The Federal Reserve Board

Remarks by Vice Chair Alice M. Rivlin

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Does Good Policy Analysis Matter?

I am delighted by this honor and by the opportunity to talk with you this afternoon and to celebrate the new leadership of Peggy Hamburg at ASPE. My three years at Department of Health, Education and Welfare (HEW), now three decades ago, were among the most intense, exciting and memorable of my career. They left me with a strong loyalty to and deep fondness for this Department, recently reinforced by the fact that it is now headed by my close friend, Donna Shalala.

Donna and I have trekked together on foot and on horseback, crossed glaciers and icy mountain streams together, laughed and cried together over the ups and downs of the Clinton Administration. I am enormously proud of Donna. I believe the President and, more importantly, the American people, are extremely lucky to have her running this Department at this moment in history.

Donna keeps her eye on the mission, she cares deeply about the policies and programs of this Department and the people they help, now and in the future. She doesn't allow herself to be distracted by the hazards of public life. But she doesn't take herself too seriously and doesn't let other people do it either. It takes a pretty secure woman to risk being remembered as the Secretary with the milk moustache!

Now, Donna and I don't actually look a lot alike -- I'm ten years older and at least an inch taller. But the public gets its short dark women in government confused, so I am frequently mistaken for Donna. One day on an airplane, I noticed a couple of guys looking at me intently. Finally, one of them came over and said, "You've got to settle a bet for us. My buddy says you're Donna Shalala and I say you're not." I straightened them out, but sometimes I don't bother. When Wisconsin went to the Rose Bowl, an achievement for which Donna took full personal credit, people would pass me on the street and say things like, "Go Badgers!" No need to straighten that out; I just shouted back, "Go Badgers!"

Recently I had an appointment with the First Lady to talk about the District of Columbia, in which we have a shared interest. I went over to the White House in a Federal Reserve car, expecting to be asked for ID at the gate, but the Secret Service waved us through. I arrived at the West Wing Secret Service desk and said to the officer, "I'm sorry I don't have a pass; your buddy at the gate must think I still work here." He laughed and said, "No, they just called from the gate and said, ‘Secretary Shalala's on her way in.'" So much for White House security!

This is the sort of occasion when one is torn between looking back and looking forward, between reminiscing about the good old days at the beginning of ASPE and offering profound insights on the current scene. I'd like to combine both, although I won't promise to be profound. I'd like to try to recreate for you briefly what it was like to be in this Department and in this city thirty years ago when Bill Gorham and I showed up to start what is now ASPE -- what was the same and what was different. In the process, I'd like to address the title question: Does Good Analysis Matter? It won't surprise you to know that I think it does, but that it's not the only thing that matters. Good analysis is a necessary, but by no means sufficient, condition for good policy.

So let me try to take you back to the winter of 1965-66 when the staff Peggy is now heading got its start. Bill Gorham was appointed as Assistant Secretary for Program Coordination (we didn't dare call it Planning and Evaluation -- too threatening) in late 1965. I was recruited to be one of his two deputies and arrived February 1966.

Lyndon Johnson was President, elected in a landslide victory over conservative Republican Senator Barry Goldwater in 1964, just a year after the assassination of President Kennedy. LBJ was a towering, forceful, driven man, often crude, who dominated Congress from the White House as he had in the Senate, and rammed through an astonishing quantity of Great Society legislation -- everything from the Elementary and Secondary Education Act to Medicare and Medicaid -- mostly in 1965. Our system of checks and balances doesn't usually allow so much change in a short time -- with a President who acts like a Prime Minister leading the majority party in Congress and getting almost everything he proposes passed with minimal changes. The only other example is Roosevelt in the depths of the Great Depression.

Presidents dream of such successes, but they and their staffs forget how rarely it happens. Some in the Clinton Administration had such a dream for health reform -- that a huge, complex, revolutionary bill, proposed by a popular President, would sail through Congress and become law in less than a year.

In HEW, in early 1966, such an extraordinary atypical series of legislative events had just happened, affecting virtually all parts of the Department, which then included the Social Security Administration and what is now the Department of Education. Most of the burden of implementing this legislation fell on HEW and on the Office of Economic Opportunity, which was set up separately to manage the War on Poverty. The bureaucracy was both energized and overwhelmed by the magnitude of the new challenges. The job of our fledgling ASPE office was to bring analysis and systematic thinking to bear on planning and priority setting and to try to evaluate the new programs so as to make them work as effectively as possible.

To finish the Dramatis Personae, the Vice President was Hubert Humphrey, the ebullient, loquacious, energetic ex-Senator from Minnesota. The White House staff was tiny. We dealt almost exclusively with Joe Califano, although there was a handful of others (Doug Cater, Harry McPherson, Jim Gaither). The White House had neither the staff nor the hubris to try to develop policy (no NEC or Domestic Policy Council). For that they called on the young Director of the Bureau of the Budget (now OMB), Charlie Schultze, and his staff or put together task forces from the relevant departments. These often included distinguished people from outside the government (nobody thought that was nefarious or sued to make the records public).

Robert McNamara, the Secretary of Defense, was struggling with the Vietnam War, which was just beginning to become a divisive national issue. Opposition to the war was still mostly a campus phenomenon, related to the draft.

It was McNamara who was actually responsible for what became ASPE. He had turned around the Ford Motor Company with an analytical, by-the-numbers approach to management. He set up the Planning Programming Budgeting System in the Pentagon to bring planning and analytical rationality to military decision making, and he persuaded LBJ to spread the gospel to the rest of the government.

At HEW, the Secretary was John Gardner and the Undersecretary, as the number 2 position was then called, was Wilbur Cohen. They couldn't have been more different. Gardner was tall, distinguished-looking, eloquent, academic, full of high-minded ideas about "excellence," "self-renewal" and the importance of education. He was new to government (he had been at Stanford and had run a big foundation), but his eloquence got people excited about public service and the President's program. To a young DAS, he was an awesome figure. It was only years later, at his insistence, that I worked up my courage to call him John, instead of Mr. Secretary.

Wilbur Cohen, by contrast, was a bouncy, roly-poly career bureaucrat, whom everybody called Wilbur, even after he succeeded Gardner as Secretary. He had come to Washington as a very young man to help set up Social Security. He never abandoned his efforts to make Social Security more generous and more comprehensive. The passage of Medicare and Medicaid the previous summer was a Wilbur Cohen triumph.

Wilbur believed that if something public needed to be done, the Federal government had better do it. If someone needed help -- the young, the old, the sick, the disabled, the hungry, the unemployed -- then the Federal government should reach out and fix the problem. He must have viewed states as inept and racist; localities as unsophisticated, narrow-minded, often corrupt. Only the Federal government could be counted on to run good programs. This view was shared by LBJ and by those -- and there were many -- who then proudly called themselves "liberals."

Two years earlier, while still at Brookings, I had participated in a White House Task Force chaired by Walter Heller and Joseph Pechman that recommended a radical new program called "revenue sharing." We proposed Federal grants to the States, paid out of the then highly progressive Federal income tax, to support state services with no strings attached. The hope was both to improve state services and to reduce reliance on regressive state/local taxation. The other motive was to find a better use than income tax cuts for the Federal budget surpluses that loomed ahead if the growth rates of the mid ‘60s continued into the future. (These projected surpluses never happened.) We delivered our report to LBJ, and he hated it. He wanted to exercise federal power, not devolve it. He killed the report, and it was never published. But word of my association with this nefarious project had reached HEW. The day I reported to work, Wilbur called me to his office and, after welcoming me warmly to the Department, looked at me sternly and said, "There is one thing you have to understand: revenue sharing is not the policy of this Administration." I said, "Yes, Sir."

The next three years were tumultuous ones for the Nation -- full of events that could not possibly have been foreseen in early 1966. Many of my HEW memories are associated with those events. I remember where I was when I learned that Martin Luther King had been shot, and I remember being awakened to learn that Bobby Kennedy was dead. I remember standing in my window, in what is now the Cohen Building, looking across the mall at clouds of black smoke rising over Washington as riots and arson engulfed the 14th Street corridor after the King assassination. I had no public policy-related thoughts at that moment -- only, are my children ok and what's the safest way home?

I remember standing in the same window a year later when the Poor People's March, then camped in the mud around the Reflecting Pool, marched down Independence Avenue to the Department. I leaned way out of the window (you could open windows in those days) to watch them coming, then hurried to the Secretary's office. The nervous nellies in charge of security were advising Wilbur not to go down -- there might be violence or vandalism -- but the three senior women in the Department wanted him to go down and dialogue and show that he cared. After a lot of arguing, we prevailed and walked with Wilbur down five flights of stairs (because the nervous nellies had turned the elevators off) to the auditorium. I went over to Reverend Abernathy, who was in charge, asked him to get his group into the auditorium so the Secretary could talk with them. He said, "you get your man down here and we'll be ready." I pointed out the Secretary and the Reverend looked at me in amazement. "That little cat is the Secretary?" I think he was expecting more stature. How would he have reacted to Shalala? In any case, Wilbur was at his best; the event was a big success; there were smiling pictures on the front page the next day. So much for nervous nellies!

I also remember the night LBJ announced he would not run again. It was a total surprise to everyone -- even Lady Bird wasn't sure what he was going to say until he said it. Suddenly, we realized we were part of a lame duck Administration and that the VP might not beat Richard Nixon. Did that slow Wilbur Cohen? No, it energized him; he realized he might have only a year to leave his mark as Secretary. It was a Shalala-type reaction.

I never worked so hard in my life. We wrote directives, issued a blizzard of reports, including the first national report on "social indicators" and a Higher Education Task Force study that advocated student aid (rather than aid to institutions) and ultimately led to Pell Grants and the student loan programs.

And finally, I remember President Nixon. The incoming Republican Administration asked one Assistant Secretary from each Department to stay a couple of months to help with the transition. I was chosen at HEW and it was my brief hour of power. The incoming team (Robert Finch, Jack Veneman, Lew Butler, who eventually replaced me at ASPE) were an able group of Californians who knew very little about what the Department actually did. They were asked to submit amendments to the outgoing president's budget. They asked me what to do, so the ASPE staff got its druthers for once, unencumbered by any opposing voices in the rest of the Department, BOB or the White House (where they didn't yet know enough to question our decisions). Knowledge is power.

One day the new Secretary called me in and said, "The White House wants to put Pat Hitt in your job. What do you think?" I had to admit I'd never heard of Mrs. Hitt. It turned out she was a nice lady from California who had run "Housewives for Nixon." The White House staff had seen a female name and decided ASPE was a "woman's job." I convinced them they had better find someone with more professional qualifications and they did. That's not how this Secretary chose Peggy Hamburg!

So it was in this tumultuous period that ASPE got its sea legs. Bill Gorham, who had distinguished himself working for McNamara at DOD, was charged with getting planning, analysis and evaluation going at HEW. He brought a few analysts with him from Defense and we recruited others. I was hired because I had done policy analysis on education, and it seemed useful to have someone who actually knew something about domestic policy.

We thought we were pioneers, crusaders for a cause. The ideas of quantifying, measuring, evaluating and systematically analyzing the cost effectiveness of alternative policies were relatively new and quite threatening. We were young and brash and hopeful -- and to many of the seasoned bureaucrats in the Department we must have sounded pretty naive and silly. But we found out that they had a lot of knowledge and relevant experience. They found out that some of our crazy ideas made sense and helped them make and defend decisions.

Looking back on the policy analysis of that period, I am struck less by how much has changed than by how much hasn't. To be sure, ASPE now draws on more and better data, uses more sophisticated statistical techniques, and relies on incredibly powerful computers we could not have imagined three decades ago. Attempts to quantify costs and benefits and to analyze the effects of program changes are routine, rather than revolutionary, demanded not just by OMB and the White House, but by the Congress and second-guessed by think tanks all over town and those much feared nerds at CBO.

But the subject matter has not changed all that much, nor have the basic dilemmas and tradeoffs that bedevil Federal policy formulation. In 1967, ASPE produced a slim report entitled, "Medical Care Prices." I was the principal author, but much of the intellectual input came from a young doctor from California, named Phil Lee, who was Assistant Secretary for Health. We bemoaned the fact that medical care costs, in the wake of new demand from Medicare, Medicaid, and other third party payers, rose at double digit rates in 1966 and a day in the hospital cost an unbelievable $45! We analyzed the pressures of increasing demand on limited supply, pointed out distorted incentives, advocated prepaid group practice and coverage of alternatives to hospital and physician care.

A lot has happened since then, most importantly that a lot more Americans are getting better medical care and living longer healthier lives as a result. But the basic tensions between efficiency and quality, between cost and coverage have not changed. Henry Aaron edited a book on the rise and fall of the Clinton health plan, which he called, *The Problem that Will Not Go Away: Reforming U.S. Health Care Financing*. It's a very good book with an even better title.

The other basic set of tensions or tradeoffs with which this Department must deal will not go away either: the tensions between incentives to work and better one's life, on the one hand, and assuring income adequacy, on the other, especially the tension between protecting and nurturing children and providing incentives to their parents. People will be arguing about that in 2010 and 2050.

What *has* changed in thirty years -- I believe for the better -- is the attitude of policy makers toward the feasible role of the Federal government in improving peoples' lives and catalyzing change. The idea that the Federal government just enacts a program, and that federal officials write the regulations, or actually run the program, and then something good automatically happens, is no longer gospel, even in this Department. Unless the Federal government energizes states, localities and the private sector and unless it works in partnership with the people on the ground, visible success is going to be illusory.

Does good analysis matter? I believe that it does matter a lot, but you have to be patient and persistent. The early apostles of policy analysis sometimes sounded as though they had a magic wand -- array the options, pick the most cost effective, and make it happen. Professors in public policy schools sometimes still sound that way. So do management consultants.

Realistically, since there's no absolutely "right" answer to most policy problems, what good analysis does is raise the quality of policy debate and decision making. It provokes counter analysis, it exposes positions built on bad analysis or no analysis. It gradually works its way into policy.

Sometimes the political climate has to change. Toward the end of my tenure at ASPE, we were working hard on welfare reform proposals that improved incentives to work by lowering implicit marginal tax rates on earnings of welfare recipients and putting a national floor under benefits (proposals known at the time, somewhat misleadingly, as a "negative income tax"). We weren't getting anywhere with the old-line liberals, who didn't want mothers to work, or with LBJ, who didn't want to think about welfare at all (he often referred to the "Department of Health and Education"). It was only when Nixon came in and hired a young maverick scholar named Pat Moynihan that these ideas were listened to. ASPE and their counterparts at OEO ganged up to convince Moynihan that the Family Assistant Plan could be *his* brilliant idea. It didn't pass, but it came close and it changed the thinking about welfare reform for a long time to come. The higher education analysis we did in 1968 also took a while to work its way into other reports and hearings and legislation, but something did happen. Revenue sharing, recommended unsuccessfully to Johnson, became an important part of Nixon's program.

It's all a subset of the basic Washington truth that you can have a lot of influence on what happens in this town if you don't care who gets the credit. A corollary, of course -- and this is going to sound like a plug for the Federal Reserve -- is that it matters a lot what happens to the economy. One important motto is: macro-economics matters most! Bush didn't get credit for the budget agreement of 1990, because the economy turned sour. Clinton got more than could have been expected for the budget agreement of 1993, because the economy took off like gang busters. The success or failure of welfare reform depends heavily on avoiding recession and keeping growth and tight labor markets going.

But good analysis isn't everything. The failure of the Clinton health plan was not due to lack of good analysis. It was due to lack of common sense and failure to build a political consensus -- in the Congress and in the country -- around a feasible, understandable set of proposals.

Finally, a word about people in government. When I was at ASPE, the young enthusiasts who came to Washington thirty years before in the New Deal, were approaching retirement. I remember an occasion in 1967 or 1968, when I had what I thought was a really bright new idea about Social Security. I tried it on Wilbur and he listened very politely. Then he turned to Ida Merriam, the distinguished head of Social Security Research, and said, "Ida, was it in 1937 or 1938 that we tried that?" The old New Dealers were strong, dedicated, professional folks. People said, "They don't make them like that anymore."

Now in the 1990s, many of the young enthusiasts who came to Washington in the 1960s are retiring. The comments are the same, "They don't make ‘em like that any more!" That's nonsense. Over the years, I've paid particular attention to the young people coming into entry-level jobs at CBO, OMB, and now at the Federal Reserve. They're terrific -- smart, well-trained, dedicated, hardworking. We are very lucky that, after all the government-bashing, and in the face of much higher pay in the business community, such able people still want to work in government, especially at good places like ASPE.

I predict that in another thirty years, when the people who joined the Federal government in the 1990s are beginning to retire, someone will assert, "They don't make ‘em like that any more!" In the meantime, remember that public policy is exciting, fun, and rewarding. Enjoy it!

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