

How to Break Bread With the Republicans

By N. Gregory Mankiw

DEAR [President Obama](#):

Sorry to bother you. I know you are busy. But I have the sense that you could use a few words of advice.

In a matter of days, Republicans will control the House of Representatives and have a larger voting bloc in the Senate. If economic policy is to make any progress over the next two years, you really will have to be bipartisan. To do so, you'll need to get inside the heads of the opposition.

I am here to help. As a sometime adviser to Republicans, I'd like to offer a few guidelines to understanding their approach to economic policy. Follow these rules of thumb and your job will be a lot easier.

FOCUS ON THE LONG RUN Charles L. Schultze, chief economist for former President [Jimmy Carter](#), once proposed a simple test for telling a conservative economist from a liberal one. Ask each to fill in the blanks in this sentence with the words "long" and "short": "Take care of the ____ run and the ____ run will take care of itself."

Liberals, Mr. Schultze suggested, tend to worry most about short-run policy. And, indeed, starting with the [stimulus package](#) in early 2009, your economic policy has focused on the short-run problem of promoting recovery from the financial crisis and economic downturn.

But now it is time to pivot and address the long-term fiscal problem. In last year's proposed budget, you projected a rising debt-to-G.D.P. ratio for as far as the eye can see. That is not sustainable. Conservatives believe that if the nation credibly addresses this long-term problem, such a change will bolster confidence and have positive short-run effects as well.

Fortunately, the fiscal commission you appointed assembled a good set of spending and tax reforms. The question you now face is whether to embrace their sensible but politically difficult proposals in your own budget.

THINK AT THE MARGIN Republicans worry about the adverse incentive effects of high marginal tax rates. A marginal tax rate is the additional tax that a person pays on an extra dollar of income.

From this perspective, many of the tax cuts you have championed look more like tax increases. For example, the so-called [Making Work Pay Tax Credit](#) is phased out for individuals making more than \$75,000 a year. That is, because many Americans lose some of the credit as they earn more, the credit reduces their incentive to work. In effect, it is an increase in their marginal tax rate.

From the standpoint of incentives, a tax cut is worthy of its name only if it increases the reward for earning additional income.

STOP TRYING TO SPREAD THE WEALTH Ever since your famous exchange with [Joe the Plumber](#), it has been clear that you believe that the redistribution of income is a crucial function of government. A long philosophical tradition supports your view. It includes John Rawls's treatise "[A Theory of Justice](#)," which concludes that the main goal of public policy should be to transfer resources to those at the bottom of the economic ladder.

Many Republicans, however, reject this view of the state. From their perspective, it is not the proper role of government to fix the income distribution in an attempt to achieve some utopian vision of fairness. They believe, instead, that in a free society, people make money when they produce goods and services that others value, and that, as a result, what they earn is rightfully theirs.

This view also has a long intellectual tradition. The libertarian philosopher Robert Nozick has suggested revising the old leftist slogan “From each according to his ability, to each according to his needs” to “From each as they choose, to each as they are chosen.”

SPREAD OPPORTUNITY INSTEAD Despite their rejection of spreading the wealth, Republicans recognize that times are hard for the less fortunate. Their solution is not to adjust the slices of the economic pie, as if they had been doled out by careless cutting, but to expand the pie by providing greater opportunity for all.

Since the mid-1970s, the gap between rich and poor has grown considerably. One of best analyses of this long-term trend is by the Harvard economics professors Claudia Goldin and Lawrence Katz in their book, [“The Race Between Education and Technology.”](#) The authors conclude that widening inequality is largely a symptom of the educational system’s failure to provide enough skilled workers to keep up with the ever increasing demand.

Educational reform, therefore, should be a high priority. To be sure, this is easier said than done. But research suggests that one key is getting rid of bad teachers. In a recent [study](#), the economist Eric Hanushek says that “replacing the bottom 5 to 8 percent of teachers with average teachers could move the U.S. near the top of international math and science rankings.”

DON’T MAKE THE OPPOSITION YOUR ENEMY Last month, when you struck your tax deal with Republican leaders, you said you were negotiating with “hostage takers.” In the future, please choose your metaphors more carefully.

Republicans are not terrorists. They are not the enemy. Like you, they love their country, and they want what is best for the American people. They just have a different judgment about what that is.

Let me propose a New Year’s resolution for you: Have a beer with a Republican at least once a week. The two of you won’t necessarily agree, but you might end up with a bit more respect for each other’s differences.

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