

Obama's door to tax compromise

By Editorial Board

IT'S NORMAL FOR President Obama and congressional Republicans to be pushing and posturing in the wake of last week's election. Everyone is trying to gauge how the political dynamics have shifted, though on paper the balance of power remains unchanged. All are trying to enhance their bargaining position. Both sides want to seem reasonable to Americans who want politicians in Washington to compromise, while reassuring partisans that they will stand up for principle.

It's normal but also potentially dangerous, because compromise is going to be essential.

In the short term, if Congress and Mr. Obama don't reach an agreement by the end of this year, tax rates will rise and spending is due to be slashed. The economy would go back into recession, according to the Congressional Budget Office, and unemployment would spike again.

In the long term, the United States faces ever-mounting debt that could leave the government with little to spend beyond what it owes on pension and health-care programs and interest on the debt. It's been collecting about 16 percent of national economic output in taxes and spending about 24 percent. That's not sustainable.

The biggest obstacle to compromise over the past couple of years has been Republican insistence that revenue can't go up. It's been encouraging to see many in the GOP shift, albeit gingerly, off that position since Mr. Obama's reelection. But most Republican leaders continue to insist that revenue can't be raised by hiking income tax rates. Instead, they suggest a change to the tax code — limiting the value of deductions and closing loopholes. Some Democrats in Congress and the administration, meanwhile, insist that only raising rates will be acceptable.

Mr. Obama struck an appropriate balance in this debate Wednesday during his first press conference since his reelection. His first choice, he made clear, is for Congress to allow tax rates to rise for the wealthiest 2 percent of the country while keeping everyone else's rates the same. He was skeptical about the loophole-closing route. "You know, the math tends not to work," he said.

But when pressed, he didn't close the door on alternatives. "If the Republican counterparts, or some Democrats, have a great idea for us to raise revenue, maintain progressivity, make sure the middle class isn't getting hit, reduces our deficit, encourages growth, I'm not going to just slam the door in their face," he said. "I'm less concerned about red lines per se."

In fact, as we wrote on Sunday, Treasury could collect a lot of money, and mostly from the rich, by limiting deductions. This approach could have an added benefit of encouraging people to make decisions based on economic benefit, not gaming the tax system.

But Mr. Obama is right to insist that Republicans, if they favor that alternative, must spell it out and show the math. Allowing rates on the rich to rise to Clinton-era levels would do little to harm economic growth. And limiting charitable or mortgage deductions would be politically difficult; do Republicans really have the votes for that? Mr. Obama is right to keep the door open. He's also right not to give up the leverage of rates that, absent any congressional action, will rise with the new year.

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