be commended. Although the Fed's decision is not risk free, given all of the other challenges we face, it is a good move. The fact that other countries - countries that are running giant trade surpluses with us - have condemned the move suggests we are doing something right.

Second, the bad: The tax proposals set forth in the so-called deficit reduction plan released by former

U.S. Sen. Alan Simpson and former White House chief of staff Erskine Bowles. They actually put forward three different tax proposals. The most complete is the so-called Wyden-Gregg Style Reform, which I will address.

I am willing to embrace a program of shared sacrifice and austerity. However, the Simpson-Bowles proposal gives "shared sacrifice" a bad name, and uses it to disguise what is actually a giant tax cut for large corporations.

In the name of austerity, deficit reduction and shared sacrifice, we are told that the tax rate on the wealthiest Americans should be reduced by roughly 12 percent, from a rate of 39.6 percent to a rate of 35 percent. We are also told that the corporate tax rate should be reduced by a quarter, from 35 percent down to 26 percent.

The Simpson-Bowles proposal provides the maximum possible incentive for off-shoring jobs, telling U.S. corporations that overseas profits are permanently exempt from U.S. taxation. This proposal simply uses the debt crisis as an opportunity to shift wealth and power and income from the middle class to corporate elites and the very wealthy.

Although the Simpson-Bowles proposal discusses the reduction of certain corporate tax loopholes, it does so only in vague terms, and only to a small degree. The plan basically represents a dramatic decline in the revenue from the corporate income tax and from the wealthiest individuals.

Finally, the ugly. On many occasions, we have been told by our Republican colleagues that the worst thing we could do is increase taxes in the middle of a recession. Yet, all of the Republican proposals involve a dramatic tax increase for working families next year by allowing the Obama tax cuts to expire at year's

end, particularly the Making Work Pay Tax Credit - \$800 for working couples; \$400 for working singles.

Extending this credit for one year would cost about \$60 billion. In contrast, extending the Bush tax cuts for the top 2 percent will cost \$700 billion over the next ten years, and more in the decade to come.

But, why is no one talking about extending the Obama tax cuts? Is it because no one with an income of over \$190,000 a year would benefit? **For more than half of all working American families, the Obama tax cuts are more important than the Bush tax cuts.**

We should not let all the talk of extending the Bush tax cuts, and all the talk about taxpayers who earn more than \$250,000 a year, distract us from the fact that the Obama tax cuts expire at the end of this year.

I have urged my colleagues to join with me in co-sponsoring the Making Work Pay Tax Credit Extension Act, H.R. 3118, which would extend the \$800/\$400 credit for a year. And, I look forward to working in a bipartisan way to provide tax relief that will get this economy moving again, before shifting to fiscal austerity. However, allowing the Obama tax cuts to expire and cutting corporate income tax by one quarter is not the way to go.

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