Obama Sets Steep Tax Target
President to Seek $1.6 Trillion More in Revenue, Double Level From 2011 Talks

By JANET HOOK And CAROL E. LEE

President Barack Obama will begin budget negotiations with congressional leaders Friday by calling for $1.6 trillion in additional tax revenue over the next decade, far more than Republicans are likely to accept and double the $800 billion discussed in talks with GOP leaders during the summer of 2011.

Mr. Obama, in a meeting Tuesday with union leaders and other liberal activists, also pledged to hang tough in seeking tax increases on wealthy Americans. In one sign of conciliation, he made no specific commitment to leave unscathed domestic programs such as Medicare, leaving the door open to spending cuts many fellow Democrats oppose.

Kevin Smith, a spokesman for House Speaker John Boehner (R., Ohio), dismissed the president's opening position for the negotiations. He said Mr. Boehner's proposal to revamp the tax code and entitlement programs is "consistent with the president's call for a 'balanced' approach."

AFL-CIO President Richard Trumka, second from left, speaks to reporters outside the White House Tuesday after meeting with the president.

Mr. Boehner hasn't specified a revenue target that would be his opening bid. He has said he would be willing to accept new tax revenues—not higher tax rates—if Democrats accept structural changes to entitlement programs, the ultimate source of the U.S.'s long-term budget woes.

The president's opening gambit, based on his 2013 budget proposal, signals Mr. Obama's intent to press his advantage on the heels of his re-election last week. However, before gathering at the White House with lawmakers on Friday, he will meet with chief executives of a dozen companies Wednesday. Many executives have aired concerns about the economic consequences of the looming "fiscal cliff"—and the risk of another standoff.

Maryland Rep. Chris Van Hollen joins WSJ's Alan Murray at the CEO Council to discuss how Congress and President Obama can avoid falling over the fiscal cliff.

At The Wall Street Journal CEO Council in Washington, 73% of conference participants surveyed said their primary concern was the fiscal cliff.

One conference participant, David Crane, chief executive of NRG Energy Inc., said, "I think everyone just has this fear that they just do as they've done the last four years and just lob grenades at each other."

Speaking to reporters about Mr. Obama's plans for Friday's talks, White House spokesman Jay Carney said, "the president has put forward a very specific plan that will be what he brings to the table when he sits down with congressional leaders."
"We know what a truly balanced approach to our fiscal challenges looks like," said Mr. Carney, using Democrats' language to mean spending cuts combined with tax increases.

Republicans already have appeared willing to cut a deal that results in Americans paying more taxes if it averts the scheduled spending cuts and tax increases due to take effect at year-end.

"New revenue must be tied to genuine entitlement changes," Senate Minority Leader Mitch McConnell (R., Ky.) said Tuesday. "Republicans are offering bipartisan solutions and now it's the president's turn. He needs to bring his party to the table."

Treasury Secretary Timothy Geithner said higher tax rates on upper-income Americans were a central part of the White House's deficit-reduction proposal because there was no way to raise enough revenue by only limiting tax breaks. Mr. Geithner's comments, made at the Journal's CEO gathering, marked the White House's most forceful defense of its tax proposal since the election.

The president is "not prepared to extend the upper-income tax cuts," Mr. Geithner said, referring to the White House proposal to allow expiration of the Bush-era tax cuts on income over $200,000 for individuals and $250,000 for couples.

The year-end budget problems represent a major test of how Mr. Obama will lead in his second term, not just in negotiating with Republicans but in managing his own political base.

He is under pressure to take a hard line from activist groups as well as from many congressional Democrats, who returned Tuesday for a lame-duck session elated by their party's gains in last week's elections. Democrats picked up at least six seats in the House and dashed expectations they might lose their Senate majority by picking up two more seats in the chamber.

Senate Majority Leader Harry Reid (D., Nev.), in his first floor speech of the session, signaled little interest in concessions and reiterated President Obama's demand that the House pass a Senate-approved bill extending current tax rates for middle-income taxpayers, but not for the wealthiest 2% of taxpayers.

Mr. Obama is expected to open a Wednesday news conference, his first since re-election, by calling on the House to pass that bill.

The White House calls that a "partial solution," creating certainty for businesses and minimizing potential harm to the economy. Absent action, all the tax rates will rise Jan. 1.

In negotiations between Messrs. Boehner and Obama in mid-2011, the two sides neared agreement on a plan to cut the deficit by $4 trillion over 10 years, including $800 billion in new revenue.

The deal fell apart after Mr. Obama asked to raise the revenue component to $1.2 trillion, and to this day each side blames the other for the collapse. Based on that history, some senior GOP aides said they believed a likely compromise would call for about $1 trillion in new tax revenue, possibly from capping deductions for wealthier taxpayers.

On Capitol Hill, it isn't clear how strenuously Democrats will resist cutting entitlements. Rep. Chris Van Hollen (D., Md.) said he and others were open to changes as long as they were done in a measured way and were part of deal that included tax increases. Mr. Van Hollen also said changing Social Security and increasing the Medicare eligibility age above 65 should be part of negotiations.
"I'm willing to consider all of these ideas as part of an overall plan," Mr. Van Hollen said Tuesday at the Journal's CEO Council.

White House officials in 2011 were in advanced talks with Mr. Boehner that would have agreed to some of these changes, notably raising Medicare’s eligibility age. That is one cause of liberals’ anxiety about how the coming talks may unfold.

Mr. Obama’s Tuesday meeting was the first of several this week with outside groups. He is set to meet with civic leaders Friday before sitting down with Democratic and Republican congressional leaders. The president's aides have said these meetings aren't meant for negotiating but rather listening to leaders with a stake in the process.

In his meeting with leaders from liberal and labor groups, Mr. Obama fielded questions about whether a final budget deal would hurt recipients of Medicare and Medicaid. He made no assurances, one attendee said, and instead pointed to his budget to explain his stance on such changes. The president said, "You know where I am on this," the attendee said. The budget includes some modest Medicare changes but no big cuts to the program.

Mr. Obama reiterated his demand that the Bush tax cuts expire for the wealthiest individuals, and asked the groups to focus their members on getting Congress, in particular House Republicans, to pass the tax cuts for everyone else.

One person familiar with Tuesday's meeting said the White House and attendees agreed that any long-term agreement should include funding for up-front jobs initiatives. The White House declined to comment.

—Damian Paletta and Melanie Trottman contributed to this article.

Write to Carol E. Lee at carol.lee@wsj.com