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Memo to the POTUS-elect

By N. Gregory Mankiw

Congratulations, Senator Obama. You ran a good campaign, and you racked up an historic victory. As you get ready for your new responsibilities, let me suggest four ways for you to become a reliable steward of the economy:

Listen to your economists. During the campaign you assembled an impressive team of economic advisers from the nation's top universities, including Austan Goolsbee from University of Chicago and David Cutler and Jeff Liebman from Harvard. Your campaign's director of economic policy, Jason Furman, is a smart, sensible, and well-trained policy economist. I know: He is a former student of mine.

Pay close attention to what they have to say. They will often give you advice quite different from what you will hear from congressional leaders Nancy Pelosi and Harry Reid. To make sure you hear the views of your economists, put them in offices close to yours. Tell your chief of staff to invite them to all the relevant meetings.

Embrace some Republican ideas. No party has a monopoly on truth. Be ready to take the best Republican policy proposals and make them your own, as Bill Clinton did with welfare reform in 1996.

Health policy is a case in point. Over the past several months, you lambasted McCain's proposal to reform the tax code to include a refundable health insurance tax credit. Did you know that long before McCain ever proposed this idea, it was advanced by Mr. Furman, your campaign's policy director? He can explain to you why the Furman-McCain plan makes a lot of sense.

Now you may decide that this plan does not go far enough. You may want a more generously funded social safety net to help the less fortunate get health care. Fair enough, but in pursuing that goal, you run into the next issue.

Pay attention to the government's budget constraint. The nation faces a long-term imbalance between government spending and tax revenue. The fundamental problem is that the federal government has promised the elderly more benefits than the tax system can support. This fiscal imbalance will become acute as more baby boomers retire and start collecting Social Security and Medicare.

Yet during the campaign, you promised that you would cut taxes for 95 percent of Americans, that you would vastly expand health insurance coverage, and that you would never cut Social Security benefits or raise the retirement age. You will almost surely have to renege on some of these promises. As your economic team will often remind you, even if the laws of arithmetic are ignored during campaigns, they provide a real constraint when making actual policy.

Recognize your past mistakes. As a new senator, you voted along predictable left-wing lines. As president, you will need a more eclectic, nuanced approach.

Take trade policy, for example. In the senate, you voted against the Dominican Republic-Central American Free Trade Agreement. You opposed free trade agreements with Colombia and South Korea. You supported Senators Charles Schumer and Lindsey Graham in their quest to put tariffs on Chinese goods if China failed to revalue its exchange rate. You supported the Byrd Amendment, which encouraged domestic companies to file anti-dumping suits against foreign competitors. You supported subsidies for domestic producers of corn-based ethanol and tariffs on imports of more efficient sugar-based ethanol.

Your economists can explain to you why these positions were wrong-headed. Economic isolationism is not in the national interest. A high point of the Clinton presidency was the enactment of the North American Free Trade Agreement, which passed both the House and Senate with a majority of Republicans and a minority of Democrats.

This past Tuesday, many people voted for you hoping you would achieve the kind of economic success that Bill Clinton enjoyed in the 1990s. Your best chance of delivering what they want requires that you abandon some of your past positions and pursue a more moderate, bipartisan course.