President Barack Obama is hardening his stance in his first post-election confrontation with Republicans, declaring he will make no deal on the country’s fiscal future unless congressional leaders first accept tax rate increases on top earners.

During an appearance yesterday on Bloomberg Television, Obama’s first media interview since his re-election, the president paired his ultimatum on taxes with signals he is ready to make concessions to Republican House Speaker John Boehner’s calls for cuts to entitlement programs such as Medicare health insurance for the elderly.

His demands on taxes and a public relations offensive to engage voters are a shift from Obama’s approach to the budget battles of the last two years, reflecting greater political leverage after his re-election and lessons the administration has drawn from past negotiations.

“It’s not me being stubborn; it’s not me being partisan. It’s just a matter of math,” President Barack Obama said.

“He is in a much stronger position now and he’s acting like it,” said Paul Begala, a Democratic communications strategist who worked in President Bill Clinton’s White House. “This is a very different negotiating position than last time.”

Many Democrats criticized Obama for agreeing to an extension of President George W. Bush’s tax cuts in December 2010 and for focusing on private negotiations with Boehner on raising the debt limit in 2011 rather than mounting a public appeal.

**Presidential Legacy**

The automatic tax increases and spending cuts that will take effect in January under the so-called fiscal cliff are the first crisis of his second term, one that threatens the economic recovery. The formula adopted to address the nation’s long-term fiscal challenges may shape his presidential legacy as well as the retirement prospects and economic security of Americans for at least a decade.

“We have the potential of getting a deal done,” Obama said in the Bloomberg interview. “We’re going to have to see the rates on the top 2 percent go up, and we’re not going to be able to get a deal without it.”

**WATCH: Bloomberg’s Exclusive Interview With President Obama**

He suggested further negotiating sessions with Boehner wouldn’t be productive without a Republican “acknowledgment” that tax rates on high earners will rise.

Obama is seeking to raise income tax rates on individuals earning $200,000 or more a year and married couples earning $250,000 and more annually, while Republicans say any increase in tax revenues can only come from limiting deductions and other breaks. Obama said the Republican approach can’t raise enough money without adding to the tax burden of middle-class families.

**It’s Math**

“It’s not me being stubborn; it’s not me being partisan,” Obama said. “It’s just a matter of math.”

In greater detail than he has since winning a second term last month, Obama, 51, outlined his vision for a two-stage process wherein both he and congressional Republicans would get immediate “down payments” on their top priorities. He said that would be followed by more sweeping changes in 2013.

Compromise would mean the president and Democrats accept more spending reductions this year -- potentially including slowing the growth of Medicare benefits -- and Republicans agree to tax rate increases.
“I don’t expect Republicans to agree to any plan where they’re just betting on the come that entitlement reform will happen,” Obama said.

Patrick Griffin, former chief congressional lobbyist for Clinton, said Obama’s comments frame “the debate in pretty stark and simple terms, saying I need an increase in tax rates and I’ll give you cover on entitlement cuts.”

**Boehner Plan**

Obama spoke the day after Boehner, of Ohio, sent a letter to the White House laying out a proposal to avert the fiscal cliff that included $2.2 trillion in spending cuts and new tax revenue, without raising rates.

“Unfortunately,” Obama said, Boehner’s proposal “right now is still out of balance.”

Reacting to the president’s latest comments, Boehner said Obama “has an obligation” to present a counterproposal that can be passed by Congress -- a test he said Obama’s current plan fails -- and that Republicans are “ready and eager” to discuss such an offer with him.

“If the president really wants to avoid sending the economy over the fiscal cliff,” Boehner said in a statement, “he has done nothing to demonstrate it.”

Senate Minority Leader Mitch McConnell of Kentucky lamented the lack of progress in the negotiations.

“We’ve wasted an enormous amount of time sparring back and forth in public, and it strikes me as a good time to get serious about the proposals,” he told reporters on Capitol Hill. “I had hoped we would be accomplishing more in the real talks that are going on privately.”

**Compromise Prospects**

Even as he insisted on higher tax rates, Obama left room for compromise with Republicans in endgame talks.

He sidestepped a question about whether he would accept a measure that increased the top rate from 35 percent to 37 percent or 38 percent -- short of the 39.6 percent marginal rate when the current levels went into effect. Obama didn’t flatly rule out entitlement cuts, including changing the annual cost-of-living adjustment for Medicare, the government health program for the elderly and disabled.

“I am willing to look at anything that strengthens our system,” Obama said. Still, when asked whether he would be open to benefit cuts, the president said: ‘Well, no, that’s not what I’m saying.”

On taxes, Obama said in a 2013 tax overhaul, “it’s possible that we may be able to lower rates by broadening the base.”

**Guarded Optimism**

While the president’s latest comments drew derision from many Republican lawmakers, who said his position would thwart a deal, several said the president had raised their hopes for a compromise.

“I think that’s hopeful, to be honest with you,” said Representative Walter Jones, a North Carolina Republican. “If there’s going to be an increase, but less than anticipated, that’s a good point to talk.”

Representative Tom Cole, an Oklahoma Republican who has suggested his party could be open to raising tax rates, said the two sides are closer than they appear. “I actually think we are moving in the right direction,” Cole told reporters at the Capitol today. “I don’t think they’re as far apart as it seems.”

Griffin, the former Clinton lobbyist, said the contours of an eventual deal are now in place. “There will likely be more blood in the street before this is resolved, but I think we’ll come back to this as the defining framework in the broadest sense.”

**Debt Limit**

Obama also made it clear in the interview that he wants an increase in the U.S. debt limit as part of any compromise in the coming weeks. The U.S. will reach the $16.4 trillion debt ceiling this year, though Treasury can use so-called extraordinary
measures to extend the deadline until at least mid-February, according to the Congressional Budget Office.

The president said business leaders have told him they don’t want to see another “debt ceiling crisis” early next year.

“America is poised to take off,” Obama said. “Let’s make sure that we don’t have a self-inflicted wound, because there are a lot of silly games played up on Capitol Hill.”

Concern about the budget debate has whipsawed stocks in the past month. The Standard & Poor’s 500 Index (SPX) slid as much as 5.3 percent from its closing level on the day of the Nov. 6 elections through Nov. 15.

**Market Reaction**

The benchmark gauge of American equities has trimmed its decline since Election Day to 1.5 percent through yesterday and is up 11.9 percent for 2012.

Treasury 10-year note yields approached the lows for the day after Obama spoke, falling almost two basis points, or 0.02 percentage point, to 1.60 percent at 5 p.m. New York time, according to Bloomberg Bond Trader data.

Boehner and Obama, who last year fell short of forging a bipartisan bargain to reduce the deficit while averting a breach of the U.S. government’s legal borrowing limit, have yet to engage in the personal negotiations that previously brought them to the brink of a deal.

At a White House holiday party last night, the two men holding the keys to a compromise did not speak even to exchange pleasantries, according to aides to both.

“Speaker Boehner and I speak frequently,” Obama said in the interview. “I don’t think that the issue right now has to do with sitting in a room.”

**Tea Party**

Both are facing pressure from their respective political bases to resist a compromise, with Boehner’s anti-tax, Tea Party-infused House Republicans balking at raising tax rates while labor and other Democratic-aligned interest groups rejecting the idea of cutting entitlements including Medicare and Social Security.

Republican Senator Jim DeMint of South Carolina said yesterday that Boehner’s proposed revenue-raising tax changes would “destroy American Jobs,” and urged members of his party to oppose it.

Other lawmakers who back Boehner’s efforts to reach a compromise said Obama was squandering the opportunity to strike one.

“He took Speaker Boehner’s offer and broke that olive branch in half, threw it back at him,” said Representative Pete Sessions, the Texas Republican who is chairman of the House Rules Committee. Rank-and-file members of his party see Obama’s ability to “work effectively or even desire to work with us” as “non-existent,” he said.

**Tax Deductions**

Obama’s explanation for insisting on higher tax rates was at odds with his own budget. The president said lawmakers could only generate revenue “in the range of $300 billion to $400 billion” through curtailing tax breaks, Republicans’ proposed way of doing so.

“It’s a simple proposition that you can’t raise enough revenue,” without increasing rates, he said. “And if you don’t raise enough revenue through loopholes and deductions, then it’s going to be middle-class families who make up the difference, and that actually would be bad for business.”

Obama’s budget plan includes more than $750 billion in revenue that could be generated from top earners by curbing tax deductions and credits.

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