

Obama stands firm on tax hikes for wealthiest Americans

By Kevin Carmichael

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U.S. President Barack Obama is open to discussing most any idea that would help avoid the fiscal cliff, so long as the final agreement requires the richest Americans to pay higher tax rates.

Mr. Obama was both tough-minded and conciliatory at a White House press conference Wednesday. The President was adamant that Americans earning more than \$250,000 must pay higher taxes to reduce the federal deficit – but he signalled that such higher taxes might not necessarily mean raising the top marginal tax rate to 39 per cent, a centrepiece of his campaign.

He embraced the Republican contention that entitlement programs must be overhauled, indicated openness to cutting discretionary spending, and was ambiguous about just how high a rate he thought the wealthiest Americans should pay. At the same time, Mr. Obama was clear that he thinks the richest should pay higher rates, dismissing a Republican suggestion that higher tax rates could be avoided altogether by closing loopholes and limiting deductions.

“A modest tax increase on the wealthy is not going to break their backs,” Mr. Obama said. “They still are going to be wealthy.”

With the Nov. 6 election behind them, Democrats and Republicans are staking out positions for a budget negotiation that will dominate Washington for the rest of the year, if not longer. After his press conference, Mr. Obama met with chief executives of some of the country’s biggest companies, including Honeywell International Inc.’s David Cote. On Tuesday, the President met with labour representatives.

On Friday, Mr. Obama is scheduled to meet congressional leaders.

At stake is the fragile U.S. economic recovery.

“Fiscal cliff” is the term coined by Federal Reserve Chairman Ben Bernanke to describe more than \$500-billion (U.S.) in temporary tax cuts that are scheduled to revert to previous levels at the start of 2013, and some \$100-billion in across-the-board spending cuts that the government is legislated to implement next year.

If allowed to occur in full, the impact of those measures would dramatically alter the upward trajectory of the U.S. budget deficit – hence the cliff. It also could, over time, trigger a recession because the U.S. economy is growing too slow to make up for the lost demand. The Congressional Budget Office estimates that going over the cliff would reduce gross domestic product by 0.5 per cent and cause the unemployment rate to jump to 9.1 per cent by the end of 2013.

Relations between the Democrats and Republicans have thawed considerably since the election. John Boehner, the Republican Speaker of the House of Representatives, last week said higher revenue would be necessary to avoid the fiscal cliff, a marked shift from the party’s pre-election position.

Mr. Boehner and other Republicans have said adequate revenue can be raised by closing loopholes and curbing tax breaks. One idea under discussion is capping the deductions the wealthiest taxpayers could claim. At the same time, Republicans have made clear that they think individual tax rates should remain unchanged, even at the high end, arguing those often are the rates paid by small business owners.

Momentum for some sort of tax increase on wealthy Americans is gathering speed. Lloyd Blankfein, the chief executive of Goldman

Sachs Group Inc., who wrote in The Wall Street Journal that “tax increases, especially for the wealthiest, are appropriate, but only if they are joined by serious cuts in discretionary spending and entitlements.”

However, markets are falling as the rhetoric over the fiscal cliff heats up: all major North American markets declined more than 1 per cent on Wednesday.

Central to Mr. Obama’s campaign was leaving the tax rates paid by most Americans unchanged, while allowing the current top rate of 35 per cent to rise to its previous level of 39 per cent. After winning convincingly, Mr. Obama said no one should be surprised that he intends to make good on that pledge now. “When it comes to the top 2 per cent, what I’m not going to do is extend further a tax cut for folks who don’t need it,” he said.

But that comment was less strident than it sounds.

Mr. Obama said he is serious about tackling the U.S. budget issues, characterized by four consecutive years of \$1-trillion deficits, and that he doubts enough money can be raised to narrow with those shortfalls by closing loopholes in the tax code. “The math tends not to work,” he said.

However, he dodged a direct question about whether the top rate should return all the way to 39 per cent.

“I’m less concerned about red lines, per se,” Mr. Obama said. “What I’m concerned about is not finding ourselves in a situation where the wealthy aren’t paying more or aren’t paying as much as they should and middle-class families, one way or another, are making up the difference.”